

THE UNSAID TRUTHS OF CHINA TECH

Liqian Ren – Director of Modern Alpha
04/20/2021

Chinese technology companies have been in the spotlight lately, and a few under-reported details stand out.

When the Ant Financial IPO was delayed, speculation grew about how Chinese regulators would restrict the company. As expected, its financial services are going to be structured under the regulation of a financial holding company. One component that went unanswered is, what to do with Ant’s technology arm? In my view, it may be spun into a separate tech company that would improve its [valuation](#).

The more media attention focuses on Jack Ma, the worse his situation will be. The more he is portrayed as a martyr, the harder it will be to sort it out. My own parents knew nothing about credit cards and mortgages, but now China is graduating into a credit-driven society. Ant’s reputation is not stellar here, with practices often viewed as “predatory lending.”

Are mutually exclusive contracts anti-competitive, all politics aside? Chinese antitrust regulators say yes, while the U.S. Federal Trade Commission says it’s complex and nuanced. If Twitter asked you to sign a contract to only appear on one social media platform, is that anti-competitive? What about exclusive contracts for licensing an index for an ETF? The FTC stated, “Exclusive contracts can benefit competition in the market by ensuring supply sources or sales outlets, reducing contracting costs or creating dealer loyalty.” It cited three cases where it has been ruled anticompetitive.

Mutually exclusive contracts are so common in China that as soon as Ant was fined, the CEO of 58.com called for an antitrust investigation against competitor BeKe (KE Holdings) for signing mutually exclusive contracts with real estate brokers.

China’s antitrust regulator asked 34 Internet platform companies like Tencent, ByteDance and JD to “conduct self-inspections within one month” or face a fine. Chinese regulators often use warnings to adjudicate rather than bringing actual legal cases. When Qihu360 and Tencent got into anti-competitive spats and lawsuits, the government asked each party to stop some practices and each wrote apology letters to the public.

34 Chinese Companies and Their U.S. proxy’s business lines

China Company	U.S. Proxy Counterpart or Business Line	China Company	U.S. Proxy Counterpart or Business Line
1 愛奇藝 (IQIYI)	Netflix	18 哔哩哔哩 Bilibili	Facebook
2 Baidu	Google	19 叮咚買菜 DingDong 100Meters	InstaCart for Fresh
3 貝殼找房 Beke	Redfin/Zillow	20 餓了麼 Ele	Uber Eats/DoorDash
4 滴滴 DiDi	UBER/LYFT	21 國美 Gome	Bestbuy
5 當當網 DangDang	A minor Amazon	22 盒馬生鮮 HeMa/Baba subsidiary	InstaCart for Fresh
6 京東 JD	Amazon	23 拼多多 Pinduoduo	Amazon
7 多點 Dmall	InstaCart	24 攜程 CTRIP	HOTELS.com/Kayak/TripAdvisor
8 快手 KuaiShou	Instagram/Twitch	25 小紅書 Red	Instagram/Twitch
9 美團 Meituan	YELP+UBER EATS	26 蘭文 China Literature	Wattpad
10 每日優鮮 MsFresh	InstaCart for Fresh Meat/Seafood	27 蘇寧易購 Suning Commerce	Bestbuy/Target
11 奇虎 Qihu360	McAfee Cyber Security	28 阿裡 Alibaba	Amazon+PayPal+
12 去哪儿網 QUNAR	KAYAK/TripAdvisor	29 貝貝網 Beibei	Gap kids+Maternity
13 搜狗 Sogou	BING Search	30 蘑菇街 MoGuJie	Female Fashion+Social
14 微店 WeChat SHOP	Facebook shops	31 網易 NetEase	Yahoo
15 58同城 58.com	Redfin/Zillow	32 雲集 Yunji Global	Socially Driven Shopping
16 新浪微博 weibo	Twitter	33 唯品會 VIP Shopping	Online Retailer for Global Brands
17 字節跳動 ByteDance/TikTok	Instagram/Twitch	34 騰訊 Tencent	Facebook+Sony Gaming

Source: WisdomTree, 2021.

Some of the smaller retailers on this list hardly have monopoly power, which

calls into question “regulatory overreach” when their mutually exclusive contracts are subject to antitrust regulation. I can’t help but wonder what the grandfather of regulatory economics, George Stigler, would say.

Speaking of George Stigler, his thoughts and research on economics of regulation merited him a Nobel prize, and I would highly recommend his humorous autobiography as general reading for those interested in the Chicago School of Economics, which has a healthy dose of skepticism of regulators.

All regulations look backward, not forward. The biggest question for Ant and Alibaba in the next five years is whether they can compete, grow and make money in a very competitive space for Chinese technology. The 34 companies on this list show the challenges and opportunities, as Ant is still the top non-state-owned financial entity with the least competition from other [non-state-owned enterprises](#), while Alibaba’s other main businesses have plenty of strong competitors.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

- + [Geography of China’s Growth and Governance Disparity](#)
- + [Don’t Get Distracted by China Tech Gossip](#)

Related Funds

- + [WisdomTree China ex-State-Owned Enterprises Fund](#)
- + [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Ex-SOEs: ex-state owned enterprises or companies that are neither wholly or partially owned and operated by a government.