

Entrepreneurial state, the economy of scale, and the globalization of Chinese Internet companies

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It is undeniable that information and communication technology (ICT) has achieved tremendous growth in China over the past two and half decades. Domestically speaking, albeit uneven development and persistence of digital divide, Internet penetration rate has grown drastically. Globally, we have seen the rise of many Chinese ICT manufacturers and Internet companies like Huawei, ZTE, Lenovo, and Alibaba. Despite these success stories, we have also seen incidents where Chinese ICT and Internet companies failed in their overseas expansion efforts. For example, Chinese search engine Baidu closed its operation in Vietnam in 2014 and the legality of its business is challenged in U.S; Huawei has been denied market entrance in Australia, Canada and the U.S; the major source of revenue and customer base of many Chinese counterparts of Western social media services such as Renren (Facebook), Weibo (Twitter), and Alibaba (e-Bay) still originate from mainland China. The goal of this paper is to ask to what degree the rise and globalization of Chinese Internet companies a demonstration of the country's growing soft power and innovation capacity? From a political economy perspective, this paper is particularly concerned with the role of the state and its interaction with the market in this process of creating a fast growing yet strictly controlled ICT and Internet industries in China.

This paper probes into the economy of scale of Chinese Internet companies in the process of their global expansion and examines critically the role Chinese government played in facilitating the growth of scale of these companies. Overall, this paper hopes to create a dialogue with the existing literature on the role of state in globalization of media and the interaction between state and market by providing some new and emerging examples and evidences from China. The primary examples examined in this paper are three Chinese Internet companies: Baidu, Sina, and Tencent. The reason they are selected are twofold. First of all, they are dominant players in their own respective markets (search and gaming, value-added Internet service companies, and microblog) and in Chinese Internet economy overall. Secondly, they are companies that went public the earliest among a host of Chinese Internet companies thus there are a well of accessible data from their annual reports filed with U.S Security and Exchange Committee.

The paper proceeds with a section on the concept of state and a contextualization of media and ICT regulation in China. It is then followed by literature review on myriad conceptualizations of the role of state in the buildup and globalization of hi-tech industries in developing countries. For the analysis section, I will first provide an overview of current market development in China and the political economy of the three main companies, outlining their ownership structure, board of directors and their inter-linkages to global media, finance, and innovation networks, and conclude with my own analysis.

It is argued in this paper that domestically speaking, with favorable government policies and incentive, these top Chinese Internet companies quickly gained economy of scale in domestic market. Globally speaking, to say the least, the globalization and overseas expansion of Chinese Internet companies only received limited success against the mission to expand globally, either abetted by the government or driven by goals of capital

accumulation amidst a relatively saturated and concentrated market in China. In light of media commercialization and privatization processes in China, scholars have criticized the government artificially staging market competition through merging media organizations together to create large scale, overlapping, and inefficient media organizations to compete with foreign challenges (Yu & Lee, 2003; Lee, 2003). The developmental path of Chinese Internet companies follows suit of such tendency.

While many mainstream news media have observed the rise of Chinese Internet companies, they nonetheless failed to state the caveat that much of the growth and stock value are evaluated by the sheer size of market in China, hence, economy of scale. Although the press routinely called China a “juggernaut”, only 35 Chinese companies (30 of them are state owned) were on the 2008 top 500 list of *Fortune Magazine*. Although scholars such as Eric Harwit (2007) argues that the term of “international competitiveness” is too narrow in gauging success of Chinese Internet and telecommunication development, the focus on improving international competitiveness of hi-tech companies in China is going to be priorities given China’s pursuit of sustainable development, its increasing public diplomacy efforts and soft power, its aspired transition from world’s factory to innovation hub, and even the companies’ priority given current concentrated and saturated market. The private sector still had a long way to go in joining the world’s largest companies, noted not only for their scale economies but increasingly for their knowledge acquisition (Chandler et al. 1997, as cited in Amsden, 2013, p. 16)

Key Words: Political Economy, Chinese Internet, globalization, market competition