TENCENT AS A NEXUS:
THE POLITICAL ECONOMY OF CHINA'S INTERNET INDUSTRY

BY

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DISSERTATION

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Abstract

This dissertation examines the political economy of China's Internet industry—a nexus of two dynamic poles of growth—China and the Internet. Specifically, through a case study of Tencent, the dissertation investigates the political-economic context within which the Chinese Internet company has grown, the ownership and control and expansion strategies of the company, and its relations with units of capital—domestic and transnational—and state entities. In doing so, the study contributes to three areas of knowledge: the political-economy theory of the Internet, the specific dynamics of China's Internet industry and its interaction with transnational digital capitalism, and the contemporary transformation of China and the global political economy.

This dissertation argues that Tencent emerged as a creation jointly of the Chinese state and transnational financial capital. On one hand, Tencent stood out under the state-driven policies that have prioritized the development of China's information and communication technology (ICT) industry since the mid-1990s. On the other, the China-based company has been substantially transnationalized both in its capital structure and business activities. Furthermore, the expansion strategies Tencent employed—horizontal and vertical integration, diversification and transnationalization—spoke to the intrinsic trends of capitalist reproduction and the consistent features of the political economy of communications. Chinese state agencies have played crucial roles in protecting, brokering, shaping, and reshaping China's transnational Internet industry.

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List of Abbreviations

CAS	Chinese Academy of Sciences
CDMA	code division multiple access
CERNET	China Education and Research Network
CNNIC	China Internet Network Information Center
CP	Internet content provider
ETDZ	economic and technological development zone
FDI	foreign direct investment
GAPP	General Administration of Press and Publication
GSM	global system for mobiles
ICT	information and communication technology
ICT4D	information and communication technology for development
IDG	International Data Group
IHEP	Institute of High Energy Physics of the Chinese Academy of Sciences
IPO	initial public offering
ISP	Internet service provider
IVAS	Internet value-added services
M&A	mergers and acquisitions
MAU	monthly active users
MEI	Ministry of Electronics Industry
MIH	Myriad International Holdings
MII	Ministry of Information Industry
MIIT	Ministry of Industry and Information Technology
MOA	Ministry of Agriculture
MOC	Ministry of Culture

MOE	Ministry of Education
MOFCOM	Ministry of Commerce
MOH	Ministry of Health
MPT	Ministry of Posts and Telecommunications
MVAS	mobile and telecommunications value-added services
NDRC	National Development and Reform Commission
NSF	National Science Foundation (United States)
PCCW	Pacific Century CyberWorks
PCU	peak concurrent users
R&D	research and development
RMB	renminbi
SAPPRFT	State Administration of Press, Publication, Radio, Film, and Television
SEZ	special economic zone
SMS	short-message service
UNDP	United Nations Development Program
VIE	variable interest entity
VC	venture capital

Introduction

The Internet and China have been two primary poles of growth in the past several decades of the global political economy.[1]

The global information technology industry, dominated by the U.S. digital giants, has risen to be one of the largest and most powerful industries. The combined market capitalizationof the ten largest companies in the global information technology sector was worth $3.409 trillion, surpassing Germany's gross domestic product (GDP) in 2015 and making these companies together the fourth-largest global economy.[2] Apple alone, with a market capitalization of $712.06 billion, stands as number nineteen on the World Bank's 2015 GDP ranking list—right above Switzerland and Saudi Arabia.[3]

These Internet companies kept proliferating and profiting, and the questions remained: How have they become so "exponential" and "combinatorial"—to borrow Erik Brynjolfsson and Andrew McAfee's terms referring to the growing pace and the collaborating features of innovations in the digital industry?[4] What were the political-economic forces that have created the size and power of the Internet industry? What were these companies' business strategies? How did the Internet industry interact with governments and consumers? What were the implications of a deeply commercialized and privatized Internet for the global economy, society, geopolitics, and future? There were more questions than answers.

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[1] Dan Schiller, "Poles of Market Growth? Open Questions about China, Information, and the World Economy," *Global Media and Communication* 1, no. 1 (2005): 79–103.

[2] "Bloomberg Market Quotes," *Bloomberg*, n.d., accessed February 18, 2017; "GDP Ranking 2015," *World Bank*, n.d., accessed February 19, 2017, http://data.worldbank.org/data-catalog/GDP-ranking-table. Market capitalization is a simple indicator of how much money the company is worth based on the stock price. I use it here as a straightforward illustration of the bulk of the global Internet industry. Claire Boyte-White, "What Is the Difference between Market Capitalization and Market Value?" *Investopedia*, December 23, 2014, accessed April 24, 2017, http://www.investopedia.com/ask/answers/122314/what-difference-between-market-capitalization-and-market-value.asp.

[3] "Bloomberg Market Quotes"; "GDP Ranking 2015."

[4] Erik Brynjolfsson and Andrew McAfee, The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies (New York: Norton, 2014), 37.

China, on the other side, has been another dynamic territory for capital expansion. Its remarkable economic performance was not only in the continual high GDP growth rate but also in its total GDP volume, which surpassed Japan's in 2010 and has been the world's second-largest economy ever since.[5] While there was continuing scholarly debate over how to interpret its growth, most scholars attribute the path of China's capitalist development to the 1978 reform, when leader Deng Xiaoping opened up Chinese society to market players and, more specifically, to transnational capital.[6] Two shaping forces in this process were the large volume of capital flows—inbound foreign direct investment (FDI) and trade exports.[7] Inbound FDI has contributed tremendously to China's GDP growth in the decades after its opening up. In 2014 China became the world's top destination for FDI, as the annual total of inbound FDI reached $120 billion.[8] Another transformation in China's industrial landscape was an extraordinary increase in exports of goods and services.[9] These are mostly exports within transnational corporations' commodity chains. After 1978 China's exports grew by 16 percent per year and reached 9.6 percent of all global exports in 2010.[10] In 2013 exports

[5] Andrew Monahan, "China Overtakes Japan as World's No. 2 Economy," *Wall Street Journal*, February 14, 2011, accessed February 19, 2017 https://www.wsj.com/articles/SB10001424052748703361904576142832741439402.

[6] Peter Nolan, *Is China Buying the World* (Malden, MA: Polity, 2012); Yuezhi Zhao and Dan Schiller, "Dances with Wolves? China's Integration into Digital Capitalism," *Info* 3. no. 2 (2001): 137–51; David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005); Dan Schiller, *Digital Depression: Information Technology and Economic Crisis* (Urbana: University of Illinois Press, 2014).

[7] Harvey, *Brief History*, 134–42.

[8] "China Overtakes US for Foreign Direct Investment," *BBC News*, January 30, 2015, accessed June 2, 2015, http://www.bbc.com/news/business-31052566; "Statistics of FDI in China in January–December 2014," Ministry of Commerce, January 27, 2015, accessed June 2, 2015, http://english.mofcom.gov.cn/article/statistic/foreigninvestment/201504/20150400942402.shtml. All dollar amounts are in US dollars.

[9] Ho-Fung Hung, "America's Head Servant? The PRC's Dilemma in the Global Crisis," *New Left Review* 60 (November–December 2009): 5–26.

[10] Justin Yifu Lin, "China and the Global Economy," remarks at Asia's Role in the Post-Crisis Global Economy, conference, San Francisco Federal Reserve Bank, *World Bank*, November 29, 2011, accessed June 20, 2015, http://siteresources.worldbank.org/DEC/Resources/84797-1104785060319/598886-1104852366603/599473-1223731755312/JustinLin-China_and_the_Global_Economy-SF-Fed-final.pdf.

contributed 26 percent to China's GDP.[11]

China's rise as a global political-economic power was not isolated from a more encompassing worldwide process. Global studies scholar Jan Nederveen Pieterse states: "Like a giant oil tanker, the world is turning. New growth poles of the world economy have been emerging in the South and East. Globalization once belonged to the West and now the tables are turning. We have entered the era of the 'rise of the rest.'"[12]

The nature of this "rise" and its beneficiaries needs careful qualification. The rise of industrial sector in the Global South countries, as demonstrated in John Bellamy Foster, Robert W. McChesney, R. Jamil Jonna's work on the shifts of world industrial employment, emblematized the economic reforms that took place in 1970s and 1980s in countries like China and India.[13] During this period, in the uneven process, many Global South countries started to reform their economies. The East and Southeast Asian countries especially drew foreign investment by building export-oriented manufacturing industries. The global shift of labor and the development of information technology corevolutionized production and marketing in developing countries.

While the global rebalancing was most salient in economic terms such as the shift of industrial employment distribution and the new pattern of world trade of the Global South countries, it was fundamentally a multidimensional process that involved every economic, political, cultural, and social aspect.[14] Moreover, nearly a decade after the outset of the last

[11] "China: Exports of Goods and Services (% of GDP)," *Quandl*, November 22, 2014, accessed June 3, 2015, https://www.quandl.com/data/WORLDBANK/CHN_NE_EXP_GNFS_ZS-China-Exports-of-goods-and-services-of-GDP.

[12] Jan Nederveen Pieterse, "Representing the Rise of the Rest as Threat," *Global Media & Communication* 5, no. 2 (2009): 221–37.

[13] John Bellamy Foster, Robert W. McChesney, R. Jamil Jonna, "The Global Reserve Army of Labor and the New Imperialism," *Monthly Review* 63, no. 6 (2011): 1-31.

[14] Jan Nederveen Pieterse, "Global Rebalancing: Crisis and the East-South Turn," *Development & Change* 42, no. 1 (2011): 22–48.

global depression, the overarching reorganization continued to unfold. Making sense of the structural transformations remained a critical academic task.

Putting these two poles of growth—the Internet and China—together, we find a unique entry point for understanding the dynamics of growth in contemporary global political economy: China's Internet industry.

This dissertation investigates the interactions between China and the Internet and examines the political economy of China's Internet industry. Specially, it asks the following questions: How has China's Internet industry grown? What are the specific mechanisms that shape China's Internet industry? What are the vital factors of its development? Specifically, what is the policy context within which the growth has been enabled? Does China's Internet industry display distinctive structural attributes, and if yes, what are they? In what ways does China's Internet industry reflect the interactions between China and global capitalism?

Engaging these questions, this project foregrounds China's Internet industry as an active site of the transforming global digital capitalism. Situated in this context, this study seeks to clarify the political-economic dynamics in the development of China's Internet sector, through a case study on a leading Chinese Internet company: Tencent. Taking a critical political economy approach, I study the standard set of historical documents, including government and corporate reports, and examine the issues of ownership and control, organizational and business strategies, capital structure, and the relations among various units of capital and state agencies in the rise of Tencent. In doing so, my project contributes to three areas of knowledge: the theory of critical political economy of the Internet, the structural relations in China's communication industry and its interaction with transnational digital capitalism, and the nature of contemporary China's development.

The rest of this chapter is organized as follows: I first review the mainstream approaches to the Internet in the field of communications and present political-economic

criticisms of the mainstream's inability to clarify the structural nature of the Internet in relation to the capitalist system. I then review political economy studies on media and communications industries. While these studies foreground power issues as a central point of analysis, comprehensive studies are lacking of the Internet industry in a non-Western context. I further examine discourses on contemporary China's development, with a reference to the status of Chinese communication studies and, specifically, the Internet studies. In the last section of this chapter, I delineate the methods and organizations of this project.

Mainstream Studies on the Internet and Critiques

Much scholarship about the Internet is from mainstream mass media traditions. Forty years after Peter Golding and Graham Murdock's milestone piece "Theories of Communication and Theories of Society," their critique of the mainstream communication researchers' tendencies toward individualism, functionalism, and pluralism is still applicable when evaluating studies of the Internet.[15] In this section, I first review four major themes in the social, political, economic, and cultural discourses that take the Internet as a site of interactions. I then briefly criticize these discourses from a critical political economy perspective—that there is a lack of fundamental understanding as to how a capitalist society works and how the Internet, like any other communications business, is part of the capitalist (re)production process. In doing so, I aim to identify the gaps and deficits in the existing scholarly work on the Internet.

The first thesis, addressing social processes and relations, holds that the Internet transforms the basic social structure into a networked society. The representative argument is Manual Castells's well-known work that the fundamental form of social relations in the current information age is the network, which was structured particularly "by and around the

[15] Peter Golding and Graham Murdock, "Theories of Communication and Theories of Society," *Communication Research* 5, no. 3 (1978): 339–56.

Internet."[16] The crucial function of the Internet lies, first and foremost, in its capacity to provide "global, free communication."[17] He further analyzed this networked freedom by detailing the democratic values and practices transported through the Internet in recent social movements, such as the Arab spring, the indignadas movement in Spain, and the occupy movement.[18] Castells argues that these movements validated his earlier conception of the Internet as a revolutionary tool in disseminating, constructing, motivating, and mobilizing human interactions. In Castells's opinion, the Internet enabled a technosocial transformation that generated communication power.[19]

The second theme, following the idea that the Internet possesses open and democratic features, discusses the role of the Internet in changing political practices. Scholars propose the term "cyberdemocracy" to describe how the Internet's decentralized nature brought radical changes to forms of political participation. For example, Mark Poster examines the various activities and complex interactions that have emerged from network-based communications and identifies the changing governing patterns and power relations in cyber politics.[20] For Poster, the Internet's democratic potential rests upon its decentralized structure and autonomy for users. Lincoln Dalberg further explicates the idea of a decentralized network and introduced the term "online public sphere."[21] He examines online discourse and

[16] Manuel Castells, The Internet Galaxy: Reflections on the Internet, Business, and Society (New York: Oxford University Press, 2001), 3.

[17] Ibid., 277.

[18] Manuel Castells, Networks of Outrage and Hope: Social Movements in the Internet Age (Cambridge, UK: Polity, 2012).

[19] Manuel Castells, "Communication, Power and Counter-power in the Network Society," *International Journal of Communication* 1 (2007): 238–66; Manuel Castells, *Communication Power* (Oxford: Oxford University Press, 2009).

[20] Mark Poster, "CyberDemocracy: Internet and the Public Sphere," in *American Cultural Studies: A Reader, Oxford University Press*, eds. John Hartley, Roberta E. Pearson, and Eva Vieth (Oxford, England: Oxford University Press, 2000), 402–413.

[21] Lincoln Dalberg, "The Internet and Democratic Discourse: Exploring the Prospects of Online Deliberative Forums extending the Public Sphere," *Information, Communication, and Society* 4, no. 4(2001): 615–33.

compares it to Jurgen Habermas's model of rational interaction and deliberative democracy.[22] Specifically, Dahlberg points out that commercial values have greatly influenced the quantity and quality of political opinions and democratic participation in online spaces, but he does not detail to what extent and in what ways commercial impact took place, nor is he concerned with the broad structural relations within which the commercial sites are situated. Along the line of considering the Internet in connection to the public sphere, Peter Dahlgren refers to the positive contributions made by the Internet, in the context of political communication, both as a condition and an outcome of online civic engagement.[23]

The third area, from a social economic perspective, is the information and communication technology for development (ICT4D) discourse. Information-based technologies are perceived to have the potential to facilitate information exchange and, consequently, to strengthen economic connections between developing and developed countries and promote modernization in the developing world.[24] Under this assumption, nation states and nation state–sponsored organizations; nongovernmental organizations, such as the United Nations Development Program (UNDP) and the World Bank; and transnational corporate entities, such as IBM, Cisco, and others, actively engage with local communities in building information and communication technology (ICT) infrastructures, networks, and manufacturing plants to accelerate development.[25]

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[22] Ibid., 616.

[23] Peter Dahlgren, "The Internet, Public Spheres, and Political Communication: Dispersion and Deliberation," *Political Communication* 22 (2005): 147–62.

[24] Srinivas R. Melkote, "Theories of Development Communication," in *International and Development Communication: A 21st-Century Perspective*, ed. Bella Mody (Thousand Oaks, CA: SAGE, 2003), 129–47; "Promoting ICT for Human Development in Asia 2004: Realizing the Millennium Development Goals," *UNDP*, accessed July 10, 2015, http://hdr.undp.org/sites/default/files/south_east_asia_2005_en.pdf.

[25] Mark Thompson, "Discourse, 'Development,' and the 'Digital Divide': ICT and the World Bank," *Review of African Political Economy* 31, no. 99 (2004): 103–23; World Bank, "Financing Information and Communication Infrastructure Needs in the Developing World: Public and Private Roles," *World Bank Working Paper 65* (Washington DC: Global ICT Department, World Bank, 2005).

Finally, communications scholars also pay attention to the transformations in cultural practices related to the Internet. Henry Jenkins refers to such change as "convergence," an evolving process that shifts the relations among technologies, industries, markets, genres, and audiences: "New media technologies have lowered production and distribution costs, expanded the range of available delivery channels and enabled consumers to archive, annotate, appropriate and recirculate media content in powerful new ways."[26] At the same time that communication technologies allow more participation, a paradoxical trend arises that there is "an alarming concentration of the ownership" of transnational multimedia conglomerates.[27] Although he points out the increasing concentration of transnational media ownership, Jenkins does not specify what it had to with the Internet and the ways in which the Internet and new technologies contributed to this emerging growth of transnational multimedia networks or to "participation."

These analysts have addressed the political, economic, and social significance of the Internet. Not including broader social issues and the critique of power, however, is characteristic of these works. For example, Christian Fuchs questions Castells's notion of "power, the use of computer science terms for analyzing society, the assessment and categorical description of the power distribution between global multimedia corporations and the creative audience, the feasibility of the notion of web 2.0, his notion of social movements, the role of the movement for democratic globalization in contemporary society, and the centrality of informationalism and communication power."[28] In particular, while Castells says free communication is central to the network society, he does not specify the substance and

[26] Henry Jenkins, "The Cultural Logic of Media Convergence," *International Journal of Cultural Studies* 7, no. 1 (2004): 33–43; Henry Jenkins, *Convergence Culture: Where Old and New Media Collide* (New York: New York University Press. 2006), 17-18.

[27] Jenkins, "Cultural Logic of Media Convergence," 33-43; Amelia H. Arsenault and Manual Castells, "The Structure and Dynamics of Global Multi-Media Business Network," *International Journal of Communication* 2 (2008): 707–48.

[28] Christian Fuchs, "Some Reflections on Manuel Castells' Book *Communication Power*," *tripleC* 7, no. 1 (2009): 94–108, accessed February 27, 2016, http://www.triple-c.at/index.php/tripleC/article/view/136.

limits of "free communication"—to whom this freedom applies and to whom it does not. More profound questions to ask are, in what ways and toward what end is communication power structured in a networked society, and what kinds of political-economic forces have enabled or conditioned it?[29] In addition, in her critique on the discourse of a democratic net space, Jodi Dean analyzes the materialization of the public sphere. She argues that the network is no more than a sphere where capitalist ideology was and is circulated and legitimized.[30] She terms it as "communicative capitalism," which, she asserts, undermines the democratic potential of the Internet and is "profoundly depoliticizing."[31] By the same token, Jan Nederveen Pieterse, among those who criticize the ICT4D framework, argues that ICT4D is "an ideological package of neoliberalism which legitimized the market expansion of digital capitalism."[32] The ICT4D discourse, as some scholars point out, was devised collaboratively by the neoliberal states and the private sector to promote digital technology as a vehicle for transnational capitalist expansion, which enlarged social inequalities among different nations, regions, and classes.

To summarize, borrowing Robin Mansell's words, "there is a strong tendency in studies of new media to emphasize the abundance and variety of new media products and services, and to concentrate on promoting access with little regard for the associated structures and process of power that are embedded within them."[33] Analysis of new technologies while neglecting "where power actually is" has long existed and been under the

[29] Robin Mansell, "Political Economy, Power, and New Media," *New Media & Society* 6, no. 1 (2004): 96–105.

[30] Jodi Dean, "Why the Net Is Not a Public Sphere," *Constellations* 10, no. 1 (2003): 95–112.

[31] Jodi Dean, *Publicity's Secret: How Technoculture Capitalizes on Democracy* (Ithaca: Cornell University Press, 2002), 17–18.

[32] Jan Nederveen Pieterse, "Digital Capitalism and Development: The Unbearable Lightness of ICT4D," in *Incommunicado Reader*, ed. Geert Lovink and Soenke Zehle (Amsterdam: Institute of Network Cultures, 2005), 11–29.

[33] Mansell, "Political Economy, Power, and New Media," 95–112.

political economy scholars' critique.[34] Herbert Schiller, for example, has insightfully pointed out that information technologies, at their early stage of development, depend "entirely on its acceptance by, and encouragement from, the decision-making power centers of the economy."[35] The Internet, like any other new information technology, does not stand as an independent institution that enacts these social interactions. The Internet, subsequently, has also become an increasingly important aspect of the capitalist production and social structure, in which the Internet is created and shaped. In other words, the Internet is an integral and critical vehicle of the basic power relations and capitalist structure in social processes.

Questions about the Internet's relationship to society, like those of any information and communication technology, are essentially political and economic ones. For example, under what power relations was the Internet designed, developed, and shaped? Who, the nation-state, the corporation, or the individual user, were the leading actors in the process? To what extent and in what ways has the Internet constructed or reconstructed the political-economic relations, in general, and the communication industry. in specific? What forms of capital accumulation and reproduction strategies did the Internet display? How did divisions of Internet industry, including telecommunication infrastructures, routing equipment, desktop and mobile devices, and content and service provision, come to terms with each other in collaboration or rivalry?

The list of questions concerning the structural nature of the Internet goes on and remains understudied. As argued by McChesney, the foundational mechanisms in contemporary capitalism, such as "profit motive, commercialism, public relations, marketing, and advertising," must be reference points for comprehending and evaluating how the Internet has developed and what forces have shaped it. The Internet needs to be understood

[34] Herbert Schiller, *Culture, Inc.: The Corporate Takeover of Public Expression* (New York: Oxford University Press, 1989), 148.

[35] Herbert Schiller, *Communication and Cultural Domination* (New York: International Arts and Sciences, 1976), 50.

within the existing capitalist system and its political-economic process with respect to capital, labor, and other forms of social relations. One broad effort to foreground such issues is the critical political economy approach to communication, which highlights the location of power.

Political Economy of Communication and the Internet

Critical political economy, according to Vincent Mosco, is the study of "control and survival in social life." Mosco further explains that control and survival are connected to the political processes and economic production and reproduction processes that pertain to the ways in which social and economic lives are organized. The analytical strength of this approach is to foreground the "social relations, particularly the power relations" at the center of scholarly concerns and to examine the "the production, distribution, and consumption of resources"—including communication resources—within the circuit of capitalist processes. The political economy of communication, in particular, recognizes the media and communication sector as an integral aspect of the "fundamental economic, political, social and cultural processes" in modern capitalist societies.[36]

Grounded in a historical and critical tradition, political economy of communication also has contemporary relevance for its critique of the capital-accumulation logic and the commodity fetishism in cultural industry, as well as of ideological domination by the state apparatus.[37] To answer the foundational question "who (controls) and for whom (production, distribution, and audiences)," borrowing Dallas Smythe's words, political economy of communication scholars were first and foremost concerned with the power relations—both in and outside the media and communication institutions—that have shaped, informed, and

[36] Vincent Mosco, The Political Economy of Communication: Rethinking and Renewal (London: SAGE, 2009), 2–3, 24, 66.

[37] Robert McChesney, Communication Revolution: Critical Junctures and the Future of Media (New York: New Press, 2007), 53–55.

challenged their production and distributions.[38] By looking at media and communication institutions as a part of the capitalist system, political economists have long researched individual media firms as sites where ownership and control, organizational and business strategies, capital structures, product development, research and development (R&D) and public relations (PR) strategies, and the relations between capital and state have interacted.

More than seventy-five years ago, N. R. Danielian studied the history of the American Telephone and Telegraph Company (AT&T) between the 1870s and 1930s. Specifically, he investigated AT&T's control and ownership, capital structure in terms of distribution of securities, scientific research, labor conditions, and relations with other large capital units and regulatory entities.[39] Also, Danielian looked into AT&T's lobbying and PR strategies as a connection between corporate interests and state decision-making processes. In doing so, he provides a comprehensive evaluation of AT&T as a telephone company and an economic and political organization, a benchmark for the political economy of communication.

In examining the "increasing concentration of control and influence" that underpins and shapes "the economic context and political consequences of mass communications in contemporary Britain," Murdock and Golding present a detailed account, definition, and analysis of integration, diversification, and internationalization in British publishing, press, broadcasting, cinema, and records industries. As they put it: "The obvious starting point for a political economy of mass communications is the recognition that the mass media are first and foremost industrial and commercial organizations which produce and distribute commodities. . . . In addition to producing and distributing commodities, however, the mass media also disseminate ideas about economic and political structures. It is this second and

[38] Dallas Walker Smythe, "On the Political Economy of Communications," *Journalism & Mass Communication Quarterly* 37 (1960): 563–72.

[39] Noobar R. Danielian, *AT&T: The Story of Industrial Conquest* (New York: Vanguard, 1939), introduction, 1-3.

ideological dimension of mass media production which gives it its importance and centrality and which requires an approach in terms not only of economics but also of politics."[40]

Specifically, Murdock and Golding identify two major types of integration within the communication market—horizontal and vertical integrations—which are defined as where firms acquire "additional units at the same level or production" and where firms acquire "units at different levels," respectively.[41] These two processes enable media companies to enlarge business scale and gain resources in different stages of production and distribution. In addition, Murdock and Golding also found a strong tendency to diversify the companies' interests by acquiring other leisure- and information-related businesses that allow the companies to extend into and across various media businesses. A third characteristic of the media industry, the authors argue, is to transnationalize the operation by exporting products and services, investing in foreign companies, and inviting overseas capital into domestic media companies.[42] As Murdock and Golding demonstrate, through these processes of integration, diversification, and internationalization, the media and communication industries themselves entered the center of legitimizing social power relations and reproduction class structures in the British capitalist society. To borrow John Downing's words in a later review of Murdock and Golding's analysis, such an oligopolistic media ownership resulted in both restricting consumer choice in leisure and entertainment and consolidating information control over the public.[43]

In her 1995 study, Janet Wasko, who has consistently worked on examining the structure of the film industry in the United States, presents a convincing case of the

[40] Graham Murdock and Peter Golding, "For a Political Economy of Mass Communications," *Socialist Register* 10 (1973): 205–34. Page 205–7.

[41] Ibid., 213.

[42] Ibid., 221.

[43] John D. H. Downing, "Media Ownership, Concentration, and Content," in *The Handbook of Political Economy of Communications*, ed. Janet Wasko, Graham Murdock, and Helena Sousa (Chichester, UK: Wiley-Blackwell, 2011), 140–68.

concentration, integration, and diversification of the Hollywood industry, which had grown far beyond film production, distribution, and exhibition.[44] Hollywood, she argues, crossed over traditional industrial boundaries and engages in transindustrial activities, including marketing, advertising, branding, merchandising, home television, cable provision, videos, outdoor leisure, and theme parks, among others. That is, Hollywood has made a site of cultural synergy that produced and distributed multiple cultural products.[45] To further explicate Hollywood's landscape, Wasko chooses the Walt Disney Company as a case study. She examines the "Disney synergy" strategy that aims at marketing the Disney brands and characters in various forms and cross-promotional activities.[46] Using the 1997 animated film *Hercules* as an example, Wasko identifies Disney's merchandising approaches through pre-releasing trailers, tours, ice shows, merchandising stores, clothes, gifts, home furnishings, housewares, stationery, toy, publications, sound tracks, and so forth.[47] In a nutshell, the Disney company employs all means of promotion on all platforms. In her words, Disney as a corporation, like the whole U.S. film industry, carrying the business nature of other capitalist industries, was expanding along the processes of concentration, commodification, and commercialization and contributing to a growing course of consumerism.[48] Building on Wasko's argument, Nathan Vaughan proposes a typology of how cultural synergy is "organized and deployed variously within cultural production and circulation."[49] According to Vaughan, cultural synergy has two forms: intensive and extensive. Intensive synergy is the type described in Wasko's study on Disney, which focuses on "the integration and co-

[44] Janet Wasko, *Hollywood in the Information Age: Beyond the Silver Screen* (Austin: University of Texas Press, 1995).

[45] Ibid., 252.

[46] Janet Wasko, *Understanding Disney: The Manufacture of Fantasy* (Cambridge: Polity, 2001), 70–71.

[47] Ibid., 72–77.

[48] Janet Wasko, *How Hollywood Works* (Thousand Oaks, CA: SAGE, 2003), 224.

[49] Nathan Vaughan, "Maximizing Value: Economic and Cultural Synergies," in *The Handbook of Political Economy of Communications*, ed. Janet Wasko, Graham Murdock, and Helena Sousa (Chichester, UK: Wiley-Blackwell, 2011), 169–86.

ordination of various function within a company."[50] The extensive synergy, on the other side, requires an interlocked relation at various levels of the industry with other business operators, such as advertising.[51] By foregrounding an extensive aspect, Vaughan emphasizes the transindustrial nature of Hollywood's synergy that combines "the power to control resources and the flexibility to respond quickly to changing markets and consumer taste."[52]

Similar tendencies have been chronicled for media corporations. Critical media scholars, such as Ben Bagdikian, Edward Herman, Noam Chomsky, and Robert McChesney, intensively studied the trends in the media businesses toward media monopoly and concentrated ownership. Specifically, Herman and McChesney trace the emergence of global media oligopolies under the 1990s globalization processes. By way of joint ventures, strategic alliances, and cross-ownership among the major transnational media firms, these authors argue, a handful of U.S.-based horizontally and vertically integrated media conglomerates was dominating the global media system.[53]

Carrying forward the basic line of research in power dynamics and social relations, political economy scholars in recent decades have been keenly interested in studying information systems and the Internet as rising spheres of transnational capitalist expansion. As bluntly put by Christian Fuchs, "the Internet is today primarily a space that is dominated by corporations that derive money profit from human communication."[54] Herbert Schiller, throughout three of his works, *Who Knows*, *Information and the Crisis Economy*, and *Culture Inc.*, lays out an early foundation of such arguments in his examination of the use of communication technologies and information systems in maintaining capital's dominant

[50] Ibid., 170.

[51] Ibid., 176.

[52] Ibid., 184.

[53] Edward S. Herman and Robert W. McChesney, *The Global Media: The New Missionaries of Corporate Capitalism* (London: Cassell, 1997), 104.

[54] Christian Fuchs, Foundations of Critical Media and Information Studies (London: Routledge, 2011), 337.

power. He argues that "surveillance, intervention, and marketing are the near-certain outcomes of the utilization of new communication technologies, domestically and globally."[55]

Dan Schiller and Robert McChesney consistently worked on identifying the extensive commercial power in global information and communication industries under the neoliberal policy framework.[56] Dan Schiller details the historical process and global reconfiguration of the telecommunication sector along neoliberal lines. He argues that the "neoliberal paramountcy" continued to expand both vertically across industries from telecommunications and the Internet to other cultural sectors and, horizontally, across geographic landscapes from the United States to China.[57] "In the emerging political-economic system," writes Schiller, "the role of the conglomerates is thus increasingly to pool transnational capital, to produce commodities within the new international division of cultural labor and propel them outward into the world market."[58] McChesney examines the mechanisms of advertising, surveillance, and networked corporations that have given rise to "a handful of gigantic monopolistic firms" in the U.S. context.[59] He also pays special attention to the roles of public relations and scientific research and development in the building of a commercialized network. As he points out, public relations played a crucial part, particular in 1990s, in policy-making processes with regard to Internet development.[60] Scientific development and research, on the other hand, contributed tremendously to maintaining the digital giants' monopoly power, in

[55] Herbert Schiller, *Information and the Crisis Economy* (Norwood, NJ: ABLEX, 1984), 23.

[56] Dan Schiller, Digital Capitalism: Networking the Global Market System (Cambridge, MA: MIT Press, 1999).

[57] Ibid., 203; Dan Schiller, *How to Think about Information* (Urbana: University of Illinois Press, 2007); D. Schiller, *Digital Depression*.

[58] D. Schiller, *How to Think*, 134.

[59] Robert McChesney, Digital Disconnect: How Capitalism Is Turning the Internet against Democracy (New York: New Press, 2013), 20.

[60] Ibid., 104–7.

the forms of applying technical standards, patents, and creating proprietary systems.[61] McChesney makes a strong argument that the Internet is a highly concentrated and self-interested industry that poses severe threats against democracy, equality, and the public good.[62]

In resonance with Schiller and McChesney, Vincent Mosco looks into one specific aspect of global information capitalism—cloud computing.[63] Mosco argues that cloud computing did not simply enact a "decision to engage with one or another data center" as those Internet giants have claimed.[64] Rather, it is an "engine that powers informational capitalism" that carries economic, political, social, environmental, and cultural implications.[65] In a recent doctoral dissertation contributing to an understanding of the political economy of search-engine technologies,[66] ShinJoung Yeo pays special attention to the labor structure and the management of scientific labor in this industry as it has played a critical role in the profitability of Google and other Internet companies.

These works have laid foundations for understanding the political economy of the Internet within global digital capitalism. However, they were primarily grounded in the United States and the developed world, despite acknowledgment of China's increasing importance to the dynamism of global communication system. China's Internet companies, by contrast, are only beginning to be researched by critical political economists. The extended case study of Tencent of the current dissertation carries over the long-standing approach used by political economy of communication and adopts it to the contemporary Chinese context.

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[61] Ibid., 132–36.

[62] Ibid., 216–32.

[63] Vincent Mosco, *To the Cloud: Big Data in a Turbulent World* (Boulder, CO: Paradigm, 2014).

[64] Ibid., 4.

[65] Ibid., 1–4.

[66] ShinJoung Yeo, "Behind the Search Box: The Political Economy of a Global Internet Industry," PhD dissertation, Library and Information Science, University of Illinois at Urbana-Champaign, 2014.

Contemporary China and the Role of Communication

Situated in the other pole of growth, China, this study clarifies the changing dynamics in China's communication industry and seeks to understand the multifaceted characters of China's contemporary development and transformation.

Many scholars have attempted to interpret China's contemporary transformation that started in 1978 when Deng Xiaoping decided to reintegrate his country into the global capitalism. Major discourses could be summarized as having perspectives of nationalism, partial neoliberalism, and/or developmentalism.

A significant debate developed about the character and extent of China's rise and continued to develop quickly as it engaged China's vibrant evolution. Some scholars held that China was a rising national power in the global geopolitics. This was not only apparent in the country's consecutive GDP growth, which made China the world's second-largest economy, accounting for more than 9 percent of global GDP, but also in the more proactive stance the country took in global affairs.[67] While the discourse was a "symbolic celebration" embraced by nationalists within China, it was more, in the Western context, of a continuation of the cold-war rhetoric that generated not only "fearful reactions" among the Western public but also genuine concerns among Western political leaders.[68] One *New York Times* report states, "The success of economic development would have to cause political implications—the external ones are carefully monitored and evaluated by China's neighbors and the only superpower of the world—the United States."[69] One such attempt was made by Robert Sutter

[67] Lin, "China and the Global Economy"; Walter Russell Mead, "The Return of Geopolitics," *Foreign Affairs*, May–June 2014, accessed March 10, 2017, https://www.foreignaffairs.com/articles/china/2014-04-17/return-geopolitics.

[68] Elena Barabantseva, "In Pursuit of an Alternative Model? The Modernisation Trap in China's Official Development Discourse," *East Asia* 29, no. 1 (2012): 63–79; Nolan, *Is China Buying the World*, 2–3.

[69] Ming Xia, "'China Threat' or a 'Peaceful Rise of China'?" *New York Times*, n.d., accessed July 1, 2015, http://www.nytimes.com/ref/college/coll-china-politics-007.html.

when he evaluated the implications of China's rise with regard to Asian Pacific nations.[70] Despite that "China may be on the road to become Asia's leading power," he found that the Chinese government was cautiously taking a "moderate strategy" and referring to its development as a peaceful rise.[71] Minqi Li also examines China's rise by referring to Immanuel Wallerstein's world-system theory. Drawing upon a historical analysis, Li argues that the U.S. hegemony was declining, and China was potentially capable of destabilizing the existing world system.[72] The claim that China was rising as a global power was not unchallenged. David Shambaugh, considering it an overstated claim, argues that China was only a "partial power."[73] Through unveiling China's impact from different dimensions, including global diplomacy, governance, economy, culture, and security, Shambaugh discovered some "uncertainties, ambiguities, confusions and conflicts" that went along with China's national rise.[74] Peter Nolan, with a more specific focus on China's economy, also refutes the idea that China was taking over the world's economy. By dissecting the complexities within an integrated global capitalism, Nolan faults as being simplistic the dichotomized and very often antagonistic sentiment that deemed China's being a threat to the Western world. He argues that China was still a developing country that was only catching up quickly: "China has not yet bought the world and shows little sign of doing so in the near future."[75]

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[70] Robert Sutter, "China's Rise in Asia—Promises, Prospects, and Implications for the United States," Occasional Paper Series presented by Asia-Pacific Center for Security Studies, February 2005, accessed July 1, 2015, http://www.apcss.org; Robert Sutter, *China's Rise in Asia: Promises and Perils* (London: Rowman and Littlefield, 2005).

[71] Sutter, *China's Rise*, 9.

[72] Minqi Li, The Rise of China and the Demise of the Capitalist World-Economy (New York: Monthly Review, 2008), 176–77.

[73] David Shambaugh, *China Goes Global: The Partial Power* (Oxford: Oxford University Press, 2013), 6.

[74] Ibid., 8-10; 311–17.

[75] Nolan, Is China Buying the World, 66, 143.

A second theme pertained to the role of what David Harvey calls neoliberalism in China's transformation.[76] As he observes, Deng Xiaoping's 1978 reform was a "revolutionary turning point" that transformed China "from a closed backwater to an open center of capitalist dynamism."[77] Harvey refers to this developmental path as a "neoliberal project" that readapted to capital accumulation and reenabled the power of economic elites in alliance with political elites.[78] He saw China's experience as part of a global neoliberal wave that prioritized the practices of liberating corporate freedoms and commercial interests and a withdrawal of the state from many social and public sectors. Harvey terms this process, where the state reoriented its power for enabling capital accumulation and development, as "neoliberalism with Chinese characteristics."[79] In other words, the China's model was only partial neoliberalism. Giovanni Arrighi also examines the issue in his book *Adam Smith in Beijing*. Arrighi argues that China's development was not necessarily, or at least not entirely, a capitalist one.[80] Critically engaging with the works of Robert Brenner, Andre Gunder Frank, and Harvey, Arrighi analyzes the basic features of capitalist development and makes a distinction between a market economy and capitalist development. Referring to his understanding of Adam Smith, Arrighi finds dual efforts by the Chinese state that, on the one hand, were in favor of capitalist development and, on the other, were concerned with labor welfare.[81] In a 2009 dialogue with Harvey, Arrighi further elaborates this concern of the Chinese leaders with the nation's subordinate classes when he uses Hu Jintao's quotes to refer to the internal struggles in China and says, "The balance of forces between the classes in

[76] Harvey, *Brief History*, 122.

[77] Ibid., 1.

[78] Ibid.

[79] Ibid., 120–21.

[80] Giovanni Arrighi, Adam Smith in Beijing: Lineages of the Twenty-First Century (London: Verso, 2007), 24.

[81] Giovanni Arrighi, "The Winding Path of Capital: Interview by David Harvey," *New Left Review* 56 (2009): 61–94.

China is still up for grabs."[82] Therefore, Arrighi holds, a pure capitalist analysis seems to be inadequate for understanding the practices of China's state.

In view of the only partial role of the neoliberalism framework, a third interpretation centers on a developmental state model. Some scholars see China's path as a reflection of internal conflicts and of a crisis of Chinese socialism.[83] One major inadequacy of the neoliberal framework, they assert, was its inability to situate China's state in the complicated intersections of "class, nation, and other marks of status difference both within and beyond Chinese borders."[84] In Harvey's version of China's neoliberal experiment, the state's role was to "facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital," which cast most benefits upon "private property owners, businesses, multinational corporations and financial capital."[85] In the case of China, at the same time when the neoliberal model of marketization has certainly created and empowered a class of economic elites, it also accelerated contention and worsened the living conditions for working class.[86] To handle these problems, it was argued, in Alvin Y. So's work, that there was a strong characteristic of East Asian developmental state mode in China's approach that essentially departed from the neoliberal conception,[87] The author found evidence from China's rebalancing policies that were oriented to social development rather than economic growth. Such an analysis is consistent with Chinese leaders' commitments to a socialist nation, by making efforts to sustain and restore social stability through a series of political

[82] Ibid., 80.

[83] Yongnian Zheng, *Globalization and State Transformation in China* (Cambridge: Cambridge University Press, 2004), 174.

[84] Yuezhi Zhao, "The Challenge of China: Contribution to a Transcultural Political Economy of Communication for the Twenty-First Century," in *The Handbook of Political Economy of Communication*, ed. Janet Wasko, Graham Murdock, and Helena Sousa (Chichester, UK: Wiley-Blackwell, 2011), 558–82.

[85] Harvey, *Brief History*, 7.

[86] Ibid., 9.

[87] Alvin Y. So, "Rethinking the Chinese Developmental Miracle," in *China and the Transformation of Global Capitalism*, ed. Ho-fung Huang (Baltimore: John Hopkins University Press, 2009), 50-64.

campaigns. Former state-initiated campaigns followed two lines of strategic thinking: "scientific development value" and "a harmonious society."[88] Upon Xi Jinping's and Li Keqiang's assumption of leadership, the government continued to make "social harmony and stability" its foremost task and launched the Chinese-dream campaign aiming at addressing internal tensions and unifying people across social divisions,[89] and So further articulated this idea of "a capitalist approach to a developmental state," in a more recent work, in which he discussed the Chinese government's industrial and information policies as another proof of the country's developmental strategy.[90] By the same token, Lin Chun situates the political economy of the Chinese model in the historical and global context of a revolutionary, socialist, and postsocialist path.[91] She argues that "capitalism is neither an inevitable evolutionary stage nor a sustained option for China."[92] Rather, Chinese reform reflects an attempt to seek a Chinese alternative to modernity and was a response to the crisis of Chinese socialism, although it has to some extent departed from socialism and turned into a capitalist path.[93] Accordingly, the nature of Chinese history and development is "a blending of paradigms of revolution, modernization, and globalization and from another as a combination of the models of late, peripheral, and socialist development."[94] The social struggles, according to Lin, between China's socialist history and its emerging market capitalists partly

[88] Ma Kai, "The 11th Five-Year Plan: Targets, Paths and Policy Orientation," NDRC minister on 11th Five-Year Plan, NDRC, March 19, 2006, accessed July 1, 2015, http://www.gov.cn/english/2006-03/23/content_234832.htm.

[89] Li Keqiang, "Report on the Work of the Government 2015," Third Session of the 12th National People' s Congress, March 5, 2015, accessed July 1, 2015 http://news.xinhuanet.com/english/china/2015-03/16/c_134071473_2.htm.

[90] Alvin Y. So, "The Post-Socialist Path of the Developmental State in China", in *Asian Developmental State: Re-examinations and New Departures*, ed. Yin-Wah Chu (New York, NY: Palgrave Macmillan, 2016), 175-196.

[91] Lin Chun, China and Global Capitalism: Reflections on Marxism, History, and Contemporary Politics (New York: Palgrave Pivot, 2013).

[92] Ibid., 198.

[93] Ibid., 46.

[94] Ibid., 212.

explain the uneven development, various degrees of inequalities, and seemingly contradictory efforts by the state.[95]

Notwithstanding the strengths and insufficiencies of these different discourses, their approaches to the role of China's communication sector in China's contemporary development present an incomplete and sometimes inaccurate picture of China's media landscape. At the worst, these discourses are dismissive of the fundamental role of communication in the country's social structure and political-economic processes.

Traditionally, the media and communication in China have been understood, since the revolutionary time, mainly as a means of control. Much analytical emphasis in prior scholarship is put on the state power and the propaganda mechanism.[96] Banal discussions have very often featured a discourse of censorship versus democratization and/or the state versus market dichotomies in China's communication practices, assuming that the "communist" nature of the state would naturally take over the propaganda machine. Such a dichotomous argument held some element of truth historically while neglecting a changing dialectic of the state and market relations. Even in the reform era when media and communication were gradually transformed and commercialized, the dichotomous frameworks are still frequently used to analyze the practices in media markets.[97]

In recent years, an increasing number of researchers have started recognizing communication and, especially, the ICT industries in China as critical aspects in the country's political-economic (re)structuring. Yuezhi Zhao was among the groundbreaking scholars who argue that the political economy of China's communication is one essential perspective of

[95] Ibid., 72.

[96] Liangrong Li, *An Introduction to Journalism in China* (Shanghai: Fudan University Press, 2006); David Shambaugh, "China's Propaganda System: Institutions, Processes, and Efficacy," *China Journal* 57 (2007): 25–58; Qiuqing Tai, "China's Media Censorship: A Dynamic and Diversified Regime," *Journal of East Asian Studies* 14 (2014): 185–209.

[97] Chin-Chuan Lee, Zhou He, and Yu Huang, "Chinese Party Publicity Inc. Conglomerated: The Case of the Shenzhen Press Group" (paper, International Communication Association 2006 Annual Meeting); Susan Shirk, *Changing Media, Changing China* (New York: Oxford University Press, 2011), 1–2; Ying Zhu, *Two Billion Eyes: The Story of Central Chinese Television* (New York: New Press, 2012).

understanding the "class character of the Chinese state and its role in the shifting regimes of capitalist accumulation."[98] In her earlier work, Zhao demonstrates the nuanced nature of the relation between Chinese news media and the communist party–state apparatus: "Communication has never simply been an issue of 'free' expression. It has always been an integral part of political organization and social mobilization."[99] The equations between commercialization and democratization and the dichotomous discourse of "state or market" are inadequate for describing the actual practices of China's communication industries. Zhao further unveils the multidimensional dynamics of the state and capital interaction, foregrounding their entangled relations in communications. The two, in collaboration and contestation, have shaped "the institutions, processes and contents of contemporary Chinese communication."[100] Zhao insightfully points out:

> Instead of pursuing media centric and nation-state-centric modes of analysis, I conceptualize China's reintegration with the global market system through the communication industries as an integral part of an ongoing global political economic transformation, leading to the emergence of a new global order in which China has the potential to redefine the norms of global governance...
>
> Developments in the Chinese communication realm have been central to this transformation. At the institutional level, this has encompassed the well-documented changes in the political economy of the media, telecommunication, and Internet systems with a fortified regime of political

[98] Y. Zhao, "Challenge of China," 564.

[99] Yuezhi Zhao, *Communication in China: Political Economy, Power, and Conflict* (Lanham, MD: Rowman and Littlefield, 2008), 36.

[100] Ibid., 11.

control and state capacity building in the management of these systems and increasing commodification of services.[101]

With respect to the newly developed ICT and Internet sector, in particular, political economy scholars further situate it in China's contemporary reinsertion into global capitalism.[102] For example, Jack Linchuan Qiu and Yu Hong provided insights into the role of the Internet and the general ICT sector with respect to the country's changing labor structures and class relations.[103] Jack Qiu examines the use of ICTs as a process that formed a "having-less" working class. As he shows, the emergence of a "having-less network society" is a pivotal process for China's urbanization that evolves around low-end ICTs. Yu Hong's work, studying class relations, labor conditions, and class identity of Chinese ICT workers, argues that class formation of ICT workers was an important aspect of the political economy of China's ICT development.[104] In her latest research, Hong extends the inquiry into the political economy of ICTs by exploring state-business relations in designing and constructing China's information infrastructure systems.[105] Through examining the developmental processes behind telecom, broadband, and 3G networks, Hong argues that information system construction, as a national vehicle for economic growth and restructuring, was interwoven into the state's information policies that prioritized continuing capitalist (re)production. In his work on transnational digital capitalism; on the other hand, Dan

[101] Yuezhi Zhao, "Neoliberal Strategies, Socialism Legacies: Communication and State Transformation in China," in *Global Communication: Toward a Transcultural Political Economy*, ed. Paula Chakravartty and Yuezhi Zhao (Lanham: Rowman and Littlefield, 2008), 26, 29.

[102] Yu Hong, *Labor, Class Formation, and China's Informationized Policy of Economic Development* (Lanham, MD: Lexington, 2011); Yu Hong, "Reading the Twelfth Five-Year Plan: China's Communication-Driven Mode of Economic Restructuring," *International Journal of Communication* 5 (2011): 1045–57; D. Schiller, "Poles of Market Growth"; D. Schiller, *Digital Depression*; Yuezhi Zhao, "China's Pursuits of Indigenous Innovations in Information Technology Developments: Hopes, Follies, and Uncertainties," *Chinese Journal of Communication* 3, no. 3 (2011): 266–89.

[103] Jack Linchuan Qiu, Working-Class Network Society: Communication Technology and the Information Have-less in Urban China (Cambridge, MA: MIT Press, 2009); Hong, Labor, Class Formation.

[104] Hong, Labor, Class Formation, 3–4.

[105] Yu Hong, *Networking China* (Urbana: University of Illinois Press, 2017).

Schiller allocates great analytical importance to China as a leading pole of growth in the Internet-based capitalism.[106] Especially in the wake of the recent global financial crisis that was rooted in digital capitalism's continuing development, state-directed development in China's information and communication sectors suggested an intensifying geopolitical rivalry between China and the United States—as an update to the still-transforming global political economy.[107]

China's communication sector and, particularly, the ICT industries provide the political economy lenses through which we are able to understand how contemporary China's development pivoted on the communication industry through interactions between domestic and transitional players.[108] This study carries forward the critical political economy line of thinking to examine the mutual constitution of China's capital-oriented development and the role its Internet industry has played. Placing communications in China's contemporary restructuring, I foreground the historical processes of building China's Internet industry as a prime dimension of the unfolding transformation of the Chinese state and society.

Methods and Organization of the Study

This project is built on a political economy case study of a leading Chinese Internet company, Tencent. Tencent is a Shenzhen-based, Chinese, Internet giant. Founded in 1998, Tencent started the business with an instant messaging (IM) service—QQ. QQ, developed by Tencent's five core founders—Ma Huateng, Zeng Liqing, Zhang Zhidon, Chen Yidan, and Xu Chenye—was a localized adaptation of ICQ—an instant messenger an Israeli company originally invented.[109] Tencent has been working continually on adding Chinese features to

[106] D. Schiller, *Digital Depression*, 229–31.

[107] Ibid., 239.

[108] Arif Dirlik, *Marxism in the Chinese Revolution* (Lanham, MD: Rowman and Littlefield, 2005), 229; Y, Zhao, "Neoliberal Strategies," 24; Chun, *China and Global Capitalism*, 72.

[109] ICQ was later bought by AOL and now is owned by Mail.ru.

this instant messenger system ever since. The wide popularity of QQ won Tencent a large user base in China. By the end of 2015, the monthly active users (MAU) of QQ reached 853.1 million.[110] Thanks partly to its massive user base, as I will show, Tencent's businesses have expanded to a variety of other value-added Internet, mobile, and telecom services.

Value-added services generally defined as "enhanced data-processing services" beyond the basic voice services ordinarily provided by telecommunication carriers.[111] In China, the State Council promulgated the Telecommunications Regulations of the People's Republic of China first in 2000 in which the differences between the basic and the value-added services are defined:

> Telecommunications businesses shall be divided into the categories of basic telecommunications businesses and value-added telecommunications businesses;
>
> Basic telecommunications businesses shall mean businesses that provide public network infrastructure, services for public data transmission and basic voice telephony services. Value-added telecommunications businesses shall mean businesses that provide telecommunications and information services using public network infrastructure.[112]

In the case of Tencent, its value-added services included entertainment, social networking, communication and information portal, gaming, and e-commerce, among others, on mobile handsets and the Internet.[113] In June 2004, Tencent launched an initial public

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[110] Tencent, Annual Report, 2015, 6. Accessed https://www.tencent.com/en-us/achievement_timeline.html.

[111] Milton L. Mueller and Wolter Lemstra, "Liberalization and the Internet," in *International Handbook of Network Industries: The Liberalization of Infrastructure*, ed. Matthias Finger and Rolf W. Kunneke (Cheltenham, UK: Elgar, 2011), 144–61.

[112] State Council, "Telecommunications Regulations of the People's Republic of China," *ChinaITLaw.org*, January 20, 2010, accessed April 23, 2017, http://www.china.org.cn/business/laws_regulations/2010-01/20/content_19273945_2.htm.

[113] Tencent, Prospectus, 2004, 58. Accessed: http://globaldocuments.morningstar.com/documentlibrary/document/137bb96118b048a4.msdoc/original.

offering (IPO) of shares on the Hong Kong Stock Exchange. At the end of 2015, its revenue topped about $14.9 billion (RMB 102,863 million).[114] The company, identifying itself as an "online lifestyle services provider," claimed to be "China's largest and most used Internet service portal."[115] Tencent also became the sixth-largest global Internet giant in terms of market value as of February 2017.

As discussed in greater detail in the next chapter, the time when Tencent was founded was a critical period to both Chinese and global Internet industries. On the domestic side, Deng Xiaoping embarked on his second southern tour in 1992 during which he firmly advocated further reform and more economic liberalization.[116] This speech carried far-reaching historical significance for China's economic development, as Deng's famous statement, "Be it a black cat or a white cat, a cat that can catch mice is a good cat," was generally recognized as an open and welcoming attitude to the capitalist market.[117] Shenzhen, where Tencent's headquarters are based, greatly benefited from Deng's visit and became one of China's earliest special economic zones that opened up to foreign capital after 1992.[118] In just one year after Deng's visit, the amount of FDI into Shenzhen rose from $250 million in 1992 to $497 million in 1993. In 2009 the amount of FDI in Shenzhen reached $4.2 billion.[119] The per capita GDP in Shenzhen increased from $1.825 thousand (RMB 8.72 thousand) in 1990 to $8.713 thousand (RMB 69.45 thousand) in 2006, and GDP was growing at a rate of

[114] Tencent, annual report 2014, *Tencent*, accessed July 7, 2015, https://www.tencent.com/en-us/achievement_timeline.html.

[115] "About Tencent," *Tencent*, n.d., accessed July 20, 2015, https://www.tencent.com/en-us/abouttencent.html.

[116] Suisheng Zhao, "Deng Xiaoping's Southern Tour: Elite Politics in Post-Tiananmen China," *Asian Survey* 33, no. 8 (1993): 739–56.

[117] "Southern Tour Legacy," *Global Times*, n.d., accessed July 20, 2015, http://backup.globaltimes.cn/specialcoverage/dengssoutherntour.aspx.

[118] Lin Huang, "What Did Deng Xiaoping's Southern Tour Bring to Shenzhen?" *Party History*, n.d., accessed July 20, 2015, http://dangshi.people.com.cn/BIG5/18156136.html.

[119] Xiangming Chen and Ahmed Kanna, *Rethinking Global Urbanism: Comparative Insights from Secondary Cities* (New York: Routledge, 2012), 112–13.

14 to 20 percent a year between 1995 and 2006.[120] At the same time, Shenzhen was among the first few cities in China to have Internet access via China Telecom, after the first full Internet operation using the TCP/IP protocol in China was launched in 1994.[121] The following years saw Internet companies springing up all over China, particularly in Shenzhen. On the global side, at the same time, the Internet and information technology were becoming booming industries for the economy in the United States. Particularly, this was evident in the rise of the NASDAQ, where a growing number of technology companies were publicly listed. Tencent, emerging in the concluding years of the twentieth century, is one example of China's Internet gold rush.

This dissertation takes a political-economy approach and looks at Tencent as a historically unfolding business entity, by focusing on the shaping, enabling, and conditioning forces with which the company has developed, rather than considering individual user behaviors, employee performances, or isolated management strategies.[122] Looking at Tencent's rise as a developmental process, I give primary attention to two types of shaping forces: the role of state agencies and the role of different units of capital in and outside China. Specifically, referring to the strengths of political economy communication scholarship, I propose the following four lines of inquiry:

- the regulatory context within which Tencent was built and developed
- the basic political-economy features of Tencent, including ownership and control, organizational and profit strategies, capital structure, and business strategies

[120] Jianfa Shen, "Urban Growth and Sustainable Development in Shenzhen City 1980–2006," *Open Environmental Journal* 2 (2008): 71–79.

[121] Milton Mueller and Zixiang Tan, China in the Information Age: Telecommunications and the Dilemmas of Reform (Westport, CT: Praeger, 1997), 81–82.

[122] Oscar H. Gandy, "The Political Economy Approach: A Critical Challenge," in *The Political Economy of Communication: A Reader*, ed. Jin Cao and Yuezhi Zhao (Shanghai: Fudan University Press, 2008), 105–21.

- Tencent's domestic expansion and relations with various units of capital within China
- Tencent's transnational expansion and relations with units of capital outside China

Together, these lines of inquiry allow a case study of Tencent to become a valuable means of clarifying the character of China's Internet industry.

I draw upon document research, using primary and secondary sources, specifically, the following four types of sources:

(1) Policy documents issued by various Chinese government entities, including the State Council; Ministry of Industry and Information Technology (MIIT) and its subsidiary office China Internet Network Information Center (CNNIC); National Development and Reform Commission (NDRC); Publicity Department of the Communist Party of China; and State Administration of Press, Publication, Radio, Film, and Television (SAPPRFT), among others. Through examining the rhetoric and discourse of these documents, I trace the historical path of Internet building in China, especially Tencent, and attend to the role of the Chinese state in this process.

(2) Corporate annual reports, quarterly reports, and other forms of trade-news releases publicly revealed by Tencent and other related companies, as requested by the stock exchange markets wherever these companies were listed. These spreadsheets present not only the basic operating, business, and financial information about these companies but also the interconnections among them through various types of deals and transactions.

(3) News reports and analysis of Internet and ICT industries from financial and business sources and trade journals. I use these sources as reference points to supplement the above primary sources.

(4) Providing further analysis and evaluation of Tencent are the reports issued by professional investment analysts from banks and/or consultancy firms. These reports support and enrich the above sources in clarifying a company's development and providing analysis for its business and financial activities.

While these four types of sources go far to contextualize and clarify the issues that my research questions have posed, they possess various weaknesses. I locate them as expressions of special interests and power relations and therefore take caution in my use and analysis. I also cross-check facts among these sources. In the meantime, my attempt to discover new sources has been ongoing.

The rest of the dissertation is organized as follows: Chapter 1 depicts the political-economic context of the birth and growth of China's Internet and chronicles China's pursuit of Internet capital, within which Tencent emerged, by drawing on regulatory rhetoric and discourse. Chapter 2 gives primary attention to some basic political-economic features of Tencent. By documenting its ownership and control, I show that Tencent is a China-based Internet company with substantial transnational characteristics in its capital structure. Chapter 3 situates Tencent's growth in the domestic context by examining its expansion strategy. Particularly, this chapter studies Tencent's approach to horizontal and vertical integration, and diversification by collaborating with other domestic units of Internet capital. Chapter 4 turns to another side of the intercapital relations in China's Internet industry: the conflict and rivalry. The chapter studies Tencent's high-profile legal cases with other Chinese Internet companies as well as its relationship with major Chinese telecommunication carriers. This

chapter also revisits the role of the Chinese state in these processes by looking at to what extent and in what ways the state has enabled or constrained Tencent's growth. Chapter 5 extends the analysis to the transnational sphere by reviewing Tencent's foreign connections and development in different forms and sectors. In the concluding chapter, I summarize my primary findings and propose future research directions.

Chapter 1

China's Internet as a Site of Transnational Capitalist Development

A few snapshots of milestone events in China's Internet history show that the Internet has quickly become large and ubiquitous.

In May 1994, the first full Internet operation under TCP/IP protocol in China was established through a direct connection to the American telecommunication company Sprint.[123] Also in that year, the first web server and the first set of web pages in China were launched at the Institute of High Energy Physics (IHEP), one of the research institutions under the Chinese Academy of Sciences (CAS).[124] In just a few years, the number of Internet users in China grew from 620,000 in 1997 to 8.9 million in 2000.[125]

In 2003 when the story that university graduate Sun Zhigang was detained and beaten to death by policemen in Guangzhou due to the lack of a temporary resident certificate, the Internet became a key space of mobilization for outspoken grassroots youth and intellectuals who had no access to mainstream media. As Yuezhi Zhao point out in her analysis, Sun's social status and the liberal civil-rights discourse in this case resonated with the massive community of Chinese Internet users. When the local government suppressed the traditional news media's efforts in pursuing the story, "the story took on a life of its own throughout China" as "both Sun's direct and indirect classmate networks and China's Internet community at large were mobilized."[126] As a ramification of the social-economic divisions and class relations in the Chinese society, the online networks further built up the public mobilizing power.

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[123] Mueller and Tan, *China in the Information Age*, 83; CNNIC, "The Internet Timeline of China 1986~2003," n.d., accessed May 10, 2016, http://www1.cnnic.cn/IDR/hlwfzdsj/201306/t20130628_40563.htm.

[124] "Internet Timeline of China 1986~2003."

[125] "The Annual Statistical Report on Internet Development in China," 1997 and 2000, *CNNIC*, n.d., accessed October 10, 2016, https://www.cnnic.net.cn/hlwfzyj/hlwxzbg/200905/P020120709345374625930.pdf and https://www.cnnic.net.cn/hlwfzyj/hlwxzbg/200905/P020120709345371437524.pdf

[126] Y. Zhao, *Communication in China*, 260–61, 257.

On November 11, 2015, Hunan Television—the leading provincial satellite TV station—put on a special gala as the kick-off to Alibaba's single's day shopping festival, a Chinese version of the American black Friday. "Double 11"—a play on how the number eleven represents being single and unmarried—was reinvented by China's largest e-commerce company, Alibaba, as a shopping event on November 11 for young consumers. The event, directed by the famous Chinese director Feng Xiaogang, featured many international stars, such as Kevin Spacey, Adam Lambert, and Rain, and numerous Chinese celebrities, including singers, athletes, and movie stars. Throughout the performances, promotional activities—drawing for free items and gift money, and discounts on certain commodity products—were used to stimulate the audience's purchasing desire. That day, the total value of goods transacted through Alibaba's e-commerce network reached a record high of $14.32 billion (RMB 91.2 billion).[127] On February 7, 2016—Chinese New Year's Eve 2016, Alibaba's marketing promotion further extended to China Central Television's spring festival gala, which used to be an official venue for performances promoting the Communist Party line and national culture. In collaborating with the spring festival gala team, Alibaba offered its users up to $122 million (RMB 800 million) of gift money and purchase discount codes through its online payment system, Alipay.[128]

In May, Apple made a $1 billion investment in Didi Chuxing, which gave Apple better access to the information of Chinese consumers.[129] On August 1, 2016, Uber

[127] Paul Carsten, "Alibaba's Singles' Day Sales Surge 60 Percent to $14.3 Billion," *Reuters Technology News*, November 11, 2015, accessed October 10, 2016, http://www.reuters.com/article/us-alibaba-singles-day-idUSKCN0SZ34J20151112.

[128] Eva Xiao, "Alibaba's 800 Million RMB Challenge to WeChat's Red Envelope Photo Campaign," *TechNode*, February 2, 2016, accessed October 10, 2016, http://technode.com/2016/02/02/alibabas-800-million-yuan-challenge-to-wechats-red-envelope-photo-campaign/.

[129] Julia Love, "Apple Invests $1 Billion in Chinese Ride-Hailing Service Didi Chuxing," *Reuters*, May 13, 2016, accessed August 1, 2016, http://www.reuters.com/article/us-apple-china-idUSKCN0Y404W.

announced that its China unit would be sold to Didi Chuxing, a company backed jointly by Alibaba and Tencent and a longtime competitor with Uber in China.[130]

The Internet in China has become a gigantic platform for communication, mobilization, and, most important, commercialization in recent decades. The news stories and numbers reveal only the tip of the iceberg of how China's Internet industry has thrived, so to understand what is below the surface, it will be helpful to trace the path of China's Internet from its birth and identify its major stages of the past thirty years.

A brief conceptual discussion will be useful. Several scholars have written about the history of China's ICTs and Internet. Scholars such as Milton Muller, Tan Zixiang, and Wu Wei discuss the early development of the telecom and data network, presenting some aspects of the network building efforts the Chinese government has led and dominated. Very often, scholars' interests are focused on the issue of censorship and control. It is no new argument that China's Internet was censored by the state and self-censored by the service and content providers.[131] Alongside the discussion on censorship is a concern for the democratic potential the Internet might bring to China.[132] Through their content analysis, Sally J. McMillan and Jang-sun Hwang provide one explanation for the general interest in China's Internet, which is motivated by the prospect that Internet could be a democratizing force in a communist regime famously known for censoring media and public opinion.[133] As Randolph Kluver and Chen Yang put it, "there has been a general perception and expectation that Internet is a democratizing force, and China seems an ideal test case for this presumption" beginning in

[130] Eric Newcomer and Lulu Yilun Chen, "Uber to Sell China Business to Rival Didi after Losing Billions," *Bloomberg*, August 2, 2016, accessed August 1, 2016, http://www.bloomberg.com/news/articles/2016-08-01/uber-said-to-merge-china-business-with-didi-in-35-billion-deal.

[131] Nina Hachgian, "China's Cyber-Strategy," *Foreign Affairs*, March–April (2001): 118–33.

[132] Wenli Yuan, "E-democracy@China: Does It Work?" *Chinese Journal of Communication* 3, no. 4 (2010): 488–503.

[133] Sally J. McMillan and Jang-sun Hwang, "Nailing Jell-O to the Wall and Herding Cats: A Content Analysis of Chinese and U.S. Newspaper Coverage of the Internet in China," *Journal of Intercultural Communication Research* 31, no. 2 (2002): 107.

the late 1990s, and, therefore, "the tussle between the Chinese government and the legions of Internet users over content and censorship has occupied academic, political and other observers."[134] While censorship and democracy seem to be opposite poles, they are actually two ends of one central assumption that the Internet is merely a tool for enlightenment or suppression. Granting that such argument has some validity, it at its best provides an inaccurate and incomplete account of the digital landscape in China and at its worst invites an oversimplification of the complex social interaction and a neglect of the subjectivities of different agencies and institutions in China. The Internet itself did not and does not stand as an "anonymous, decentralized, borderless and interactive" system for "diverse opinions, civic activities or collective actions."[135] It was the power relation and social dynamic in a system—whether it was a capitalist or socialist or a mix—that was decisive for the structure of ICTs.

In this chapter, I take the political-economy stance that views ICT and Internet sectors not only as communication tools or platforms but also as integral aspects of the capitalist system. Situating this approach in a Chinese context, I examine the ways in which the ICT industry in China has been oriented toward capitalist development. I do so by focusing on the regulatory and political economy context, which not only informed and institutionalized the system of information provision but also reflected the existing power negotiations that have devised the policies. Communication policies respond, to different extents, to some profound questions concerning "the nature of the media system and how it is structured, and how that might affect the conditions for the informational needs of a democracy."[136] More analytically, the agendas set through policies are "expressions of dynamic processes and power relations"

[134] Randolph Kluver and Chen Yang, "The Internet in China: A Meta-Review of Research," *Information Society*, 21 (2005): 301–8.

[135] Yuan, "E-democracy@China."

[136] McChesney, Communication Revolution, 14.

in the social and political-economic system.[137] In China, the party-state is one of the most important, though not the only important, power in setting forward how the emerging communication system is structured.[138] Therefore, I take policy discourse as a prism through which I am able to understand the political-economic rationales and how relations between different institutions played out in China's Internet expansion, laying foundations for Internet companies like Tencent.

I first trace the history of how network infrastructure and services have been constructed in China. I argue that early development focused on connecting the country to the outside world for information exchange, through major efforts by the government and academic groups. I then pay special attention to questions of when and to what extent domestic private capital was allowed into the Internet industry. By delineating Internet development into four distinct stages, I argue that, not long after its birth, China's Internet was embedded in the country's capitalist development and global reinsertion through industrialization and informatization. I also examine the spatial distribution of information infrastructures and Internet companies. I argue that both as an enabling condition and an outcome, priority was given to the information network and industry building in coastal and urban areas, which contributed to not only the creation of an enormous pool of migrant labors but also the user base for new Internet services and applications. Throughout the chapter, I contend that in order to build the Chinese economy, China's ICT industry and capitalist investments mutually constituted and facilitated each other's development under the evolving central government policies.

[137] Vincent Mosco, "Toward a Theory of the State and Telecommunications Policy," *Journal of Communication* 38, no. 1 (1988): 107–24.

[138] Y. Zhao, Communication in China, 20–21.

Prehistory and Birth

In this section, I present a time line of the history of China's Internet. At the early stage of China's Internet development, two important milestones were in the launch of the country's own network infrastructure. The first event, in September 1987, was the first email message—"Across the great wall, we can reach every corner in the world"— sent across China's borders.[139] This message, sent when China was still considered by many as a closed, authoritarian land and two years before the 1989 Tiananmen incident, signaled that researchers could exchange email communication with foreign educational institutions.[140] Through working with scientists from Karlsruhe University in the Federal Republic of Germany, the Chinese research team at the Institute for Computer Applications (ICA) were able to put Beijing, China's capital city, in connection with researchers from Germany, the United States, and Ireland.[141] This effort was soon recognized by the U.S. National Science Foundation's Division of Networking and Communications Research and Infrastructure, which granted China official connection to the Computer Science Network (CSNET) in November 1987.[142] Hu Qiheng, former vice president of the China Association for Science and Technology and chair of the Internet Society of China. said the delivery of email, along with the collaborative work on CSNET, "contributed directly to the introduction of Internet into China."[143]

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[139] "Across the Great Wall: Celebration, First Email Message from China to CSNET," *Amateur Computerist* 16, no. 2 (2008), accessed May 10, 2016, http://www.columbia.edu/~hauben/acn/ACn16-2.pdf.

[140] Cindy Zheng, "Opening the Digital Door: Computer Networking in China," *Telecommunications Policy* 18, no. 3 (1994): 236–42.

[141] Ping Dong, "Tupo Meiguo fengsuo—Zhongguo jieru Hulianwang de zaoqi lishi" 突破美国封锁—中国接入互联网的早期历史 [Breaking through the U.S. blockage—The early history of China's Internet], *21ccom.net*, n.d., accessed May 10, 2016, http://www.21ccom.net/articles/qqsw/zlwj/article_201005199772.html; Nanjun Li and Werner Zorn, "Zhongguo jieru Hulianwang de zaoqi gongzuo huigu" 中国接入互联网的早期工作回顾 [A review of China's early efforts on Internet connection], *People.com*, November 22, 2006, accessed October 25, 2016, http://media.people.com.cn/GB/40628/5076637.html; "Across the Great Wall."

[142] "Across the Great Wall."

[143] Ibid.

A second turning point was in 1994 when the first full Internet operation under TCP/IP protocol in China was established.[144] This meant that China started enjoying "full general Internet connectivity beyond just email" by making a direct connection between China and the United States through Sprint.[145] The point of connection in China was through the National Computing and Networking Facility of China (NCFC), a collaborative research entity among the Chinese Academy of Sciences (CAS), Beijing University, and Tsinghua University and with funding from the World Bank and China's State Planning Committee.[146] The formation of this team was under the Key Study Development Project (KSDP), which aimed at improving scientific research in three hundred key scientific laboratories in China.[147] In May 1994, the first web server and the first set of web pages in China were launched at the IHEP.[148]

Looking at these milestones, three key observations can be made about China's Internet development. First, although China's first successful attempt to connect to international network was in 1987, China's efforts in computer networking started earlier. A long prehistory in pursuit of communication and information technology includes producing computers and providing telecommunication services long before 1987 and even before the nation's opening-up reform in 1978.[149] For example, as argued by Hongzhe Wang in his research on "the political and social history for the installation process of digital technology in China," an independent computer industry had long been developed as "a machine for people's emancipation" in the three decades before China's reform and opening up in

[144] Mueller and Tan, China in the Information Age, 83.

[145] "Across the Great Wall"; "Internet Timeline of China 1986~2003."

[146] C. Zheng, "Opening the Digital Door."

[147] Ibid.

[148] "Internet Timeline of China 1986~2003."

[149] Hongzhe Wang, "Machine for a Long Revolution: Computer as the Nexus of Technology and Class Politics in China 1955–1984," PhD dissertation, Chinese University of Hong Kong, 2014.

1978.[150] Although the use of technology back then might have carried a strong imprint of the "socialist-oriented" era, it is a part of China's information history that cannot be neglected, as it laid ideological foundations for recognizing the need to build a nationally strong information network.[151] This is also shown in the efforts by university researchers in 1980s when they focused on designing a Chinese network and linking it to the rest of the world.[152] Research entities such as the National Research Center of Science, Technology for Development under the State Science and Technology Commission, and IHEP were at the forefront of breakthrough network technologies.[153]

A second observation pertains to the leading parties in this process, China's government-funded science and technology research institutes and universities. Aside from the aforementioned research team at the Institute for Computer Applications who worked closely with a German university, other Beijing-based major research and educational institutions, including Beijing University, Tsinghua University, CAS, and a few subdivisions of the CAS, were all active players in developing China's network. Specifically, IHEP was at the forefront of exploring the path of utilizing networked technology to communicate with foreign researchers.[154] Some participants, both in and outside China, attributed such a trend to the "long tradition of the public nature of science" and "the norm of sharing scientific results."[155] This indicates that the primary early force in China's Internet development was the scientific research community, backed by state policy and, therefore, official funding. No private institute in China was part of this early-stage effort. This was similar to the development of the Internet in many other countries. For example, the Internet in the United

[150] Ibid., 6.

[151] Ibid., 175.

[152] Dong, "Tupo Meiguo fengsuo"; Li and Zorn, "Zhongguo jieru Hulianwang."

[153] "Internet Timeline of China 1986~2003."

[154] C. Zheng, "Opening the Digital Door," 236–42.

[155] "Across the Great Wall."

States was originally designed jointly by researchers at universities and military research agencies.[156] According to Johnny Ryan's account, "AT&T could have taken over control of the Advanced Research Projects Agency Network (ARPANET) and gained a head start in the new digital dispensation" but turned away from the opportunity.[157] Ironically, as pointed out by McChesney, notwithstanding the fact that private-sector firms may "have little incentive to produce" the Internet as "an open and designable technology," they had every intention to commercialize and privatize it in the later stage when Internet infrastructure had been built ready for use.[158] I will discuss the shift from an educational and research-oriented network to a commercialized system in the following paragraphs. But I point out here that the research institutions did also have some interest in exploring the commercial values of the Internet: Tsinghua University started user training for Microsoft and AT&T as early as 1993.[159]

A third observation concerns the role of the U.S. government. The gap between 1987 and 1994. What took China so long to institute full Internet service? Part of the obstacle came from the U.S. restrictions on technology exports to China. Yangyue Liu reports in his study that the Coordinating Committee for Multilateral Export Controls, established by the Western countries in the earlier cold-war context, prohibited the transfer of technology equipment and facilities to China and purposely delayed China's Internet development.[160] The committee ceased functioning in March 1994. Additionally, the U.S. National Science Foundation (NSF) also played a critical part in granting official approval to China's requests for Internet connection with the United States. Although not directly taking part in the research and development of China's Internet, NSF was "the umbrella institution for all CSNET network

[156] Johnny Ryan, *A History of the Internet and the Digital Future* (London: Reaktion, 2010), 88; McChesney, *Digital Disconnect*, 98–100.

[157] Ryan, *History*, 88.

[158] McChesney, *Digital Disconnect*, 98–100.

[159] C. Zheng, "Opening the Digital Door," 236–42.

[160] Yangyue Liu, "The Rise of China and Global Internet Governance," *China Media Research* 8, no. 2 (2012): 46–55.

within the US and abroad at that time."[161] NSF acknowledged that China's research activities were legitimate and allowed the connection to be made. Without this, China's Internet connectivity to the world would not have been initiated because NSF controlled the interconnections, which were parts of NSF's backbone network service—NSFNET—linking supercomputer centers across the United States. NSF's stance in welcoming China to CSNET was far-reaching, for it was not only technical but, more important, also political.

Before 1994 China had made multiple attempts to approach NSF and requested a full Internet connection; these were denied in 1992 and 1993. In April 1994 before the Sino-US Science and Technology Cooperation Joint Committee Conference in Washington, DC, China's request to access the Internet was accepted by the NSF.[162] While it is not known what negotiations were carried out between the Chinese government, researchers, and the U.S. state in this process, the timing of China's interconnection with NSFNET was significant considering President William Jefferson Clinton's foreign policy toward China, the Sino-U.S. relation, and the global geopolitics, which were all undergoing drastic changes at that time.

Building a Chinese Internet Industry

In this section, I take a closer look at the discourse of the central government's policies on Internet development in China and the efforts taken in building the "information superhighway." My primary goal is to answer the questions of how the discourses of the state's policies regarding the Internet and ICTs evolved, and what kinds of capital have been allowed and to what extent, in what ways, and for what reason were they were allowed into the industry. I argue that there were four stages in the Internet development in China: the preparation, 1987 to 1993; the Internet as infrastructure, 1994 and 1995; the Internet as industrialization, 1996 to 2010; and the Internet as a pillar industry, 2011 to the present.

[161] "Across the Great Wall."

[162] "Internet Timeline of China 1986~2003."

Throughout these processes, capital has been visible, but different units of capital—state-owned units and private ones—were allowed to enter the industry to different extents. In the two early stages, the driving force came primarily from state-owned capital backed by the central government's informatization policies. Private capital and foreign capital were given more space in the last two stages, which reflected China's further opening up and integrating into global capitalism. These stages were also parallel to China's overall political-economic transformation since the 1980s. In 1978, not only had the central government in China decided to liberalize and open up the domestic economy but it also rediscovered the foundational position of science and technology in boosting economic productivity. As Deng said at the 1978 National Science Conference in Beijing, "science and technology were the first and foremost productive forces, as well as the key to the country's modernizations."[163] The second stage of Internet development came along with Deng's second southern tour in 1992, during which he affirmed the opening-up policies to further connect with the worldwide market economy and to use foreign capital to facilitate domestic growth. The third stage broadly correlated with an era when China sought to aggressively reintegrate into global capitalism by using ICTs both as a channel for communication and a vehicle for attracting capital.

Preparation: 1987–93

The first stage, described previously, was the preparation era between 1987 and 1993. Its policies were focused on encouraging scientific research and popularizing networking technology.[164] Priority was given to network development in preparation for the launch of China's information infrastructure, the work of which was mostly based in research and educational institutions. For example, the academy network of Chinese Academy of Sciences

[163] Leo A. Orleans, *Science in Contemporary China* (Stanford: Stanford University Press, 1980), 535–40.

[164] Chengzhong Guo, "Zhongguo Xinxihua fazhan lichen he jiben silu" 中国信息化发展历程和基本思路 [The path and guideline of China's informatization], n.p., accessed May 11, 2016, http://www.ccidnet.com/2002/0731/20953.shtml.

(CASNET) and the campus networks of Tsinghua University (TUNET), and Peking University (PUNET) were all constructed during this time.[165] Not much emphasis was put on the economic potential of the Internet during this stage.

The Internet as Infrastructure: 1994 and 1995

The second stage, during 1994 and 1995, saw a wave of construction of the basic network infrastructures by academic institutions, government agencies, and, occasionally, some primary commercial carriers.[166] The Internet was primarily seen as infrastructure and a tool for communicating and disseminating information to facilitate industrialization in major agrarian and industrial sectors. By the end of 1995, China had "10 national networks, 41 leading governmental information services in electronic form, 16 news sources in electronic form, 43 university-based World Wide Web servers and information producers, and 52 commercial information products prepared by electronic information producers."[167]

One example of such construction effort was the China Education and Research Network (CERNET), a nationwide backbone network to connect the campus networks of universities and research institutions.[168] The State Development Planning Commission, China's National Science Foundation, and China's State Education Commission initiated and funded the project, which was officially approved in August 1994.[169] CERNET's demonstration project, completed by the end of 1995, made it the leading network in China in terms of backbone speed and range of coverage, reaching more than a hundred universities in China and covering all mainland provinces except Tibet.[170] CERNET also provided an

[165] "Internet Timeline of China 1986~2003.

[166] Mueller and Tan, China in the Information Age, 84.

[167] Wei Wu, "Great Leap or Long March: Some Policy Issues of the Development of the Internet in China," *Telecommunications Policy* 20, no. 9 (1996): 699–711.

[168] "Internet Timeline of China 1986~2003"; Wu, "Great Leap"; Mueller and Tan, *China in the Information Age*, 85.

[169] "Internet Timeline of China 1986~2003."

[170] Wu, "Great Leap."

international connection to global academic networks through a 128K international special line to the U.S. Internet.[171] CERNET remained in continuing development, joined the experimental network for the next-generation Internet protocol version 6 (IPv6) in June 1998, and was upgraded into CERNET2 in 2003, as a part of China Next-Generation Internet Project (CNGI), which was built on IPv6, aimed at speeding up and strengthening China's then-current network.[172]

Another nationwide backbone network built during this time was CHINANET, led by the Ministry of Posts and Telecommunications (MPT) and carried out by its Directorate General of Telecommunications (DGT), an office in charge of providing national telecommunications services.[173] CHINANET offered three international links in Beijing, Shanghai, and Guangzhou by working with Sprint.[174] By spearheading China's information-highway building and prioritizing service provision to the three largest cities at the time, MPT meant to become the leader in providing commercial Internet services.[175] This effort succeeded: in 1995 CHINANET was the largest commercial Internet service provider in China.[176]

Although the commercial value of Internet was starting to get some attention, the main goal under the central government's control and deployment in this period was to build the network to facilitate public information exchange and, particularly, to support macrolevel

[171] "Internet Timeline of China 1986~2003."

[172] "Brief Introduction," *CERNET*, n.d., accessed July 26, 2016, http://www.edu.cn/cer2_1556/20060323/t20060323_158675.shtml; Liu Baijia, "China Launches New Generation Internet," *China Daily* (December 27, 2004), accessed July 26, 2016, http://www.chinadaily.com.cn/english/doc/2004-12/27/content_403512.htm.

[173] Ding Lu, "China's Telecommunications Infrastructure Buildup: On Its Own Way," in *Deregulation and Interdependence in the Asia-Pacific Region*, ed. Takatoshi Ito and Anne O. Krueger (Chicago: University of Chicago Press, 2000), 371–413.

[174] Wu, "Great Leap"; "Internet Timeline of China 1986~2003."

[175] Mueller and Tan, China in the Information Age, 87.

[176] Zixiang (Alex) Tan, William Foster, and Seymour Goodman, "China's State-Coordinated Internet Infrastructure," *Communications of the ACM* 42, no. 6 (1999): 44–52.

economic planning and administration via an effective and reliable information infrastructure.[177] In March 1993, vice premier Zhu Rongji initiated the idea of a national network for public economic information, known as the Golden Bridge Project; in August, the State Council approved a $3 million budget to build it.[178] In June 1994, the State Council issued a notice from its general office (GBFMD <1994> no. 18), which expanded the Golden Bridge Project into Three Golden Projects.[179] The additional two projects were the Golden Gateway, a central information system of foreign trade and import-export management, and the Golden Card, a central financing, banking, and credit-card system.[180] As these three projects were effective in providing key information and assisting the central government's economic planning, coordinating, and managing, in 1995 more golden projects for various industries were brought into being— Golden Tax, Golden Enterprise, and Golden Agriculture, among others.[181] While these networks served primarily as communication channels of information for policy making in different industries, they laid the foundation for nationwide information networks and to some extent strengthened the central government's coordinating power.[182]

The Internet as Industrialization: 1996-2010

The fifteen years between 1996 and 2010 constituted a third stage during which the Internet and information industries were intensively developed as vehicles for economic growth and national development in China. As can be seen in the second stage, information technology was used in selected primary and secondary industries as a platform to facilitate their growth. In this third stage, however, instead of being merely a tool, the Internet and

[177] Peter Lovelock, Theodore C. Clark, and Ben A. Petrazzini. "The 'Golden Projects': China's National Networking Initiative," *Information Infrastructure and Policy* 5, no. 4 (1996): 265.

[178] "Internet Timeline of China 1986~2003."

[179] Ibid.

[180] Lovelock, Clark, and Petrazzini, "Golden Projects," 265–77.

[181] Mueller and Tan, *China in the Information Age*, 52, 57.

[182] Lovelock, Clark, and Petrazzini, "Golden Projects," 265–77.

related ICTs became important in their own right for the country's industrialization. This stage pivoted on a set of distinctive changes in industrial structure, capital structure, and government structure.

First, on the industrial landscape, in January 1996, in its forty-second meeting, the State Council approved a provisional directive, Management of International Connections by Computer Information Networks in the People's Republic of China, which endorsed the MPT as the official leader in the country's Internet business: "All international computer networking traffic, both incoming and outgoing, must go through telecommunication channels provided by the Ministry of Posts and Telecommunications."[183] MPT's DGT was renamed China Telecom and restructured as a state-owned enterprise under China's 1995 telecom reform. This was the first time the Chinese government took steps in regulating the use of the Internet, which itself suggested the growing importance of the Internet there.[184] According to the directive, the government was in charge of the planning work and protocols for all international computer connections. All existing networks were subject to MPT supervision and that of the Ministry of Electronics Industry (MEI), the State Education Commission, and the CAS for the management of general Internet traffic, computer companies, and education and research institutions, respectively.[185] Evidently, the country was making necessary preparations for advancing technology in the national economy. In addition, the regulation highlighted that all the international information traffic—both incoming and outgoing—was under the scrutiny of the government by going through MPT's telecommunications networks.[186] This showed that the Chinese state was open in embracing

[183] Wu, "Great Leap"; Mueller and Tan, *China in the Information Age*, 91.

[184] Mueller and Tan, China in the Information Age, 91.

[185] Bryce T. McIntyre, "Let a Hundred Modems Bloom: The Internet in Today's China," in *Cyberpath to Development in Asia: Issues and Challenges*, ed. Sandhya Rao and Bruce C. Klopfenstein (Westport, CT: Praeger, 2002), 71–72.

[186] Mueller and Tan, China in the Information Age, 91.

foreign flows of information and, simultaneously, cautious in encountering potentially different and antagonistic thoughts and ideologies, both brought by the advancement of Internet.[187] Again, this was at a time when the overall national economy was also transforming into an outward- and export-oriented mode, where the international flows of information and capital were becoming both necessary and preferable.

Following this provision, in March 1996, the National People's Congress approved the Outline of Ninth Five-Year Plan (1996–2000) for National Economic and Social Development and Long-Range Objectives to the Year 2010 (hereafter referred to as the Outline), in which the phrase "information technology and informatization for economic development" for the first time appeared, and the growth of computer and internet technology was an integral goal for the next five years' economic and social development.[188] The Five-Year Plans were a series of social and economic development initiatives designed by the central Chinese government, the first of which began in 1953. These plans and principles were regarded as the foundation of China's development. It was also in this very Outline that the government proposed that a socialist market economy was to take shape initially in the five-year framework of 1996 to 2000. As stated in the Outline, in shifting the economic system and developing the socialist market economy, "positive but cautious steps must be taken to foster a comparatively perfect money market as well as markets in such key areas as real estate, labor, technology and information."[189] Specifically, technology and information were utilized to achieve readjustment of the industrial structure—from an extensive mode—one that emphasized "aggrandizement of the total size"—to an intensive one that highlighted

[187] Wu, "Great Leap."

[188] "Ninth Five-Year Plan (1996–2000) for National Economic and Social Development and Long-Range Objectives to the Year 2010," *State Council*, n.d., accessed April 4, 2016, http://cpc.people.com.cn/GB/64184/64186/66686/4494253.html.

[189] Li Peng, "Report on the Outline of the Ninth Five-Year Plan (1996–2000) for National Economic and Social Development and the Long-range Objectives to the Year 2010 (Excerpts)," Ninth Five-Year Plan in Retrospect, accessed November 4, 2016, http://www.china.org.cn/95e/95-english1/2.htm.

"the efficiency in utilizing each unit of input in production or allocation."[190] Furthermore, the Outline discusses the role of various economic elements and capital units from different sectors, as well as the investment system and fund-raising scheme in the market.[191] In particular, it articulates that the nonpublic elements, that is individuals and private actors, should be strengthened to supplement the public ownership–dominated economy system.[192] This meant that a further step in reform was to take place, where private units were allowed gradually to participate in national economy. It was under such context that China's Internet industry blossomed. In other words, the development of information technology and Internet came under the central government's umbrella agenda of furthering the country's market economy reform and opening-up process.[193]

Echoing the main points from the Outline, the State Council's Information Work Leading Group held its first national meeting on informatization in 1997 and announced the Ninth Five-Year Plan for Informatization and Long-Range Objectives to the Year 2010, which reiterated the importance of developing the Internet and information as integral aspects of national economy. The Ninth Five-Year Plan specifically called for "joint efforts" by the state and other economic elements to build the Internet and information sectors.[194]

The five-year period of the Ninth Five-Year Plan saw a great amount of government funding in information infrastructure and technological innovation. A $12.24 billion (RMB 101.5 billion) investment was put into building special zones for high-tech development,

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[190] "Ninth Five-Year Plan (1996–2000)"; S. Philip Hsu, Yu-Shan Wu, and Suisheng Zhao, eds., *In Search of China's Development Model: Beyond the Beijing Consensus* (London: Routledge, 2011), 138.

[191] Shi Zhong-Liang, "Outline of the Ninth Five-Year Plan for National Economic and Social Development and the Long-Term Goals to the Year 2010," in *China's Transition to a Socialist Market Economy*, ed. Mohamed Osman Suliman (Westport, CT: Quorum, 1998), 128.

[192] Peng, "Report on the Outline of the Ninth Five-Year Plan."

[193] John Wong, The Political Economy of Deng's Nanxun: Breakthrough in China's Reform and Development (Hackensack, NJ: World Scientific, 2014), 92–94.

[194] Qian Zeng, "Zhongguo Hulianwang jiandu zhengce fenxi (1994–2014): Yizhong kaifaxing weiquan zhuyi" 中国互联网监督政策分析（1994–2014）:一种开发型威权主义 [Analysis on Chinese Internet regulation policies (1994–2014): A developmental authoritarianism], in *Legalization of Cyberspace: Annual Report of Internet and State Governance 2015*, ed. Zhian Zhang (Beijing: Commercial, 2015), 160–70.

where seventeen thousand high-tech enterprises were in operation and more than 2.2 million people were employed between 1996 and 2000. Another $385 million (RMB 3.19 billion) was used for "technical innovation projects in the industrial sector."[195] As a result, the national economy output and especially that of information industries experienced huge surges. The gross output value of electronic information products manufacture (software manufacture included) increased from $29.43 billion (RMB 245.7 billion) in 1995 to $93.87 billion (RMB 778.2 billion) in 1999, while the gross value of general communication services grew from $11.84 billion (RMB 98.9 billion) in 1995 to $25.49 billion (RMB 211.3 billion) in 1999.[196] According to a *China Daily* report, those seventeen thousand high-tech enterprises in special high-tech development zones contributed an industrial added value of $17.8 billion (RMB 147.6 billion) and an export trading volume of $12 billion.[197]

Secondly, in addition to a changing industrial structure, under the guideline of "joint effort for interconnection and resource sharing," another important shift took place in the capital landscape.[198] That was to unleash private capital into information and Internet infrastructures. As a crucial reminder, however, there had been some ambiguities and contentions in the definition of private ownership. While the Chinese government defined a private company as "a for-profit organization owned by one or more individuals and employing more than eight people," as Edward Tse points out, this definition excludes a number of business governance structures (such as companies that had less than eight employees) or collectively owned businesses (such as Haier and Huawei) or foreign private

[195] "China's Technological Progress," *People's Daily*, October 8, 2000, accessed November 4, 2016, http://www.china.org.cn/95e/95-english3/15.htm.

[196] "China's IT Develops at Tremendous Pace," *People's Daily*, September 25, 2000, accessed November 4, 2016, http://www.china.org.cn/95e/95-english3/3.htm; Unless otherwise noted, this and subsequent calculations of RMB to USD currency exchange rates are derived from "Official Exchange Rate (LCU per US$, Period Average)," *World Bank*, accessed November 4, 2016, http://data.worldbank.org/indicator/PA.NUS.FCRF?end=2015&locations=CN&start=1960&view=chart

[197] "Investments Pave Way for Growth," *China Daily*, October 3, 2000, accessed November 4, 2016, http://www.china.org.cn/95e/95-english2/17.htm.

[198] Q. Zeng, "Analysis," 160–70.

capital–invested enterprises (such as Alibaba and Tencent).[199] For simplicity and clarity, in the analysis below, I refer to private capital generally as non–state-owned companies that Chinese individuals initially formed and operated. The statistics below also refer to private enterprises as "enterprises established by a natural person or majority owned by a natural person" in China.[200] (In the next chapter, I discuss the role of foreign direct investment and venture capital.) Despite the fact that the blurry definition and variations in practices made a precise measurement of its size difficult, some general numbers reveal the advance of China's private capital.[201] According to China's National Bureau of Statistics, in 1996 there were 443,000 registered private companies, which accounted for less than 20 percent of all enterprises, and in 2012 this number reached 5.918 million, which accounted for more than 70 percent of all firms.[202] The private companies' shares in China's export increased from almost zero in 1996 to 39 percent in 2013.[203] As many have noted, under the central government's guidance to allow various business elements into the economic landscape, private capital has flourished and changed the dynamics of the country's economy.[204]

Particularly in the Internet industry, several Internet service providers (ISP) and content providers (CP) started to emerge. Almost no official record exists on the exact number, size, and scale of private companies established at that time. While it is difficult to present a comprehensive evaluation, some anecdotal writings allow a glimpse of the "Internet gold rush." In 1995 Chinapage—an online yellow page listing Chinese businesses and

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[199] Edward Tse, China's Disruptors: How Alibaba, Xiaomi, Tencent, and Other Companies Are Changing the Rules of Business (New York: Portfolio, 2015), x–xi.

[200] Nicholas R. Lardy, *Markets over Mao: The Rise of Private Business in China* (Washington, DC: Peterson Institute for International Economics, 2014), 64.

[201] Ibid., 62–63.

[202] Ibid., 66.

[203] Ibid., 87.

[204] Heng-Hao Chang and Alvin Y. So, "Powerful Communist Party, Robust Capitalist Economy: Interpreting the Chinese Puzzle," *Humboldt Journal of Social Relations* 24, no. 1–2 (1998): 101–27; Andrew Atherton and Alaric Fairbanks, "Stimulating Private Sector Development in China: The Emergence of Enterprise Development Centres in Liaoning and Sichuan Provinces," *Asia Pacific Business Review* 12, no. 3 (2006): 333–54.

products founded by Jack Ma, AsiaInfo's ChinaNet, Zhong Wang, and Ying HaiWei—came into being.[205] Between 1996 and 2000, many companies that became better-known in the future were founded. In 1996 Charles Zhang established Sohu.com; in 1997 William Ding launched NetEase, offering one of China's earliest free email services; 1998 and 1999 subsequently saw the births of Sina, Tencent, Sohu, NetEase, Jingdong, Ctrip, Baidu, and Alibaba—to name a few.[206] Some of these became extraordinarily successful, and issuing an initial public offering on overseas stock exchange markets became a popular option for them to grow bigger. The processes generated complex and often profitable financial structures. As of 2017, seven of them— Tencent, Sohu, NetEase, Jingdong, Ctrip, Baidu, and Alibaba—remain among China's top 10 Internet companies.[207] The emergence of these Chinese Internet companies was almost at the same time as the Internet boom in the United States.

Table 1.1. Chinese Internet companies founded between 1995 and 2000

Company	Year Founded	Year of IPO	Listing	Business
Sohu	1996	2000	NASDAQ	Online portal
NetEase	1997	2000	NASDAQ	Online community
Sina	1998	2000	NASDAQ	Online media
ChinaCache	1998	2010	NASDAQ	Content delivery
JD.com (Jingdong)	1998	2014	NASDAQ	E-commerce
Tencent	1998	2004	HKEX	Value-added service
Ctrip	1999	2003	NASDAQ	Online travel agency

[205] Mohamed Jalloh, "Jack Ma: Success Story," *Investopedia*, n.d., accessed November 8, 2016, http://www.investopedia.com/university/jack-ma-biography/jack-ma-success-story.asp; "Zhongwang baojing cangsang jiehou yusheng Wanpingguo huishou jianxin lichen" 中网饱经沧桑劫后余生 万平国回首艰辛历程 [The survival of Chinanet and Wan Pingguo's reflection], *Caijing Shibao* 财经时报, July 12, 2001, accessed November 8, 2016, http://tech.sina.com.cn/i/c/75586.shtml; "Zhangshuxin: Yinghaiwei dangnian shibai, shi yinwei ta taizao le" 张树新：瀛海威当年失败，是因为"它太早了" [Zhang Shuxin: The failure of Yinghaiwei was due to its early appearance], Tai Meiti 钛媒体, April 21, 2014, accessed November 8, 2016, http://tech.163.com/14/0421/08/9QBFA1S400094ODU.html; Jun Lin, "Feiteng Shiwu nian: China's Internet 1995–2009" 沸腾十五年：中国互联网 1995–2009 [The hustle and bustle of China's Internet: Fifteen years between 1995–2009] (Beijing: China Citic, 2009), 1–27.

[206] Lin, Hustle and Bustle; Tse, China's Disruptors.

[207] Mianmian Zhang, "2016 Zhongguo Hulianwang qiye 100 qiang paihangbang fabu" 2016 中国互联网企业 100 强排行榜发布 [The top 100 Chinese Internet companies in 2016], *Yangguang Wang* 央广网, July 15, 2016, accessed November 8, 2016, http://www.cbdio.com/BigData/2016-07/15/content_5090837.htm.

Tabel 1.1. (continued)

Fang.com	1999	2010	NYSE	Online real-estate
Alibaba	1999	2014	NYSE	E-commerce
Baidu	2000	2005	NASDAQ	Search
Bitauto	2000	2010	NYSE	Online automobile

Sources: NASDAQ and NYSE company lists[208]

A third change in this period was the administrative reform and restructuring of central government entities and agencies that regulated managerial affairs and businesses for the Internet. This was partly due to the national economy restructuring that prompted a more efficient and integrated government entity and partly due to the increasing importance put on the ICT industry. These structural changes in government continued so that the Internet industry was continually elevated for the next two decades until it became a pillar industry. As early as December 1993, the central government established an interdepartmental team for joint leadership on issues of "informatization for economic development," chaired by then vice premier Zou Jiahua.[209] This task force of the State Economic Informatization Joint Meeting was renamed the Information Work Leading Group of the State Council in 1996 under a State Council circular.[210] With Zou still acting as the head of the office, the Information Work Leading Group was coordinated by staff members from nineteen ministerial departments, commissions, and bureaus.[211] In 1999 the State Council issued another circular to establish a National Information Work Leading Group, chaired by then vice premier Wu Bangguo with staff members from thirteen ministerial departments,

[208] Company list, NASDAQ, n.d., accessed November 7, 2016, http://www.nasdaq.com; Listed Quotes, NYSE, n.d., accessed November 7, 2016, https://www.nyse.com/quotes.

[209] Yukai Wang, "Zhongyang Wangluo anquan yu xinxihua lingdao xiaozu de youlai ji yingxiang" 中央网络安全与信息化领导小组的由来及其影响 [The origin and influence of the Central Leading Group for Cyberspace Affairs and the Cyberspace Administration of China] (March 3, 2014), accessed May 11, 2016, http://theory.people.com.cn/n/2014/0303/c40531-24510897.html; "Internet Timeline of China 1986~2003."

[210] "Internet Timeline of China 1986~2003."

[211] State Council, Circular of the General Office of the State Council Concerning Establishing Information Work Leading Group of the State Council, n.d., accessed July 30, 2016, http://www.chinabaike.com/law/zy/xz/bgt/1335454.html.

commissions, and bureaus.[212] The name "national" suggests the importance the central government attached to information for industrialization. Premiers Zhu Rongji and Wen Jiabao subsequently took charge of this leading group. The National Information Work Leading Group was closed in 2008, when the "superministry reform" took place, and was merged into the newly established Ministry of Industry and Information Technology (MIIT) as part of its information technology promotion division. In 2014, however, the central government, under the leadership of president Xi Jinping, founded a new office—the Central Leading Group for Cyberspace Affairs and the Cyberspace Administration of China—to enhance China's Internet security and strengthen the informatization strategy.[213] The Central Leading Group for Cyberspace Affairs has carried forward the heritage from State Council's previous joint task forces and also aimed to respond to the opportunities and challenges in the new era, as the central government put paramount importance on Internet and ICTs as the new pillar industry for national economy.[214]

Another aspect of this governmental restructuring involved changes to ministries that regulated the Internet and information industry. Traditionally, MPT operated and managed the information and communication services.[215] While there had always been interministry competition among central government agencies, the rivalry became especially intense when the MEI set foot in telecommunication services by launching China United Telecommunications Corporation (China Unicom) in 1993 jointly with two other

[212] State Council, Circular of the General Office of the State Council Concerning Establishing National Information Work Leading Group, n.d., accessed July 30, 2016, http://www.gov.cn/gongbao/content/2000/content_60619.htm.

[213] "Zhongyang Wangluo Anquan he Xinxihua lingdao xiaozu chengli" 中央网络安全和信息化领导小组成立 [The Central Leading Group for Cyberspace Affairs and the Cyberspace Administration of China is established], *Xinhua News* (February 28, 2014), accessed July 30, 2016, http://news.xinhuanet.com/info/2014-02/28/c_133148759.htm; "China Eyes Internet Power," *Xinhua News* (March 8, 2014), accessed July 30, 2016, http://news.xinhuanet.com/english/special/2014-03/08/c_133171308.htm.

[214] Y. Wang, "Origin and Influence of the Central Leading Group"; "China Eyes Internet Power."

[215] Mueller and Tan, China in the Information Age, 24–25.

ministries—Ministry of Railway and Ministry of Electronic Power.[216] Beyond China Unicom, MEI formed another telecom company, Ji Tong, which built on the ministry's strength in equipment manufacturing.[217] In view of an increasing overlap and interconnection between electronics and information industries, the central government decided to reorganize MPT and MEI and formed one ministry, the Ministry of Information Industry (MII), in 1998.[218] This reorganization, aiming at facilitating economic transitions and enhancing administrative efficiency, apparently spoke to the centerpiece of the state's policies at this time—the Internet and information for industrialization.[219] In 2008 the ministerial reform continued, and the formation of MIIT incorporated the functions of "the Ministry of Information Industry, Development and Reform Commission (NDRC)'s part on industry and trade management, the Commission of Science, Technology, and Industry for National Defense except that on nuclear power management, and the State Council Informatization Office."[220] MIIT deepened the integration of different regulatory bodies to advance the use of ICT in governances.[221] In addition to the changes in the ministry titles, which are self-explanatory in articulating the central government's intention, the reconstitution of the MIIT as a more comprehensive entity reflected a further integration of informatization and industrialization.

Apart from the State Council and MIIT, furthermore, other ministerial entities, such as the Ministry of Agriculture (MOA), Ministry of Culture (MOC), Ministry of Education (MOE), Ministry of Health (MOH), State Drug Administration, and State Administration of

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[216] Eric Harwit and Jack Su, "A Telecom Newcomer Challenges the MPT Monopoly," *China Business Review* 23, no. 6 (1996): 22–23.

[217] Mueller and Tan, China in the Information Age, 52.

[218] Explanation for State Council's Ministerial Reform, n.d., accessed July 30, 2016, http://www.reformdata.org/content/19980306/12912.html.

[219] Dali L. Yang, Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China (Stanford: Stanford University Press, 2004), 17–19.

[220] "Ministry of Industry and Information Technology Inaugurated," *Xinhua News Agency*, June 30, 2008, accessed November 10, 2016, http://www.china.org.cn/government/news/2008-06/30/content_15906787.htm.

[221] Yukyung Yeo, "Remaking the Chinese State and the Nature of Economic Governance? The Early Appraisal of the 2008 'Super-Ministry' Reform," *Journal of Contemporary China* 18, no. 62 (2009): 729–43.

Press, Publication, Radio, Film, and Television (SAPPRFT) started paying attention to the use of Internet in their related business areas and circulating regulations on it. For example, the State Drug Administration published a document in 2001 that discusses drug information provision on Internet.[222] Other similar provisions include SAPPRFT's concern with online video and audio contents; MOC's regulation on the production, distribution, and circulation of cultural products via the Internet; and MOH's circular regarding online health-care provision, to name a few.[223] Sometimes multiple ministries worked together in jointly issuing regulatory policies.

As a result of these changes in the industrial and governmental dimensions and the progress made during the Ninth Five-Year Plan period, the Tenth and Eleventh Five-Year Plans kept readjusting industrial structure and assigning more weight to the Internet and ICTs. Growth was little short of explosive. By the end of 2005, the total gross income of information industry reached $537 billion (RMB 4.4 trillion)—4.6 times the figure in 2000—and its added value in national GDP increased from 4 percent in 2000 to 7.2 percent.[224] Between 2006 and 2010, a total of $188 billion (RMB 1.5 trillion) was put in the telecommunication industry, with 40 percent of investment for broadband construction.[225] By the end of 2010, the sales of the information industry topped $1.15 trillion (RMB 7.8

[222] Zheng Xiaoyu, "Guojia Yaopin jiandu guanliju ling di 26 hao" 国家药品监督管理局令第 26 号 [The No. 26 Order by the State Drug Administration], January 11, 2001, accessed April 4, 2016, http://www.gov.cn/gongbao/content/2002/content_61895.htm.

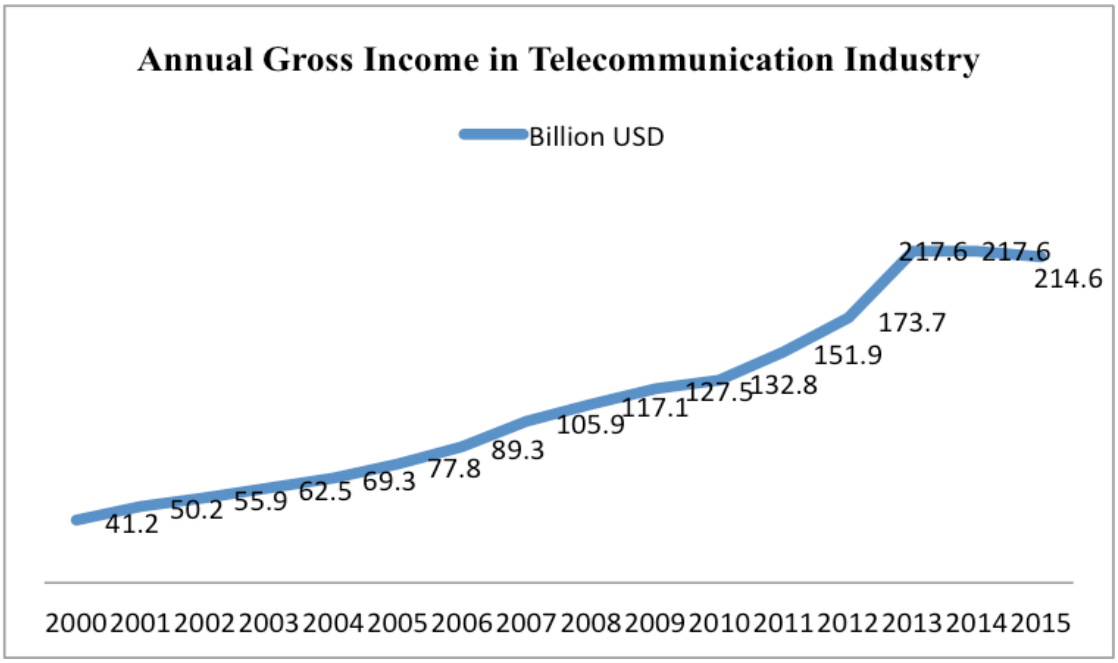
[223] Xu Guangchun, "Guojia Guangbo dianying dianzhi zongju ling di 15 hao" 国家广播电影电视总局令第 15 号 [The No. 15 Order by the State Administration of Radio, Film and Television], January 7, 2003, accessed April 4, 2016, http://www.gov.cn/gongbao/content/2003/content_62515.htm; Sun Jiazheng, "Zhonghua renmin gonghe guo Wenhua bu ling di 27 hao" 中华人民共和国文化部令第 27 号 [MOC No. 27 Order] May 10, 2003, accessed April 4, 2016, http://www.gov.cn/gongbao/content/2003/content_62435.htm; Chen Zhu, "Zhonghua renmin gonghe guo Weisheng bu ling di 66 hao" 中华人民共和国卫生部令第 66 号 [MOH No. 66 Order] May 1, 2009, accessed April 4, 2016, http://www.gov.cn/gongbao/content/2009/content_1388684.htm.

[224] "The Eleventh Five-Year Plan for Information Industry," *MIIT*, March 2, 2007.

[225] "The Twelfth Five-Year Plan will invest 2 trillion in telecommunications industry," *MIIT*, December 23, 2010, accessed November 10, 2016, http://www.cn-c114.net/575/a571178.html.

trillion).[226] ICT and Internet businesses expanded as a driving force for innovation and development in other industries, as well as a core industry themselves.[227]

Figure 1.1. Annual Gross Income in the Telecommunications Industry



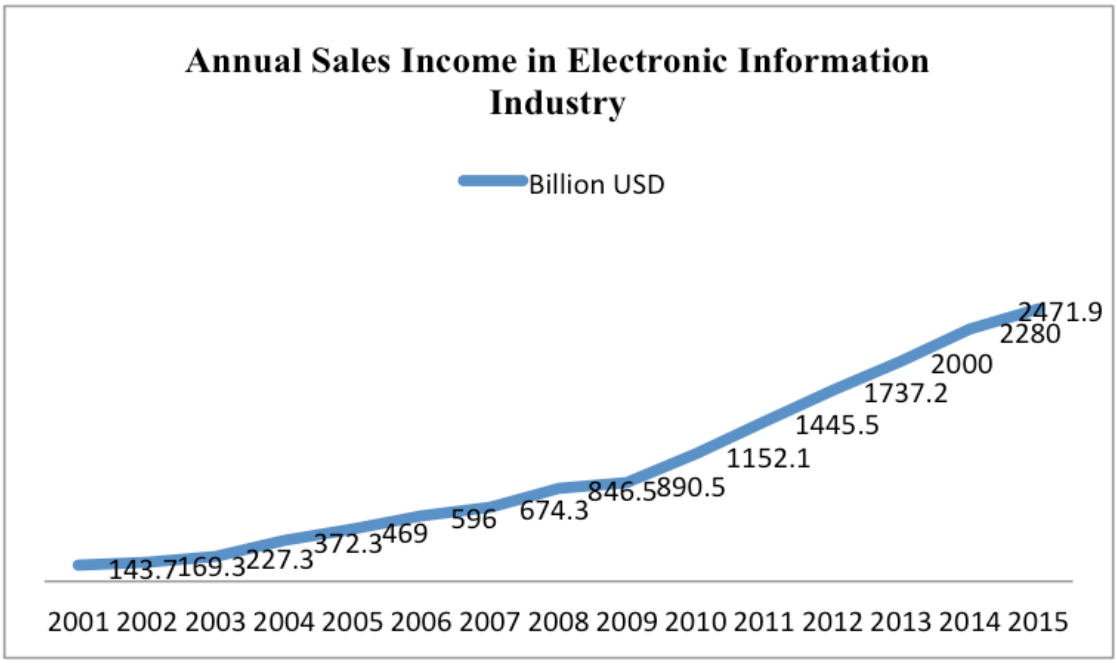
Sources: MIIT.[228]

[226] "2010 nian Dianxi xinxi chanye tongji gongbao" 2010 年电子信息产业统计公报 [The 2010 statistical report of electrical information industry], *MIIT*, February 11, 2011, accessed November 10, 2016, http://www.miit.gov.cn/n1146312/n1146904/n1648373/c3483292/content.html.

[227] "China: Summary of the Tenth Five-Year Plan (2001–2005)—Information Industry," accessed November 10, 2016, http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan022769.pdf.

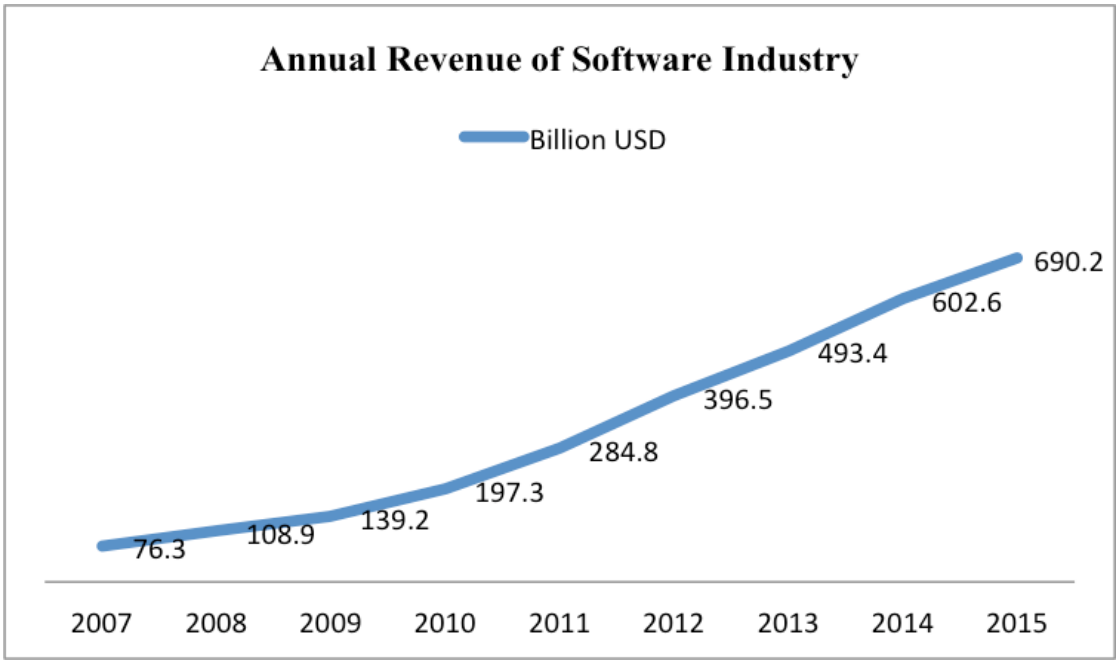
[228] "Statistics on Telecommunications," MIIT, n.d., accessed November 10, 2016 http://www.miit.gov.cn/n1146312/n1146904/n1648372/index.html. The date from figures 1.1, 1.2, and 1.3 come from MIIT's annual reports by industries. MIIT used the terms "Annual Gross Income," "Annual Sales Income," and "Annual Revenue" to refer to the statistics in different industries, but the distinctions between them are not specified.

Figure 1.2. Annual Sales Income in Electronic Information Industry



Sources: MIIT[229]

Figure 1.3. Annual Revenue of Software Industry



Sources: MIIT[230]

[229] "Statistics on Electronic Information Industry," MIIT (2001-2015), accessed November 10, 2016, http://www.miit.gov.cn/n1146312/n1146904/n1648373/index.html.

The Internet as a Pillar Industry: 2011–present

A fourth turning point took place in the wake of 2007–8 financial crisis, when the Internet industry was given added weight by the state. I see this as a still-ongoing process in which Internet industry itself has become the backbone of the economy.

Since China's 1978 opening-up and market reforms, the country's spectacular economic growth largely has depended on foreign direct investment and trade export.[231] The achievements are stunning. By the end of 2010, China was the world's largest exporter of goods, contributing to 26.53 percent of the country's GDP and accounting for 9.6 percent of all global exports, and especially of consumer electronic products.[232] However, as many have noted and as Foster and McChesney comment, "in the complex global supply lines of multinational corporations, China primarily occupies the role of final assembler of manufactured goods to be sold in the rich economies."[233] Despite its leadership in bulk, there was an Achilles's heel in such an outward-oriented economic mode—high dependence on the global supply chain. Famously known as a "world factory," China did not possess the core competitiveness in information and communication technology goods for a domestically strong and innovative information industry.[234] Moreover, the fast growth rate in GDP from this foreign investment-driven and export-oriented growth model was accompanied by a series of social problems in terms of social inequalities and imbalances and massive unemployment and protests and environmental problems.[235] All these problems, aggravated

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[230] Statistics on Electronic Information Industry," *MIIT (2007-2015)* accessed November 10, 2016 http://www.miit.gov.cn/n1146312/n1146904/n1648374/index.html.

[231] Harvey, *Brief History*, 121–25.

[232] Lin, "China and the Global Economy"; World Bank National Accounts Data, "Exports of Goods and Services (% of GDP)," *World Bank*, n.d., accessed November 10, 2016, http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=CN.

[233] John Bellamy Foster and Robert W. McChesney, The Endless Crisis: How Monopoly-Finance Capital Produces Stagnation and Upheaval from the USA to China (New York: Monthly Review, 2012), 169.

[234] Yuezhi Zhao, "China's Pursuits of Indigenous Innovations in Information Technology Developments: Hopes, Follies and Uncertainties," *Chinese Journal of Communication* 3, no. 3 (2010): 266–89.

[235] Zhao, "Neoliberal Strategies," 23–50.

by the 2007 global financial crisis, acted as a wake-up call to the Chinese state that its economic advancement also held multifaceted consequences.

In this context, at the 2011 National People's Congress meeting, the central government designated the Internet and ICT sector as the pillar industry in national economic restructuring.[236] The Twelfth Five-Year Plan, approved in that meeting, signaled that to boost domestic consumption by capitalizing on Internet was a priority, according to Hong's reading of the document.[237] One of the foregrounded messages in the *Twelfth* Five-Year Plan was to cultivate and promote strategic industries of information and communication technology for a "modern production structure."[238] An underlying message was a further integration of private businesses with the information and communication technologies and an ever-interweaving relation between the state and different units of capital. During the Twelfth Five-Year Plan period, improved Internet infrastructures and widening diffusion of the mobile Internet brought forward a prosperous Internet economy and online culture. In 2014 Internet businesses alone accounted for 7 percent of national GDP, while the market value of Internet companies amounted to $1.24 trillion (RMB 7.85 trillion) and occupied 25.6 percent of China's stock market.[239] As of 2015, 328 China-based Internet companies were publicly listed, with 61 in the United States, 55 in Hong Kong, and 209 in China in Shanghai and Shenzhen.[240] E-commerce, in particular, became a new driving force for trade and consumption. In the first nine months of 2015, "cross-border e-commerce saw a year-on-year

[236] Hong, "Reading the Twelfth Five-Year Plan."

[237] Ibid.

[238] Ibid.

[239] "China's Internet Developments during the 12th Five-Year Plan," State Council, November 4, 2015, accessed November 10, 2016, http://english.gov.cn/policies/infographics/2015/11/04/content_281475227710554.htm.

[240] Ibid.

growth of 30 percent," making China's online retail trade volume number 1 in the world.[241]

In the midst of this continuing expansion, the latest policy discourse of "Internet-plus" further upgraded this pillar industry. The term "Internet plus" refers to the state's plan to build a network of banks, financial services, e-commerce, entertainment, and other daily services around the Internet-based technologies. including using mobile Internet, cloud computing, and big-data techniques.[242]

The concept of Internet plus was first reported in premier Li Keqiang's *2015 Report on the Work of the Government* during the Third Session of the Twelfth National People's Congress. Reflecting the desire for a dynamic and expansive Internet industry, the policy was matched by top leaders' high-profile visits to the Internet companies, "Taobao villages," and high-tech start-up firms since Xi Jinping's and Li's Keqiang's inaugurations. In China Internet Network Information Center (CNNIC)'s 2015 report, online retail transaction volume reached $454.4 billion (RMB 2.79 trillion) in 2014, representing 10.6 percent of national retail consumption.[243] China hosted 361 million online consumers, 55.7 percent of the nation's total online users. With an overarching agenda to restructure the general national political economy around the Internet, the purpose of Chinese central government also went beyond economic.[244] In July 2015, the State Council issued Instruction on Actively

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[241] Ibid.; "Major Achievements during the 12th Five-Year Plan (2011–2015): New ways to open up," *State Council*, October 29 4,2015), accessed November 10, 2016, http://english.gov.cn/policies/infographics/2015/10/29/content_281475222811774.htm.

[242] Li Keqiang, "Report on the Work of the Government 2015," speech delivered at the Third Session of the 12th National People' s Congress, March 5, 2015, accessed July 1, 2015, http://news.xinhuanet.com/english/china/2015-03/16/c_134071473_2.htm.

[243] "2014 China Online Shopping Industrial Report," *CNNIC*, June 2015.

[244] Benfu Lu and Junlan Zhou, "Gongxiang jingji de chuangye dachao he shangye moshi fenxi" 共享经济的创业大潮和商业模式分析 [An analysis on the sharing economy and its business model],in *Legalization of Cyberspace: Annual Report of Internet and State Governance 2015* (Beijing: Commercial, 2015), 127–36; Guomin Yu, "Hulianwang shi gaowei meijie: Yizhong shehui chuanbo gouzao de quanxin fanshi—Guanyu xianjieduan chuanmei fazhan ruogan lilun yu shijian wenti de bianzheng" 互联网是高维媒介：一种社会传播构造的全新范式—关于现阶段传媒发展若干理论与实践问题的辩证 [Internet is high-dimensional media: A brand-new paradigm of social communication construction—A dialectical view of current theory and practice], in *Legalization of Cyberspace: Annual Report of Internet and State Governance 2015*, ed. Zhian Zhang (Beijing: Commercial, 2015), 209–17.

Promoting "Internet Plus" Strategy, which promotes using Internet as a stage to advance public services, with a goal to integrate every aspect of society into a networked country by 2018.[245]

To recap, China's Internet experienced four stages of development: the years between 1987 and 1993 were the preparation stage, when multiple research teams under government funding were exploring ways of building a domestic network and connecting to the world. During 1994 and 1995, massive network infrastructure construction was underway as the Internet was primarily seen as a platform where information can be collected and distributed to facilitate central planning and agrarian and industrial development. From 1996 to 2010, as China was reinserting itself into transnational capitalism, the domestic Internet industry evolved as an important vector that generated extraordinary GDP growth. The latest stage elevated the Internet to the pillar industry as the backbone of the national political economy in the wake of the recent global financial crisis. Overall, grasping the worldwide moment of the "modernization and globalization of communication networks and the rapid diffusion of powerful information technology," the Chinese government designed policies that gradually integrated Internet into the national political economy.[246] In early years after the opening-up reform, the Internet was primarily a platform for information exchange. With the deepening of social economic transformation, the Internet was largely privatized and especially after 2001 when China reconnected with global capitalism by entering the World Trade Organization (WTO) became a growth pole on its own.[247]

[245] "Instruction on Actively Promoting 'Internet-Plus' Strategy," *State Council* (July 4, 2015), accessed April 4, 2016, http://www.gov.cn/zhengce/content/2015-07/04/content_10002.htm; Hong, *Networking China*, 133.

[246] Mueller and Tan, China in the Information Age, 1–3.

[247] D. Schiller, "Poles of Market Growth."

Prioritizing Urban Development

In tandem with foreign investments and the outward-oriented growth model was the massive labor force unleashed into urban China, as rural populations were released from the mobility restrictions and farming duties. They contributed to the rapid urbanization process in China. As Arrighi argues, the major attraction of China to foreign capital was the reserves of labor who were high quality "in terms of health, education, and capacity for self-management in combination with the rapid expansion of the supply and demand conditions of the productive mobilization of these reserves within China itself."[248] Many scholars discussed the policies, formations, and ramifications domestically and internationally of this tremendous structural change.[249] Although it is not at the center of this dissertation's goal to discuss the class and labor aspect of China's ICT industry, the changing landscapes of urban/rural dynamics and population structures were interconnected with the political-economic shifts that gave rise to China's Internet industry. In this section, I discuss two major ingredients in this process: (1) the geographical landscape of special economic zones (SEZ) and the spatial distribution of ICTs, which was primarily oriented to coastal areas, and (2) the growing, urban, middle and working classes, who composed a majority of users of ICTs, as both ramifications of the economic development for outward economy and the social context for the further growth of Internet industry. As in previous sections, I focus on the regulatory context and results.

During the early years of China's opening-up and economic reforms, the Chinese government, following Deng's guiding idea of allowing "some regions, some enterprises,

[248] Arrighi, Adam Smith in Beijing, 353.

[249] Dorothy J. Solinger, *Contesting Citizenship in Urban China: Peasant Migrants, the State, and the Logic of the Market* (Berkeley: University of California Press, 1999); C. Cindy Fan, "The Elite, the Natives, and the Outsiders: Migration and Labor Market Segmentation in Urban China," *Annals of the Association of American Geographers* 92, no. 1 (2002): 103–24; Elizabeth J. Perry and Merle Goldman, eds. *Grassroots Political Reform in Contemporary China* (Cambridge, MA: Harvard University Press, 2007); Loren Brandt and Thomas G. Rawski, eds., introduction to *China's Great Economic Transformation*, ed. Brandt and Rawski (Cambridge: Cambridge University Press, 2008), 1–26.

some workers and farmers, who because of hard work and good results achieved, to be better rewarded and improve on their livelihood" and to lead the economic development in their regions, designated two coastal provinces—Guangdong and Fujian—to be the frontrunners in attracting foreign investment, developing industrial clusters, and enjoying "special policies and flexible measures."[250] In 1980 four cities in these two provinces—Shenzhen, Zhuhai, Shantou, and Xiamen—were established as special economic zones (SEZs).[251] According to the Regulation on Special Economic Zones in Guangdong Province: "The enterprise income tax rate in the special zones is 15 percent. Special preferential treatment shall be given to enterprises established within two years of the promulgation of these Regulations, to enterprises with an investment US$ 5 million or more, and to enterprises involving higher technology or having a longer period of capital turnover."[252]

Immediate economic effects were documented in just the first few years of SEZs' opening. In 1981, for example, the four SEZs attracted 59.8 percent of inward FDI to China while Shenzhen alone accounted for 50.6 percent.[253] Until 1984, when China started opening more coastal regions for special economic treatment, these four SEZs still accounted for 26 percent of the nation's FDI, totaling $707.58 million.[254]

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[250] "1979 nian 7 yue 15 ri Zhonggong Zhongyang Guowu Yuan jueding dui Guangdong Fujian liangsheng duiwai jingji geiyu gengduo zizhu quan" 1979 年 7 月 15 日 中共中央、国务院决定对广东、福建两省对外经济给以更多自主权 [The Central Committee of the Communist Party of China and the State Council decided to give more autonomy to Guangdong and Fujian provinces in foreign economic relations on July 15, 1979], *People.com.cn*, accessed November 15, 2016, http://cpc.people.com.cn/GB/4162/64165/67447/67829/4590607.html; Yue-man Yeung, Joanna Lee, and Gordon Kee, "China's Special Economic Zones at 30," *Eurasian Geography and Economics* 50, no. 2 (2009): 222–40.

[251] "Shiban Jingji tequ de juece neiqing Weihe Guangdong Fujian xianzou yibu" 试办经济特区的决策内情 为何广东、福建先走一步 [An insider view of why Guangdong and Fujian were the first provinces for special economic zone experiments], *Dangshi Bolan* 党史博览, 6 (2008), accessed November 15, 2016, http://cpc.people.com.cn/GB/68742/69118/69658/7433454.html.

[252] "Regulations on Special Economic Zones in Guangdong Province," 15th Meeting of the Standing Committee of the Fifth National People's Congress, August 26, 1980, accessed November 15, 2016, https://www.wto.org/english/thewto_e/acc_e/chn_e/WTACCCHN46_LEG_8.pdf.

[253] Yeung, Lee, and Kee, "China's Special Economic Zones at 30.".

[254] Kwan-Yiu Wong, "China's Special Economic Zone Experiment: An Appraisal," series B, Human Geography, *Geografiska Annaler* 69, no. 1 (1987): 27–40.

Witnessing the momentous growth of SEZs, the central government started establishing economic and technological development zones (ETDZs) beginning in 1984. Between 1984 and 1988, fourteen ETDZs were launched, including Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Minhang, Hongqiao, Caohejing, Ningbo, Fuzhou, Guangzhou, and Zhanjiang.[255] While these ETDZs tended to be relatively smaller suburban areas than SEZs, they also enjoyed preferential tax treatment in order to enhance investment environment and encourage industrial projects in high-tech industry.[256] Two more waves of substantial growth in ETDZs took place around 1991 to 1992 and 2000 to 2002. In 2003 the realized inward FDI in these zones amounted to $15.769 billion.[257] As of 2016, fifty-four state-level ETDZs existed in China, with thirty-two in coastal regions and twenty-two in the hinterland.[258]

Accompanying the policies that prioritized urban coastal areas' industrial leveling up was the priority given to ICT infrastructure building in these areas. In her study on China's telecommunication infrastructure, for example, Hong argues that, in pursuit of capital formation and network upgrades, China's government was first and foremost concerned with "linking coastal cities and responding to the demand of businesses" in its outward-looking economy. By comparing the coastal province Guangdong and an inland province Hunan, Hong discovered that the gap in telecom infrastructure between two regions mostly occurred in the two decades after the opening up of the coastal provinces, the extraordinary capital-raising capacities of which accelerated the construction of communication facilities. One contributing factor, according to Hong, was the rise of small- and medium-sized businesses,

[255] "A Brief Introduction of National Economic and Technological Development Zones in China," *Ministry of Commerce*, accessed November 15, 2016, http://www.china.org.cn/english/SPORT-c/76751.htm.

[256] "Tax Policies Concerning Foreign-funded Enterprises and Foreign Enterprises in National ETDZs," *Ministry of Commerce*, accessed November 15, 2016, http://www.china.org.cn/english/difang/76259.htm.

[257] Bih Jane Liu and Yu-Yin Wu, "Development Zones in China: Are STIPs a Substitute for or a Complement to ETDZs?" *Taipei Economic Inquiry* 47, no. 1 (2011): 97–145.

[258] "Introduction to China Industrial Parks," *China Knowledge*, accessed November 15, 2016, http://www.chinaknowledge.com/Manufacturing/Introduction.aspx?subchap=3&content=7.

very often collectively owned or foreign funded, that comprised the primary users of and profit contributors to the telecom industry.[259]

These two aspects of development in coastal regions—to establish the SEZs and ETDZs that favored FDI and to build up the progressive communication infrastructures that favored the SEZs and ETDZs—together advanced the social-economic conditions in coastal areas that gave birth to numerous technology companies. Taking Shenzhen as an example, the share of high-tech industries in its total industrial output increased from less than 10 percent in 1990 to nearly 40 percent in 1998.[260] Some saw Shenzhen city as China's Silicon Valley: in 2014 alone Shenzhen hosted a total of $10.42 billion (RMB 64 billion) in investment in research and development (R&D).[261] Apart from foreign-funded or established technology companies, some well-known domestically launched firms grew here, including the global telecommunications equipment leaders—ZTE founded in 1985 and Huawei founded in 1987—and the Internet giant Tencent.

A second aspect of the massive industrialization and urbanization was the rise of an urban working class. As Hong puts it, "the growing ICT sector has become a major destination for millions of peasants-cum-workers in light of the massive internal migration."[262] According to MII's documentation, about 6.2 million people were working in electronic information industry in 2002, up from 1.5 million five years before.[263] Accounting for 6.7 percent of the urban employment, a total of 16 million workers were employed in the

[259] Yu Hong, "Repurposing Telecoms for Capital in China," *Asian Survey* 53, no. 2 (2013): 319–47.

[260] Xie Wei, "Acquisition of Technological Capability through Special Economic Zones (SEZs): The Case of Shenzhen SEZ," *Industry and Innovation* 7, no. 2 (2000): 199–221.

[261] He Huifeng, "Top 5 Tech Giants Who Shape Shenzhen, 'China's Silicon Valley,'" *South China Morning Post*, April 17, 2015, accessed November 15, 2016, http://www.scmp.com/lifestyle/technology/enterprises/article/1765430/top-5-tech-giants-who-shape-shenzhen-chinas-silicon.

[262] Y. Hong, Labor, Class Formation, 6.

[263] Min Wen and Weihua Deng, "Xinxi chanye bu: Woguo xinxi chanye jinru xinyilun jiegou tiaozheng qi" 信息产业部：我国信息产业进入新一轮结构调整期 [The Ministry of Information Industry: The nation enters a new round of structural adjustment in information industry], *Xinhua News*, October 21, 2002, accessed November 15, 2016, http://news.xinhuanet.com/zhengfu/2002-10/21/content_603505.htm.

broadly defined ICT industry.[264] While being the producers of ICT-related products and services, these people themselves were also the consumers of some of the very products and services the Internet industry offered.

In a more general sense, outside the wage laborers in ICT industries was an even-larger population that formed what Jack Linchuan Qiu called the "information-have-less": 247 million migrant workers as of 2015, 114 million manufacturing workers as of 2013, 227 million 4-year-old-and-under young people and 222 million sixty-year-old–and-over people.[265] These people were the primary users of less expensive, more accessible, and low-end ICTs, such as "second-hand phones, used computers, pirated DVDs, Internet cafes, short-message service (SMS), prepaid mobile service, and the Little Smart low-end wireless phone."[266] As Qiu reports, "Between 1999 and 2007, China's cybercafé user population rose from 0.98 to 71.19 million and Little Smart subscriptions from 0.6 to 84.5 million. Between 2000 and 2007, prepaid mobile phone subscription grew from 14.9 to 360.9 million, and SMS traffic volume from 1.4 to 592.1 billion messages per annum. These statistics are partial reflections of the shifts in China's ICT market from elite domination to more dispersed patterns of technology dissemination and grassroots communication involving working-class users and service providers of all kinds."[267]

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[264] Ibid.

[265] "Guojia weisheng jisheng wei zhongguo liudong renkou fazhan baogao (2016) deng youguan qingkuang zhuanti fabu hui weizi shilu" 国家卫生计生委中国流动人口发展报告(2016)等有关情况专题发布会文字实录 [Text report of 2016 press conference on Chinese migrant populations by National Health and Family Planning Commission], *National Health and Family Planning Commission*, October 19, 2016, accessed November 15, 2016, http://www.nhfpc.gov.cn/xcs/s3574/201610/a6d3a604596a4ca3acf0dad31d891c13.shtml; Richard A. McCormack, "By the Numbers: The U.S. Has 12 Million Manufacturing Workers; China Has Ten Times That Number—114 Million," *Manufacturing and Technology News* 23, no. 6 (2016), accessed November 15, 2016, http://www.manufacturingnews.com/news/2016/China-Manufacturing-Employment-0630161.html; "2015 nian Quanguo 1% renkou chouyang diaocha zhuyao shuju gongbao" 2015 年全国 1%人口抽样调查主要数据公报 [China 1% population sample survey in 2015], *National Bureau of Statistics*, April 20, 2016, accessed November 15, 2016, http://www.stats.gov.cn/tjsj/zxfb/201604/t20160420_1346151.html; Qiu, *Working-Class Network Society*, 85–87.

[266] Qiu, Working-Class Network Society, 3.

[267] Ibid.

These populations would become active users of Tencent's instant message QQ and other services, which I discuss in the following chapters.

Conclusion

Overall, this chapter provides a review of the political economy context within which China's information and Internet industry grew. A few remarks can be made from my discussion here. The first one lies in the consistencies between the discourse changes of regulatory texts and the structural shifts in China's national economic strategies. As I delineated four stages of major changes in policy guidelines and articulation, these shifts were not incidental. They were both the preconditions and the outcomes of the overall political-economic transformation that took place in China's contemporary history. The evolution of the Internet from a network infrastructure that facilitated industrial development to a central node of national economy itself reflected a broad political-economic transformation from an outward-looking production mode that was heavily dependent on foreign direct investments in manufacturing to a domestically centered and consumption-driven mode with the support from portfolio investments.[268]

Secondly, while these changes and developments were highly government-initiated, they represented a more general pattern in the world, where private capital—whether domestic or foreign—was unleashed to build a country's economy. China was the leading example of this pattern. Based on the experience of other countries, China's leaders sought to gradually open up the domestic market to foreign investors as well as to domestic private companies. At the same time, this process also displayed some Chinese characteristics—the restrictions on foreign direct investments in certain areas. A result of the restrictions was an extensive incorporation of foreign venture capital investments in the Internet industry, which

[268] Hong, "Reading the Twelfth Five-Year Plan," 1045–57.

I discuss in next chapter. In other words, Chinese Internet policies had always made room for capital development; yet they were continually adjusted in terms of room for whom and development of which unit of capital—if it was state-owned or private-owned and if it was domestic or foreign. The rationale behind the adjustments was to develop an Internet industry while reserving some control over the character and direction of the development.

Last but not least, these changes were in no way a unilateral process only made by the Chinese government. They were responses to both internal and external challenges and, therefore, demonstrated an intertwined relation between the Chinese state and various units of capital. On the domestic side, a growing Internet industry could be attributed to the combined factors of the elevation of private capital, the participation of domestic and foreign units of capital, a spatial shift in the allocations of the great labor army, and policy preferences given to the information technology sector. Internationally, foreign investors' desires to enter the massive Chinese market, the rise of a global financial sector, the collaboration with the rising power of Silicon Valley, and the crisis and depression of the latest years, also contributed to the Internet boom in China at different stages. The negotiations, collaborations, and competitions among different state sectors and units of capital, nonetheless, were very much ongoing and again spoke to the changing global political economy and geopolitics.

Chapter 2

The Tencent Empire: Finance, Ownership, and Management

Tencent was founded in November 1998 in Shenzhen, the epicenter of China's reinsertion into transnational capitalism, as discussed previously. Tencent was registered at the beginning as a "computer technology" company.[269] The five core founders were Ma Huateng, Zhang Zhidong, Zeng Liqing, Xu Chenye, and Chen Yidan. Ma Huateng, also known as Pony Ma, was the leader.[270] A small company at its birth, Tencent went through slow growth and financial difficulties in its infant years. Beginning with developing value-added services for the Internet, mobile, and telecommunications, the company gradually established itself as one of the leading Internet companies and the largest instant messaging (IM) service provider in China.[271] In June 2004, it was publicly listed (IPO) on Hong Kong Stock Exchange (HKEX).[272] As of the end of 2015, Tencent achieved $14.93 billion (RMB 102.863 billion) in revenues, which contributed a net profit of $4.181 billion (RMB 28.806 billion) to the company's equity holders.[273] To put these numbers in context, the following chart shows the revenues and net profits of Alibaba and Baidu, the other two of China's Internet giants, and Google, Amazon, and Facebook, the top three global Internet companies as evaluated by market capitalization at the same period.[274] Although Tencent was not as big as Google or Amazon, it was almost on par with Facebook.

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[269] Tencent, Prospectus, 21.

[270] I use Ma Huateng, Pony Ma, and Ma interchangeably, all referring to Ma Huateng.

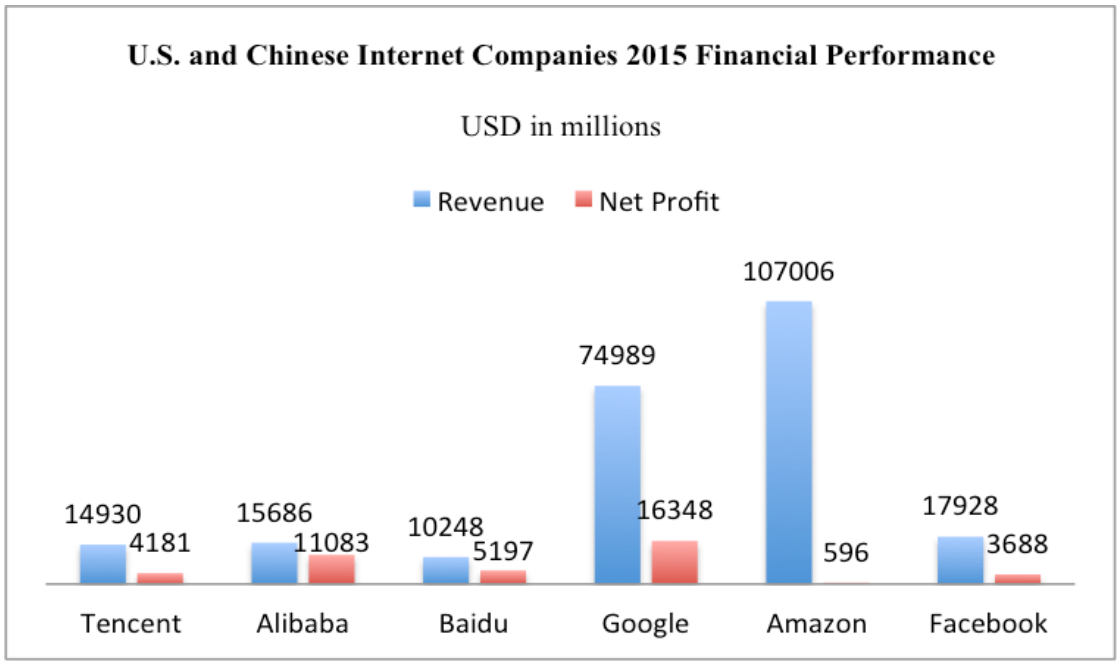
[271] Tencent, Prospectus, 82.

[272] HKEX stands for Hong Kong Exchanges and Clearing Limited, which is the holding company and operator of the stock exchange and Hong Kong Futures Exchange Limited. "Company Profile," *HKEX*, accessed August 17, 2016, https://www.hkex.com.hk/eng/exchange/corpinfo/profile.htm.

[273] Tencent, Annual Report, 2015, 4. The currency converting rate between U.S. dollar and Chinese yuan renminbi is 1.00 USD = 6.63598 CNY, accessed August 15, 2016, http://www.xe.com/currencyconverter/convert/?From=USD&To=CNY; Unless noted otherwise, the numbers referring to money values in this dissertation are quoted in RMB currency, in order to be consistent with the company's yearly and quarterly financial records.

[274] "Market Capitalization of the Biggest Internet Companies Worldwide as of May 2016 (in Billion U.S. Dollars), *Statista*, accessed November 22, 2016, https://www.statista.com/statistics/277483/market-value-of-the-largest-internet-companies-worldwide/.

Figure 2.1. U.S. and Chinese Internet Companies 2015 Financial Performance



Sources: Annual Reports, 2015.[275]

For a more specific view of Tencent's scope, one of its most important products was the instant messenger (IM) service called QQ. As a primary personal computer (PC) IM platform, QQ had 853.1 million monthly active users (MAU) as on December 31, 2015, while 641.5 million people were using QQ on their mobile devices.[276] Also at the same time, another equally important mobile device–based IM service was Weixin/WeChat, launched in early 2011.[277] As of the end of 2015, the mobile chatting app attracted 697 million users

[275] Alibaba, 2016 Annual Report, March 31, 2016, accessed November 22, 2016 http://www.alibabagroup.com/en/ir/pdf/agm160524_ar.pdf; Baidu, 2015 Form 20-F. December 31, 2015, November 22, 2016, http://media.corporate-ir.net/media_files/IROL/18/188488/reports/Baidu%202015%2020-F.PDF; Google, 2015 10K Report, December 31, 2015, accessed November 22, 2016, https://abc.xyz/investor/pdf/20151231_alphabet_10K.pdf; Amazon, 2015 Annual Report, December 31, 2015, accessed November 22, 2016, http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-reportsannual; Facebook, Annual Report, 2015, https://s21.q4cdn.com./399680738/files/doc_financials/annual_reports/2015-Annual-Report.pdf.

[276] Tencent, Annual Report, 2015, 6.

[277] Tencent, Annual Report 2011, 8.

worldwide, of whom at least 10 percent were based outside China.[278] The popularity of Tencent's products and services was far beyond these two IM services. Taking advantage of the massive user base built on its IM applications, the company now presented itself as an "online lifestyle service" provider and claimed to have "brought together China's largest Internet community" with its multiple Internet platforms, including communication and social networking, online gaming, media and content, e-commerce, online payment, and online advertising among others.[279]

How have QQ and Wexin/WeChat become so popular? What were the attributes that made Tencent's services so attractive? How did Tencent become competitive in so many different business areas? What were the factors that contributed to Tencent's success in China's Internet industry? These are not just business school "101" type of questions that seek to understand marketing strategies, consumer behaviors, or managing skills but are critical political-economic ones that allow exploration of Tencent as a corporate organization and one unit of capital within the web of a national and transnational Internet industry. In other words, it was the political-economic conditions and issues, such as ownership and control, capital allocation and distribution, dynamics of growth, research and development, relations with other units of capital and with state agencies, and so forth, that have defined Tencent's path and pattern.

Some academic studies of Tencent touch upon the commercial aspects of Tencent's products. For example, in Haibo Zou's study on Tencent's marketing strategy, he discusses how Tencent utilized the network effect aggregated by the massive adoption of QQ to

[278] Tencent, Annual Report 2015, 6; BI Intelligence, "WeChat breaks 700 million monthly active users," *Business Insider*, April 20, 2016, accessed November 22, 2016, http://www.businessinsider.com/wechat-breaks-700-million-monthly-active-users-2016-4.

[279] "About Tencent"; Tencent, Annual Report, 2015, 5–6.

promote other pay services.[280] In another study on Tencent's development mode, Junjie Zhang argues that Tencent grew successfully from a single business to diversifications building on the core business of instant communication.[281] In recent years, more studies looked into the communication model of Weixin and WeChat.[282] In particular, in view of their increasing micromarketing strategies, Shijie Wang examined the monetization activities on Weixin and WeChat, which took advantage of the vast social networks and location-based information of users.[283] A limited number of studies published in English focus on Tencent's business strategies as an example for the digital industry.[284] While these studies contributed to understanding Tencent's profit-making mechanisms on micro levels, they did not present an institutional context within which Tencent grew and expanded.

In this chapter, I analyze the basic political-economic features of Tencent. I start with a discussion, continuing the inquiry from last chapter, on the policy context within which the finance of the Internet industry has developed, by tracing the changes regarding foreign investment from foreign direct investment (FDI) through venture capital (VC) investment and to the variable interest entity (VIE) structure. This would lay the ground for us to understand the role of transnational finance capital in Tencent's growth. Drawing upon some biographies and the few corporate-history documents, I then present an overview of the family and

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[280] Haibo Zou, "Tengxun shichang celue fenxi" 腾讯市场策略分析 [An analysis of Tencent's market strategy], *Modern Information* 5 (2005): 201–6.

[281] Junjie Zhang, "Zhongguo Hulianwang qiye fazhan moshi tanxi—yi Tengxun weili" 中国互联网企业发展模式探析—以腾讯为例 [Exploring Chinese Internet companies' developing model—A case study on Tencent], *Economy and Management* 2 (2011): 43–46.

[282] Haoqi Dang, "Cong chuanboxue jiaodu jiegou weixin de xinxi chuanbo moshi" 从传播学角度解构微信的信息传播模式 [A communication approach to understand the model of Wexin], *Southeast Communication* 7 (2012): 71–78.

[283] Shijie Wang, "Guanyu Weixin yingxiao xianzhuang ji duice de sikao"关于微信营销现状及对策的思考 [Some thoughts on the status and strategies of Weixin marketing], *China Computer and Communication* 1 (2014): 111–13.

[284] Annie Liao, Clyde Eirikur Hull. and Rajendran Sriramachandramurthy, "The Six Facets Model of Technology Management: A Study in the Digital Business Industry," *International Journal of Innovation and Technology Management* 10, no. 4 (2013): 1-24; Edward Tse, "Competing on the Edge: Chinese Conglomerates and Changes in Business Strategy," *China Business Review*, July 2015, 1.

educational background of core founder Ma Huateng. I then chronicle Tencent's birth and evolution, which sets the stage for a political-economic analysis of Tencent's holdings, owners, and managers. By examining the ownership and control of the company, the third section answers the deceptively simple questions: What is Tencent? Who owns Tencent? What are the background and connections of company's owners and high-level management personnel, shedding light on the company's relation to other state or business entities? What is Tencent's financial structure? My primary focus in this chapter is on the growth of Tencent itself, and in the next three chapters I continue to discuss Tencent's domestic and transnational expansions and its relations with other units of capital in terms of collaboration and competition.

Financing the Internet

In the last chapter, I examined Chinese government policies for developing and restructuring the national political economy around the Internet. Whereas I discussed how the Chinese state gradually opened up domestic Internet and information markets by inviting "different economic elements"—meaning nonstate actors—to participate, I did not clarify the various types of capital that took critical stakes in the growth of China's Internet. Particularly in view of the general trajectory of China's market reform, foreign units of capital played a significant role, on the one hand, but maintained a delicate relation with the Chinese government, on the other.[285] In this section, therefore, I focus on the policies addressing the participation of foreign units of capital in national economy. I argue that, in line with the policies in opening the ICT industry to different economic elements, transnational units of capital became one crucial aspect in such process. Specifically, while FDI was an important component in the country's general opening-up reform and helped to boost growth

[285] Harvey, *Brief History*, 123–25.

enormously, I find that its role was limited to only the manufacturing sector within the ICT industries. Due to the policy limitations on foreign ownership and control in certain areas, VC, rather than FDI, became a preferred source of capital to participate in China's telecom and Internet businesses. This was crucial to the booming of Chinese Internet companies in the final years of twentieth century.

In China's market reform, as noted by many, FDI was the single-largest source of investment in earlier years of industrial development during the 1990s.[286] In 1993 China became the largest FDI recipient among the developing countries and the second largest in the world, when net inflows of FDI accounted for 6.21 percent of that year's GDP.[287] The annual growth rate of FDI inflows remained 6.6 percent between 1994 and 2008.[288] In 2014 China surpassed the United States to become the world's top destination for FDI, as the annual total of inbound FDI reached $120 billion.[289] As of 2015, FDI inflows contributed 2.30 percent of the country's GDP.[290]

As foreign investment became a disproportionately gigantic contributor to the nation's economy, however, the Chinese government remained cautious about the use of foreign resources. The state did not immediately open up the entire Chinese market. Nor were foreign units of capital allowed into every industry. As scholars note, China went through

[286] Hong, Labor, Class Formation, 48.

[287] Chunlai Chen, "Recent Developments in Foreign Direct Investment in China," Chinese Economies Research Centre Working Paper, No. 3, University of Adelaide, 1996; "Foreign Direct Investment, Net Inflows (% of GDP)," *World Bank*, accessed November 11, 2016, http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2015&locations=CN&start=1990.

[288] Chunlai Chen, "FDI and Economic Growth," in *Regional Development and Economic Growth in China*, ed. Yanrui Wu (Singapore: World Scientific, 2013), 120.

[289] "China Overtakes US for Foreign Direct Investment," *BBC News*, January 30, 2015, accessed June 2, 2015, http://www.bbc.com/news/business-31052566; "Statistics of FDI in China in January–December 2014," *Ministry of Commerce*, January 27, 2015, accessed June 2, 2015 http://english.mofcom.gov.cn/article/statistic/foreigninvestment/201504/20150400942402.shtml.

[290] "Foreign Direct Investment, Net Inflows (% of GDP)," *World Bank*, accessed November 11, 2016, http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2015&locations=CN&start=1990.

stages as it gradually allow the FDI to enter.[291] With the 1986 promulgation of Provisions to Encourage Foreign Investment, foreign investors were encouraged to establish joint ventures, cooperative ventures, and wholly foreign-owned enterprises within China.[292] In this policy, the government established a few strategies to encourage FDI, such as "reducing fees for labour and land use; establishing a limited foreign currency exchange market for joint ventures; extending the maximum duration of a joint-venture agreement beyond 50 years; and permitting wholly foreign-owned enterprises."[293] Into the 1990s, the central government further reduced some restrictions on the portion of FDI in various industries.[294] Even under such a liberal attitude, the government was still concerned about the "ownership shares, modes of entry, business operations, and regional and sectorial restrictions" in the introduction of FDI.[295] Information and communications, in particular, were among the most protected against foreign influences, as communication was seen as the "commanding height" that controlled the production, transmission, and diffusion of ideology.[296]

Nevertheless, with a general encouraging attitude toward foreign direct investment in China, the central government's approach to regulating foreign units of capital differed depending on the areas of investment. In 1995 the State Planning Commission, State Economic and Trade Commission, and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC; renamed Ministry of Commerce, MOFCOM)—jointly issued two

[291] Hong, Labor, Class Formation, 36.

[292] Carolyn P. Casey, "The 1986 Provisions to Encourage Foreign Investment in China: Further Evolution in Chinese Investment Laws," *American University International Law Review* 2, no. 2 (1987): 579–614.

[293] Chunlai Chen, "Recent Developments in Foreign Direct Investment in China," Chinese Economies Research Centre Working Paper no. 3, University of Adelaide, 1996.

[294] Guoqiang Long, "China's Policies on FDI: Review and Evaluation," in *Does Foreign Direct Investment Promote Development*? ed. Theodore H. Moran, Edward M. Graham, and Magnus Blomström (Washington, DC: Institute for International Economics; 2005), 315–36.

[295] Chunlai Chen, Foreign Direct Investment in China: Location Determinants, Investor Behaviour, and Economic Impact (Cheltenham, UK: Elgar, 2011), 6.

[296] Lin Mu, "Changes and Consistency: China's Media Market after WTO Entry," *Journal of Media Economics* 17, no. 3 (2004): 177–92.

regulatory documents that were the first formal legislation regarding foreign investments: The Provisional Regulations on Foreign Investment Guidelines and The Catalogue of Industries for Guiding Foreign Investment (Catalogue 1995). The guidelines established four tiers of industries and projects that were "encouraged, restricted, permitted or prohibited to FDI."[297] Encouraged and permitted industries were the ones where few restrictions would be enforced on foreign investment. The restricted industries meant stricter qualification requirements for foreign investors. FDI was not permitted in prohibited industries. As these documents set the basic line of regulating FDI, the industries and business areas that fell into those four categories were in continuous change and revision. Particularly with information and Internet industry, in Catalogue 1995, there was a preliminary distinction about which tier telecommunication and information industries belonged to. The manufacturing sector of switching and exchange was encouraged. Manufacturing of some key parts for satellite communication, however, was restricted. As for the operation and management of post and telecommunication services, foreign investment was strictly prohibited.[298]

Under such context, the largest beneficiary was the manufacturing sector of ICT products in which foreign-funded firms occupied a significant portion. One well-known and successful example is the joint-venture corporation Shanghai Bell, formed by Alcatel and Belgian Bell as early as the 1980s, under the majority ownership of China Posts and Telecom Industry Corporation (PTIC) and with direct management by the State Asset Supervision and Administration Commission (SASAC).[299] China Posts and Telecom Industry Corporation, in specific, was a holding company the MPT founded, aiming at enhancing the manufacturing

[297] Huaqun Zeng, Chinese Foreign Investment Laws: Recent Developments towards a Market Economy (Singapore: World Scientific, 1999), 30–31.

[298] "The Provisional Regulations on Foreign Investment Guidelines and The Catalogue of Industries for Guiding Overseas Investment," *MOFCOM*, accessed August 1, 2016, http://www.mofcom.gov.cn/aarticle/b/f/200207/20020700031063.html.

[299] Se-jin Chang, *Multinational Firms in China: Entry Strategies, Competition, and Firm Performance* (Oxford: Oxford University Press, 2013), 90; Company Profile, "Introduction," *Alcatel-Lucent Shanghai Bell*, accessed May 13, 2016, http://www.cccme.org.cn/shop/cccme2924/index.aspx.

abilities in telecom-related products. Into the 1990s, ICT-related production and manufacturing enjoyed even more tax benefits and importing tariff exemptions.[300] Partly as a result of such restrictions and differentiations, the FDI at this time was technically mostly in the manufacturing of ICTs but not in the service and content provision in Internet industry. As Hong records, by the end of 1997, "the electronics industry had contracted foreign investments worth $10 billion and the utilized foreign capital made up 40 percent of the total industrial investment."[301]

The massive inflow of foreign capital, however, should never be seen as a unidirectional phenomenon. Foreign investors' desires to enter Chinese market was no less than the Chinese entrepreneurs' desires to connect with global capitalism.[302] As Giovanni Arrighi relates, "foreign (especially U.S.) capital needed China far more than China needed foreign capital. U.S. companies from Intel to General Motors, face a simple imperative: invest in China to take advantage of the country's cheap labor and its fast-growing economy or lose out to rivals."[303] In this context, portfolio investment and especially, VC investment as an alternative approach to capital formation, in view of the containment on foreign ownership in restricted industrial sectors, came onto the scene.

Aside from the already known regulatory context on FDI, the changing domestic and global environments in both finance and Internet industry were contributing factors to the rise of VC in China's Internet industry. A venture capital fund, defined as a "fund that intends to invest more than 50 percent of its capital in unlisted firms," has had a relatively long history in the United States as a vigorous driving force in high-tech and innovative industry.[304] One

[300] Hong, Labor, Class Formation, 36-37.

[301] Ibid.

[302] Y. Zhao and D. Schiller, "Dances with Wolves?"

[303] Arrighi, Adam Smith in Beijing, 353.

[304] Feng Zeng, "Venture Capital Investments in China," *The Pardee RAND Graduate School Dissertation Series* (Santa Monica, CA: RAND, 2004), 29–30; Lanfang Wang, "Four Essays on Venture Capital," Doctoral thesis, Hong Kong University of Science and Technology, 2007, 84, 88.

of its distinctive merits, as many scholars note, was the separation of ownership and control between the venture capitalists and the entrepreneurs. At the same time, this type of investment would cast a relatively large amount of money to technology companies within a short term, which allowed them to get big fast.[305]

The Chinese government first noticed venture capital in the mid-1980s when the National Research Center of Science and Technology for Development, a branch under the State Science and Technology Commission (SSTC), conducted research on the future development of technology in China and proposed the idea of using the VC system to assist high-tech industry growth.[306] Throughout 1980s and early 1990s, however, VC mostly stood as an emerging policy idea and a form of experimentation on subsidizing the new technology industry, while there were still relatively strict restrictions to the use of private funds in most areas in China.[307] The real growth of VC in China came when the domestic stock market opened in the early 1990s. The new Shanghai Stock Exchange was launched in December 1990, followed by Shenzhen Stock Exchange's establishment a few months later in 1991.[308] In about two years, Chinese public shareholders surged to two million with a growth of about fifty thousand per week. According to one *New York Times* report, "the market index in Shanghai soared 167 percent" in 1992.[309] The opening up of these financial markets laid the foundation for the VC boom later, which combined with two aforementioned factors—the growing importance in ICT industries and the official recognition for private businesses. In March 1999, the Ninth People's Congress described the private sector as "an essential

[305] Hong Shen, "Across the Great (Fire) Wall: China and the Global Internet," PhD dissertation, Communications, University of Illinois at Urbana-Champaign, 2017, 62.

[306] Jonsson Yinya Li, Investing in China: The Emerging Venture Capital Industry (London: GMB, 2005), 33.

[307] F. Zeng, "Venture Capital Investments," 51–52; L. Wang, "Four Essays on Venture Capital," 90–91.

[308] Nicholas D. Kristof, "Don't Joke about This Stock Market," *New York Times*, May 9, 1993, accessed November 13, 2016, http://www.nytimes.com/1993/05/09/business/don-t-joke-about-this-stock-market.html?wanted=all.

[309] Ibid.

component" of the country's economy, which was a promotion from "an important component"—as it had been called before.[310] In the same year, seven ministerial departments together—the Ministry of Science and Technology, State Planning Commission, State Economic and Trade Commission, Ministry of Finance, People's Bank of China (the central bank), State Administration of Taxation, and China Securities Regulatory Commission—issued a report, "Several Opinions on Building Venture Investment Mechanism," which for the first time concretely stated the rationale and guiding principal for introducing venture investment into China. Specifically, the report emphasizes that the purpose was to accelerate technology development by recruiting investors to help put high-tech research into real use on the assembly line.[311]

On the international side, the colluding trend of the rise of the global financial sector and the Internet industry, especially in the United States, reached its climax when the NASDAQ boom and the "dot-com frenzy" fueled one another in the 1990s.[312] As Morgan Adamson describes it in his analysis, "the melding of this new financial interface with the personal computer revolution is evident in the close relationship between Bill Gates and Alfred Berkeley, who advised the NASDAQ on the uses of new technology throughout the 1980s and 1990s."[313]

Many scholars term the period between 1995 and 2000 as "the era of Internet boom, beginning with the California-based Netscape Communications Corporation (Netscape)'s high-profile Initial Public Offering (IPO) on NASDAQ and ending with NASDAQ's

[310] Lardy, Markets over Mao, 91.

[311] "Several Opinions on Building Venture Investment Mechanism," *Ministry of Science and Technology* (July 8, 2003), accessed July 26, 2016, http://www.most.gov.cn/tjcw/tczcwj/200708/t20070813_52371.htm.

[312] Morgan Adamson, "Markets without Subjects: NASDAQ and the Financial Interface," *New Formations* 88 (July 2016): 69–87.

[313] Ibid.

historical peak in March 2000.[314] On August 9, 1995, when Netscape was publicly listed, its share price more than doubled in first-day trading, making the company's market capitalization more than $2.2 billion.[315] The huge success of Netscape—in view of its unprofitable history and less than $48 million sales in the year before—motivated a wave of technology and Internet related IPOs that in 1999 alone reached 457 cases.[316] The value of the NASDAQ accumulated to 5,048 points in March 2000 from 1,000 points in 1995.[317]

Combined with the above context, which saw a wave of establishments of private companies in China's Internet industry in the mid-1990s, foreign VC investors' cravings for Chinese market and Chinese pioneers' capital dreams finally melded in China's Internet industry. By 2000 a total of 63 international VC funds were operating in China with a worth of $4.426 billion, equaling 72.06 percent of the total venture-capital funds in China.[318] Of all the VC-backed firms in China from 1991 to 2001, 151 came from the information technology industry accounting for 56.77 percent, 133 of which were born between 1998 and 2001.[319]

Of all the companies listed in table 1.1, Sohu received VC investments from Edward Robert, Nicholas Negroponte, Intel Dow, Hong Kong Hang Kung Group, IDG, and America Harrison Corporation between 1996 and 1998.[320] NetEase was backed by SoftBank Capital in Series A and GreenHills Ventures in Series B funding.[321] Sina's long list of VC investors included Funding Global Innovation Trend Micro, Creative Technology Marketing and

[314] Thomas A. Corr, "Boom, Bust, Boom: Internet Company Valuations—From Netscape to Google," *Financier* 13–14 (March 2006): 66–84.

[315] Ibid.

[316] Andrew Beattie, "Market Crashes: The Dotcom Crash," *Investopedia*, n.d., accessed November 13, 2016, http://www.investopedia.com/features/crashes/crashes8.asp.

[317] Ben Geier, "What Did We Learn from the Dotcom Stock Bubble of 2000?" *Time*, March 12, 2015, accessed November 13, 2016, http://time.com/3741681/2000-dotcom-stock-bust/.

[318] F. Zeng, "Venture Capital Investments," 73.

[319] Ibid., 46.

[320] Shen Libing, "The Development Strategy of Sina and Sohu," in *Encyclopedia of Portal Technologies and Applications*, ed. Arthur Tatnall (Hershey, PA: Information Science Reference, 2007), 245.

[321] "NetEase.com," *Crunchbase*, n.d., accessed November 13, 2016, https://www.crunchbase.com/organization/netease-com#/entity.

Design, Pacific Century CyberWorks (PCCW), Sumitomo Corporation, United Overseas Bank, Dell, and SoftBank.[322] ChinaCache received Series A fund of $32 million from Intel Capital, Investor Growth Capital, and JAFCO Asia.[323] Jingdong received investments from Capital Today and Tiger Global Management at different stages of fund-raising.[324] Tencent's earliest investors included IDG and PCCW, which I discuss further in the following sections. The seed funding of Ctrip came from IDG Capital Partners' $500 thousand in 1999.[325] SouFun took $1 million Series A and $5 million Series B venture funding from IDG Capital Partners and Goldman Sachs, respectively. In 2000 Baidu was supported by Peninsula Capital Fund and Integrity Partners' $1.2 million Series A funding.[326] Legend Capital and Authosis Capital provided Series A VC funding to Bitauto.[327]

This did not exhaust all foreign investments in China's burgeoning Internet industry. As discussed earlier, FDI and foreign ownership in certain industries, such as value-added telecommunication services, were restricted and required government approval. Many of China's home Internet companies then used the VIE structure to draw foreign investment.[328] Defined as an accounting practice that allowed "relevant parties to obtain a degree of control over, as well as a substantial economic interest in, certain companies without having to directly own their shares," a VIE structure was a way to let foreign investors make

[322] "Sina," *Crunchbase*, n.d., accessed November 13, 2016, https://www.crunchbase.com/organization/sina#/entity.

[323] Index, "ChinaCache," n.d., accessed November 13, 2016 https://index.co/company/ChinaCache_CCIH/funding.

[324] "JD.com," *Crunchbase*, n.d., accessed November 13, 2016, https://www.crunchbase.com/organization/jd-com#/entity.

[325] "Ctrip," *Crunchbase*, n.d., accessed November 13, 2016, https://www.crunchbase.com/funding-round/341c2ec636ff572aed9be5212a0412c5.

[326] "Baidu," *Crunchbase*, n.d., accessed November 13, 2016, https://www.crunchbase.com/funding-round/cfa4c143e7e5b0255c37aa3a6140a806.

[327] "Bitauto," *Crunchbase*, n.d., accessed November 13, 2016, https://www.crunchbase.com/funding-round/d159911792a25f453e3f3f05feaec24f.

[328] "Ziben quandi yundong: Nasidake fencing ji jueqi shimo" 资本圈地运动：纳斯达克分层及崛起始末 [The capital enclosure movement: The rise of NASDAQ], *Sina* (April 25, 2016), accessed May 14, 2016, http://finance.sina.com.cn/zl/stock/20160425/141224614220.shtml; "News Release," *Sina* (September 19, 2001), accessed May 14, 2016, http://phx.corporate-ir.net/phoenix.zhtml?c=121288&p=irol-newsArticle&ID=208045.

investments in firms in those restricted industries without necessarily subjecting them to government's regulatory control over ownership.[329] In a typical VIE structure, the contractual agreements allow foreign units of capital to invest and operate a Chinese target company and receive revenues from it without owning the equity of this company.[330] Among those Chinese Internet companies, Sina was the first to use the VIE structure in exploring strategic alliances between domestic and foreign capital without violating any Chinese regulation. By establishing a number of offshore and onshore companies, for example, Sina restructured its businesses and equity into Internet content provision, advertising, contract technical services, and consulting and other services provided by different companies.[331] This effectively separated its businesses by having the onshore part to control the assets and run the businesses that were only allowed for domestic ownership while still enabling foreign partners to have substantial financial interests.[332] Many Chinese Internet companies that wanted to make an IPO in offshore markets later adopted the Sina Model as a way to avoid the state's regulation on foreign ownership over certain critical assets and equity. These companies included Tencent, Baidu, JD.com, Alibaba, and Tudou, to name just a few.[333]

Though commonly used since 2000, the Chinese state's attitude toward VIE was not clear until 2006 when the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services as the first attempt to

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[329] Li Guo, "Chinese Style VIEs: Continuing to Sneak under Smog?" *Cornell International Law Journal* 47 (2014): 569–606.

[330] "A Quick Guide to Understanding the Variable Interest Model and Eight Common Misconceptions," *Ernst &Young*, n.d., accessed May 14, 2016, http://www.ey.com/Publication/vwLUAssets/TechnicalLine_BB2196_VariableInterest_20October2011/$FILE/TechnicalLine_BB2196_VariableInterest_20October2011.pdf.

[331] "In Focus: Variable Interest Entities (VIEs)—Part I," *Chen&Co Law Firm*, n.d., accessed November 13, 2016, http://www.chenandco.com/publications/VIEs-english.pdf.

[332] Richard Pearson, "Looking at Chinese VIE's," *Forbes*, October 18, 2012, accessed November 13, 2016, http://www.forbes.com/sites/richardpearson/2012/10/18/looking-at-chinese-vies/#9806991793af.

[333] Zeng Xianwu, "Variable Interest Entity Structure in China," *King and Wood Mallesons* (February 9, 2012), accessed May 2, 2016, http://www.chinalawinsight.com/2012/02/articles/corporate/foreign-investment/variable-interest-entity-structure-in-china/.

"explicitly circumscribe the use of the VIE structure."[334] This document specifies the parameters within which foreign capital is allowed. The key assets for which foreign ownership was prohibited include "trademarks, domain names, servers, and value-added telecommunication service provider licenses."[335] Following MIIT's initiative, central-government departments, including General Administration of Press and Publication (GAPP), the Ministry of Culture (MOC), and MOFCOM issued separately or jointly more policy documents to further specify the circumstances under which VIE structure can or cannot be used.[336] Yet, most of these ministries, except for MOFCOM, were peripheral entities on regulatory issues regarding foreign investors or even China's capital market, in general. Core administrations, such as the State Council, China Securities Regulatory Commission and the Central Bank, had not so far been clear about the use of VIE aside from a few advisory reports. Regardless of these seemingly numerous policies, the regulatory capacities so far have not been so powerful. Most recently, MOFCOM released Foreign Investment Law (Exposure Draft) in January 2015, which proposes that VIEs under planning are subject to the government's approval if satisfying the relevant regulations on foreign-capital entry management.[337] Yet, this draft was still more likely to provide advisory options rather than being an actual legal formulation at the moment.[338] Until an official law on foreign venture-capital investment has been passed and issued, VIE will remain a common practice that both foreign investors and domestic entrepreneurs enjoy using.

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[334] David Roberts and Thomas Hall, "VIE Structures in China: What Do You Need to Know," *O'Melveny & Myers LLP*, October 2011, accessed May 2, 2016, https://www.omm.com/files/Uploads/Documents/VIE%20Structures%20in%20China%20-%20What%20You%20Need%20to%20Know.pdf.

[335] Ibid.

[336] Ibid.

[337] Wei Chen, "Waiguo touzifa (caoan zhengqiu yijian gao) dui xieyi gongzhi moshi (VIE jiegou) de yingxiang" 《外国投资法（草案征求意见稿）》对协议控制模式（VIE 结构）的影响 [The influence of the Foreign Investment Law (Draft for Comment) on the VIE structure], 君合律师事务所, January 20, 2015, accessed November 13, 2016, http://www.westlawchina.com/NewsLetter/view.php?id=156.

[338] Ibid.

On the other side, however, domestic VCs were also growing. China now became a new hub for outbound venture-capital investments, the top destination of which was the United States.[339] Not only were the homegrown venture capitalists increasingly strong but also those giant Internet companies, like Tencent and Alibaba, were setting foot into the VC businesses. According to a *Wall Street Journal* report, between 2011 and 2016, at least 576 deals in U.S. venture-backed companies had incorporated money from Chinese investors. Particularly, Chinese investments in information-technology deals with Chinese investment increased from 1.7 percent to 4.1 percent of all VC investments.[340] While I discuss the trend in technology venture investments in a later chapter, for the purpose in this section, it is worth pointing out that the relations between technological-sector and venture-capital finances, though long established, are still evolving under the changing political-economic circumstances both in and outside China. I have only begun to explore the complexities of this techno-finance connection.

Ma Huateng in Pre-Tencent Years

Drawing on anecdotal biographies and documents from company history, this section presents an overview of Ma Huateng's life before he established Tencent. Ma's family and education background were strong influences on his own career as well as Tencent's development.

Ma Huateng was born in 1971 to a relatively well-off family. Both of his parents were working at the local bureau of China's Maritime Safety Administration in Hainan Province, where Ma Huateng spent his childhood. His father, Ma Chenshu, originally from Chaoshan,

[339] Zen Soo, "Venture Capital Investments in China Surge to Record US$31 billion," *South China Morning Post*, January 13, 2017, accessed March 19, 2017, http://www.scmp.com/business/china-business/article/2062011/venture-capital-investments-china-surge-record-us31-billion.

[340] Li Yuan, "China's Firms Strive to Gain a Foothold in U.S. Venture Capital," *Wall Street Journal*, November 23, 2016, accessed March 19, 2017, ABI/INFORM Collection.

Guangdong, worked from an accountant post all the way to deputy chief of the bureau. Ma Huateng has a sister, Ma Jiannan, who is four years older than he is. Ma Jiannan later worked at Shenzhen Telecom and provided her brother with potential connections to the government's telecom and Internet personnel. At the time when Hainan was a vast rural area disconnected from the mainland, their parents tried to give them a good education by giving them science magazines and books.[341] Ma was said to have developed a strong interest in astronomy thanks to those science books.[342] In 1984 the family moved to Shenzhen, where Ma Chenshu started to work at the Shenzhen Oceanus Group—the first ferry-service operator in Shenzhen—as the head of its accounting department.[343] Recalling the history discussed in last chapter, this was four years after Shenzhen was established as the special economic zone (SZE) and a time when the city experienced rapid development as an import and export hub. Eventually, Ma Chenshu became the vice president of Shenzhen Yantian Port Group, a state-owned logistics and -chain company, and was elected a member on the company's board of directors in 1997.[344] Upon his moving to Shenzhen, Ma Huateng attended Shenzhen Middle School, where he made friends with Chen Yidan, Zhang Zhidong, and Xu Chenye—who all later became the cofounders of Tencent.[345]

Besides his family cultivation, college was also an important influence. As mentioned in the previous chapter, the Ministry of Education and MOC had participated actively in the process of building China's information superhighway by integrating Internet and information technologies into their ministerial networks. At the same time, computer science,

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[341] "Gaosu ni buzhidao de gushi: Xiao qie QQ shi zheyang zhangda de" 告诉你不知道的故事:"小企鹅"QQ 是这样长大的 [An untold story: How the tiny penguin QQ grows], *Chaoshan Businessman* 3, no. 1 (2010), accessed August 15, 2016, http://cs.dahuawang.com/view.asp?newsno=589; Xiaobo Wu, *Biography of Tencent* (Zhejiang, China: Zhejiang University Press, 2016), chap. 1.

[342] Wu, Biography of Tencent, chap. 1.

[343] Jun Lin and Yuezhou Zhang, "Ma Huateng de Tengxun Diguo" 马化腾的腾讯帝国 [Ma Huateng's Tencent empire] (Beijing: China Citic Press, 2009), 17.

[344] Ibid.

[345] Wu, Biography of Tencent, 6–8.

electronic engineering, and subjects related became the number one major choice for Chinese college students. Ma Huateng and his friends were no exception. In 1989 Ma entered Shenzhen University, where he became classmates again with Zhang Zhidong and Xu Chenye. They all went to the electrical-engineering department and chose computer science as their major. Ma and Xu even became roommates.[346] Another friend from middle school time—Chen Yidan—went to study chemistry in the same college. Ma's time in Shenzhen University was far-reaching, not only because he formed strong bonds with these people but also because he discovered and nourished an interest in computer programming.[347] It was also in a time that the nation was in urgent need of talent in the ICT industry. After graduation in 1993, Ma went to work as a software engineer in a telecommunication company named Runxun, at that time primarily running paging services.[348]

In those years when Ma was working at Runxun, he spent his spare time on Chinese fidonet (CFido), a self-organized bulletin-board system run and sustained by a group of Chinese computer and software experts. On this platform, the fans and experts discussed issues of software development and technical solutions, among others. Many of these people later became the industry leaders. Ma found huge excitement in communicating with other computer fans and established his own space—Ponysoft—on CFido.[349] As Lin and Zhang suggest, "Ma Huateng got to know many friends on CFido who later became big names in China's high-tech and Internet industry. They formed a close network. One of these people was Ding Lei.[350] Ma himself mentioned many times in interviews that Ding was one of his good friends with whom he drank beer and shared ups and downs in early stages of their

[346] Ibid., 9–12.

[347] Ibid.

[348] Lin and Zhang, Ma Huateng's Tencent Empire, 8–11.

[349] Ibid., 25–28; Wu, *Biography of Tencent*, 14–17.

[350] Ibid.

businesses. It was said that the success of Ding's 163.com tremendously inspired Ma that he decided to start his own business."[351]

The social and cultural environment of Shenzhen and Ma's family and college education contributed to his growth as both a computer engineer and entrepreneur and, eventually, led to the idea of opening his own company.[352]

The Birth and Evolution of Tencent

Tencent was founded on November 11, 1998, under the name Shenzhen Tencent Computer Systems Company Limited (hereafter referred to as "Tencent Computer").[353] The five core founders were Ma Huateng, Zhang Zhidong, Xu Chenye, Chen Yidan, and Zeng Liqing. As mentioned above, four of them—Ma, Zhang, Xu, and Chen—were schoolmates and friends who knew each other from middle school and college. Zeng, however, was connected to them through Ma's sister, as Zeng and she were colleagues at Shenzhen Telecom. At Tencent, Zeng was in charge of sales and marketing while the other four were primarily focusing on developing computer programs and products. The government's requirement for registered capital to start a company was $60,386 (RMB 500 thousand) back then. These five young men put together their own savings, and each of their contributions to the initial capital looked as follows:

Table 2.1. Registered Capital of Original Shareholders

	Ma Huateng	Zhang Zhidong	Zeng Liqing	Xu Chenye	Chen Yidan
Investment (RMB)	237,500	100,000	62,500	50,000	50,000
Percentage	47.5	20	12.5	10	10

Source: Lin and Zhang, *Ma Huateng's Tencent Empire*, 33–34

[351] Lin and Zhang, *Ma Huateng's Tencent Empire*, 27–28. Ding Lei, also known as William Ding, was the CEO of NetEase.

[352] Wu, Biography of Tencent, 20–23.

[353] Tencent, Prospectus, 21, 192.

Tencent's earliest businesses were based on Ma's experience at Runxun, as he was trying to design a system that connected paging services to the Internet.[354] The idea did not turn out to be successful as the paging industry was going downwards at the time when mobile phones emerged as a rising market.

The company, like many others in the infant stage that were exploring business opportunities, did not have a real and core direction of growth until it started developing an instant messaging system (IM). Instant messaging comprised a unique communication format, and it predated the concept of real-time interactive conversation.[355] While the notion of the instant message emerged in 1980s in the United States, it was not fully developed for commercial use until 1996 when the Israeli company Mirabilis launched the software ICQ, a homophonic transliteration of "I seek you."[356] In June 1998, with already twenty-one million users, Mirabilis and its ICQ product were acquired by America Online (AOL), the then U.S. Internet giant.[357] Tencent was not the only one, nor the first, to have noticed ICQ and its potential in China. Before Ma and his team started developing an ICQ-like instant messenger, there was already the Taiwan-based pAsia Internet Company, which launched CICQ and PICQ—two localized, instant-messaging applications in traditional Chinese language and simplified Chinese language, respectively.[358] In Mainland China, teams from Nanjing and Guangzhou were separately developing their own localized instant messenger based on ICQ model between 1998 and 1999.[359] Tencent started adapting and localizing ICQ in August

[354] Wu, Biography of Tencent, 33–35.

[355] Latzko Toth, "Metaphors of Synchrony: Emergence and Differentiation of Online Chat Devices," *Bulletin of Science, Technology, and Society* 30, no. 5 (2010): 362–74.

[356] Ibid.

[357] Jaredet Sandberg, "Net Gain," *Newsweek*, December 7, 1998, 46.

[358] Ding Bai, "Zaoqi de Guonei jishi tongxun shichang yu Tengxun QQ de jiezu xiandeng" 早期的国内即时通讯市场与腾讯 QQ 的捷足先登 [China's IM market and how Tencent's QQ started in an early time], *Baiding de Boke* 白丁的博客, December 29, 2006, accessed November 25, 2016, http://blog.sina.com.cn/s/blog_5463d6fa010008ag.html.

[359] Ibid.

1998, initially as a project in response to Guangzhou Telecom's public bidding for an instant messenger.[360] Although Tencent did not win the bid, the core founders decided to run the program on their own, to which they gave the name OICQ at the time.[361]

In late 1990s, when personal computers and household network access were expensive and not widely diffused in China; users who were urban working or lower classes mostly went to Internet cafes and net bars—where the owners maintained dozens of computer terminals, paid the Internet service providers (ISP), and charged users based on the time they spent online—for Internet access.[362] In such a context, connection speed and security of personal information were the primary concerns of users. Tencent improved OICQ by compressing the size of the software package so that users could download it quickly and store their contacts in their online accounts instead of on the cafe and bar computers. OICQ was officially launched in February 1999 and quickly attracted users.[363] In just half a year's time, Tencent's registered users broke through 1 million.[364] As Tencent's prospectus states, "we believe that we were one of the first providers of IM and mobile value-added services in China."[365] OICQ laid the foundation for Tencent's IM service and, subsequently, the company's huge success in launching a vast range of Internet and mobile value-added service in the future.

On November 23, 1999, Tencent incorporated another company in the British Virgin Islands under the name of Keyword Technology Limited. This later became the parent company of the Tencent group—Tencent Holdings Limited. Before it changed the name into Tencent Holdings Limited, a couple of other names—OICQ.com and Tencent (BVI)—were

[360] Wu, Biography of Tencent, 36–38.

[361] Ibid.

[362] Qiu, Working-Class Network Society, 22–23.

[363] Tencent, Prospectus, 87.

[364] "Tencent History," *Tencent*, n.d., accessed August 16, 2016, http://www.tencent.com/zh-cn/at/rm/2003.shtml.

[365] Tencent, Prospectus, 82.

used. In 2004, before Tencent's initial public offering, Tencent changed its registration location to the Cayman Islands and its name to Tencent Holdings Limited.[366] To register an offshore parent company was not uncommon among Chinese Internet companies, because of the easy registration process, low maintenance cost, and low tax at the British Cayman Islands.[367]

In the February 2000, Tencent established a wholly owned subsidiary company, Tencent Technology (Shenzhen) Company Limited.[368] The aim was to separate its business divisions of software development and value-added telecom and Internet services into different subsidiary companies. As I discussed, in 1999 foreign investments in value-added telecommunications and Internet services were highly restricted. For Tencent, if it wanted any foreign capital, the money had to be put in business units that were not running the value-added services. Tencent Technology was set up for this purpose, as it was intended to "develop software, provide management and technical consultancy services"— businesses that were allowed to have substantial foreign investment in China.[369] This move evidently was to meet the company's need to attract foreign investors, which I discuss in detail in the following section.

Tencent's IM business continued to grow promisingly in the year 2000. By April 2000, registered accounts of OICQ reached 5 million.[370] To further promote its brand, Tencent designed a cartoon-penguin icon for the company. The penguin immediately became

[366] Ibid., 192.

[367] Di Wu, "Zhongguo Hulianwang gongsi fenfen lian zhuce Kaiman Qundao" 中国互联网公司纷纷离岸注册开曼群岛 [Chinese Internet companies registered in offshore Cayman Islands], *Zhongguo Xinwen Wang* 中国新闻网, May 16, 2011, accessed November 25, 2016, http://tech.sina.com.cn/i/2011-05-16/10095529207.shtml.

[368] Tencent, Prospectus, 21, 192.

[369] Ibid., 72-73.

[370] "Tencent History."

the symbol of OICQ and the Tencent company.[371] The name of OICQ, however, was questioned by AOL, which accused Tencent of violating the intellectual property rights of ICQ.[372] In December 2000, Tencent changed the name of its IM service from OICQ into QQ as the company launched a latest version of the IM software, QQ2000.[373]

In the same year, Tencent approached China Unicom and China Mobile's Guangdong Bureaus for strategic collaborations as both telecom giants launched their first wireless application protocol (WAP) services.[374] Tencent saw opportunities in providing its IM service through mobile phones. In June 2000, Shenzhen Unicom's newly issued 10000 SIM cards for mobile communication had incorporated Mobile QQ as a preinstalled program.[375] Shortly after, Tencent signed another agreement with China Mobile upon its launch of Monternet, which was meant for mobile and Internet.[376] Subsequently, Tencent started working with the local bureaus of China Mobile in Beijing, Sichuan, Jiangsu, Zhejiang, and Shanxi, among others.[377] The alliance, on the one hand, boosted the traffic for the telecomm carriers and, on the other, helped Tencent to monetize QQ.[378] As of 2004, Tencent was working with forty-four subsidiaries and branches of China Mobile and China Unicom in

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[371] Ping Ning, "OICQ xue Disini yaoguo sandao kan" QICQ 学迪斯尼要过三道坎 [OICQ has to overcome three difficulties like Disney], *China Business Journal*, April 17, 2001, 2.

[372] Zhang Zhao, "Long Conflict over QQ Continues into Court," *China Daily Asia*, July 24, 2013, accessed August 16, 2016, http://www.chinadailyasia.com/special/2013-07/24/content_15079749.html.

[373] Wang Xing, "A Mysterious Message Millionaire," *China Daily*, January 12, 2009, accessed August 16 2016, http://www.chinadaily.com.cn/business/2009-01/12/content_7388202.htm; Yizhen Zhang, "Tengxun xinban OICQ gengming he bianlian de qishi" 腾讯新版 OICQ"更名"和"变脸"的启示 [Thoughts from Tencent's newly launched version of OICQ], *eNews*, April 10, 2001, accessed August 16, 2016, http://text.news.sohu.com/11/52/news144665211.shtml.

[374] "Internet Timeline of China 1986~2003."

[375] "Tencent History."

[376] Yi Xiao, "Tengxun QQ chengxiong yidong mengwang" 腾讯 QQ 称雄移动梦网 [Tencent's QQ wins big in Monternet], *Zhongguo Jisuanji Bao* 中国计算机报, August 30, 2001, A3.

[377] "Shanxi Yidong Shenzhen Tengxun lianshou kaitong yidong QQ" 陕西移动深圳腾讯练手开通移动 QQ [Shanxi Mobile and Shenzhen Tencent worked together to launch mobile QQ], *Renmin Youdian* 人民邮电, August 31, 2001, 5.

[378] Wu, Biography of Tencent, 69–71.

delivering its mobile and telecommunications value-added services.[379] The diffusion of mobile Internet contributed hugely to Tencent's balance sheet: "For the year ended December 31, 2003, our revenues and profit for the year were RMB 735.0 million and RMB 322.2 million, respectively, representing an annual growth rate of 179.4 percent and 129.0 percent from 2002, respectively. Subscription-based revenues accounted for over 75 percent of our total revenues in 2003. For the three months ended March 31, 2004, our revenues and profit for the period were RMB 257.6 million and RMB 107.3 million, respectively."[380]

In the meantime, Tencent made further moves in restructuring its corporate framework in prospect of an IPO. In early 2004, Tencent established two more wholly owned subsidiaries: Shenzhen Shiji Kaixuan Technology Company Limited ("Shiji Kaixuan Technology") and Shidai Zhaoyang Technology (Shenzhen) Company Limited ("Shidai Zhaoyang"). Shiji Kaixuan Technology, incorporated as a private limited company, was designed to provide Internet and telecommunications value-added services similar to Tencent Computer.[381] Shidai Zhaoyang was registered as a wholly foreign-owned entity running software businesses like Tencent Technology.[382] The revenues of Tencent Technology and Shidai Zhaoyang actually derived from providing technical and management consulting services to Tencent Computer and Shiji Kaiquan through contractual agreements.

By 2004, Tencent established four wholly owned subsidiaries, with two operating telecom and Internet value-added services and two developing software and providing consultancy services.

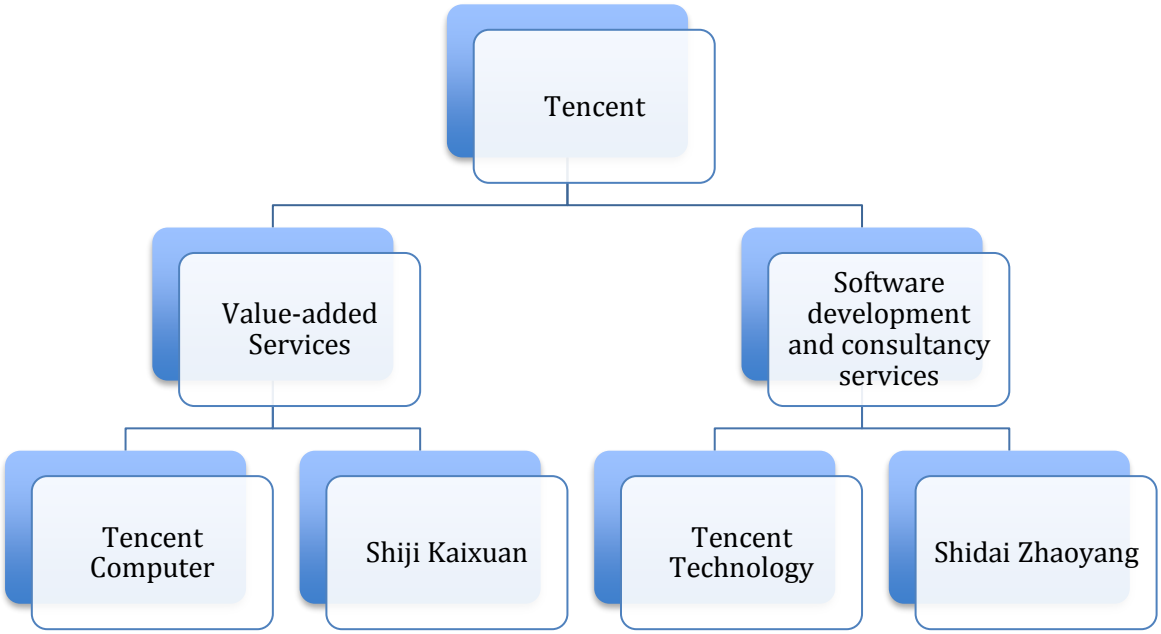
[379] Tencent, Prospectus, 72–73.

[380] Ibid., 6.

[381] Ibid., 72–73.

[382] *National Enterprise Credit Information System*, accessed August 16, 2016, http://www.szcredit.com.cn/web/GSZJGSPT/QyxyDetail.aspx?rid=4f02a8c497e9410d947a29978e6f91b7.

Figure 2.2. Tencent's Structure as of June 2004 before IPO



Source: Tencent, Prospectus.[383]

On June 16, 2004, after nearly one year's preparation, Tencent was publicly listed on Hong Kong Stock Exchange.[384] Tencent approached and enlisted Goldman Sachs as its "global coordinator, lead manager and bookrunner of the offering" in 2003.[385] According to recollections by Tencent's staff, the collaboration between Tencent and Goldman Sachs was the result of "mutual respect and appreciation."[386] In fact, at the time, Goldman Sachs was the leading underwriter for Chinese companies' overseas public listings.[387] In 2004 alone, Goldman Sachs participated in coordinating and bookrunning the IPO of Ping An Insurance (Group) Co—China's second-largest life insurer and third-largest property insurer—on the

[383] Tencent, Prospectus, 74.

[384] "Financial Release of 2004," *Tencent*, June 16, 2004, accessed November 29, 2016, https://www.tencent.com/en-us/news_timeline.html.

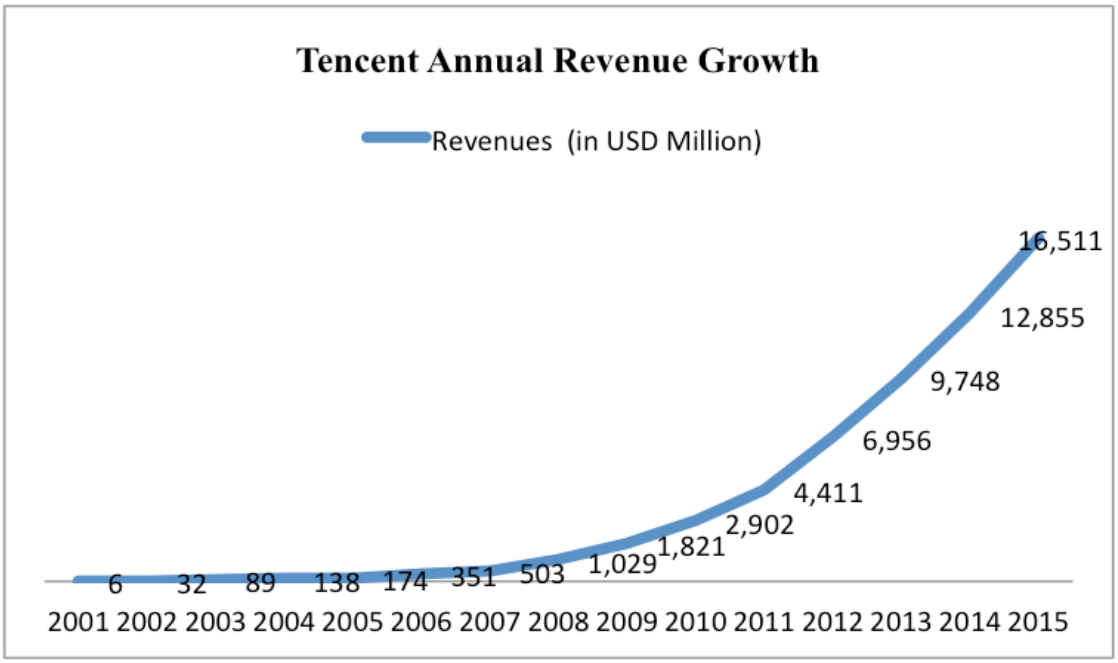
[385] Working Group on *Ten Years of Tencent*, "Tengxun shi nian" 腾讯十年 [Ten Years of Tencent] (深圳报业集团出版社, 2011), chap. 40, "Shangshi zhi lu" 上市之路 [Road to IPO], n.d., accessed November 29, 2016, http://quanben-xiaoshuo.com/read/21/tengxunshinian/1/40.html.

[386] Ibid.

[387] Erin P. Flanagin, Alex Fogel, George H. Hines, and Jason M. Kephart, "Goldman Sachs: Strategy for Success," accessed November 29, 2016, http://www.mcafee.cc/Classes/BEM106/Papers/2006/GS.pdf.

Hong Kong Stock Exchange, Shanda Interactive Entertainment Limited's IPO on NASDAQ, and Tencent's IPO.[388] Tencent's listing in Hong Kong was especially a landmark because it was the first Chinese Internet company "to be listed on the Main Board of the (Hong Kong) Stock Exchange."[389]

Figure 2.3. Tencent's Annual Revenue Growth, 2001–15



Sources: Tencent, Annual Report, 2004–15 (revenue year-end of December 31).

[388] Yaohua Chen, Lijun Sheng, and Di Pan, "Jinrong qiye rongtouzi celue yu caozuo" 金融企业融投资策略与操作 [Financial companies' strategies and operations for investment] (Beijing: China Industry and Commerce, 2005), 96.

[389] Dario De Wet, "Tencent Holdings Limited: An IPO Case Study," Master's thesis, Department of Finance and Tax, University of Cape Town, 4, no. 29 (2015), accessed November 29, 2016, https://open.uct.ac.za/bitstream/item/16613/thesis_com_2015_de_wet_dario.pdf?sequence=1.

Table 2.2. Tencent's Annual Balance, 2001–15 (in RMB million)

Year	Total Assets	Revenues	Net Profit
2001	66	49	10
2002	214	263	141
2003	576	735	322
2004	2,863	1,144	441
2005	3,427	1,426	485
2006	4,651	2,800	1,064
2007	6,985	3,821	1,568
2008	9,856	7,155	2,816
2009	17,506	12,440	5,222
2010	35,830	19,646	8,115
2011	56,804	28,496	10,225
2012	75,256	43,894	12,785
2013	107,235	60,437	15,563
2014	171,166	78,932	23,888
2015	306,818	102,863	29,108

Sources: Tencent, Annual Report, 2001–15 (revenue year-end of December 31).[390]

Tencent's reports broke down its businesses into three major areas: Internet value-added services (IVAS), mobile and telecommunications value-added services (MVAS), and online advertising. Both IVAS and MVAS were built on the QQ-related services. The basic IM platform allowed users to "communicate via text messages, images, video, voice, and email," while the VASs were to create an online community for social networking, entertainment, and gaming on a personal computer and mobile devices. With the user traffic generated by IM and value-added services, Tencent embedded advertising space into different platforms, which allowed targeted advertisements.[391]

With its IM service at the center, Tencent highly valued the QQ brand and the user experience: "While our QQ brand is well recognized throughout China, we believe that

[390] For the purpose of accuracy in the table, I use RMB that is the original data from Tencent's company reports. For the other charts following, which aim to show the growth curve of Tencent's businesses, I changed the currency to USD based on World Bank, "Official Exchange Rate (LCU per US$, Period Average)," accessed March 20, 2017, http://data.worldbank.org/indicator/PA.NUS.FCRF?end=2015&locations=CN&start=1998&view=chart.

[391] Tencent, Prospectus, 5, 82, 92.

maintaining and enhancing the QQ brand is a critical aspect of our efforts to grow our customer base and obtain additional business partners."[392]

As the company highlighted, the large and active user base was one of its most valuable assets. In order to keep attracting users and expanding this pool, Tencent put a great deal of effort into designing a "distinctive community experience" and "creative value-added services" and using the QQ name to create strong brand identity. Its Internet value-added services were based on this IM platform and the QQ brand by providing various entertainment, social networking, and gaming services.[393] Among these fee-based businesses, games stood as a significant part of the company's revenues after Tencent launched its own game portal. The subsequent years also saw boosts in revenues contributed by the huge traffic to Tencent's online sports portal, as the company strategically collaborated with international sport events, including the 2008 and 2012 Olympics and the 2010 and 2014 World Cups.

For the MVAS, Tencent tried to build "strong strategic relationships with telecommunications operators and terminal device manufacturers in China." Heavily relying on partnering with common carriers, profits in the MVAS services primarily came from fees collected by mobile and telecom carriers when users logged onto Tencent's IM and related services on mobile phones. According to the terms between Tencent and China Mobile and China Unicom: "China Mobile and China Unicom pay us a portion of the fees they receive from their customers for the mobile value-added services we provide, and we depend on their ability to maintain accurate records of the services we provide through their networks and related fees paid."[394]

[392] Ibid., 30.

[393] Ibid., 83–84, 199.

[394] Ibid., 7, 26.

In 2003 Tencent was rewarded by China Mobile as best-performing partner for SMS services on its Monternet platform.[395] The relation between Tencent and telecom companies, however, was more complex than the apparent win-win situation at the beginning, which I discuss in the next chapter.

With the wide diffusion of smartphones and the building of 3G and 4G networks throughout China, MVAS were gradually expanded to games, entertainment, and community networking, parallel to the Internet value-added services provided on desktops. Especially after 2011 when Tencent launched Weixin and WeChat, a smartphone-based chatting service, the mobile sector was further strengthened through mobile applications.[396]

Table 2.3. Tencent's Revenue by Business, 2001–11

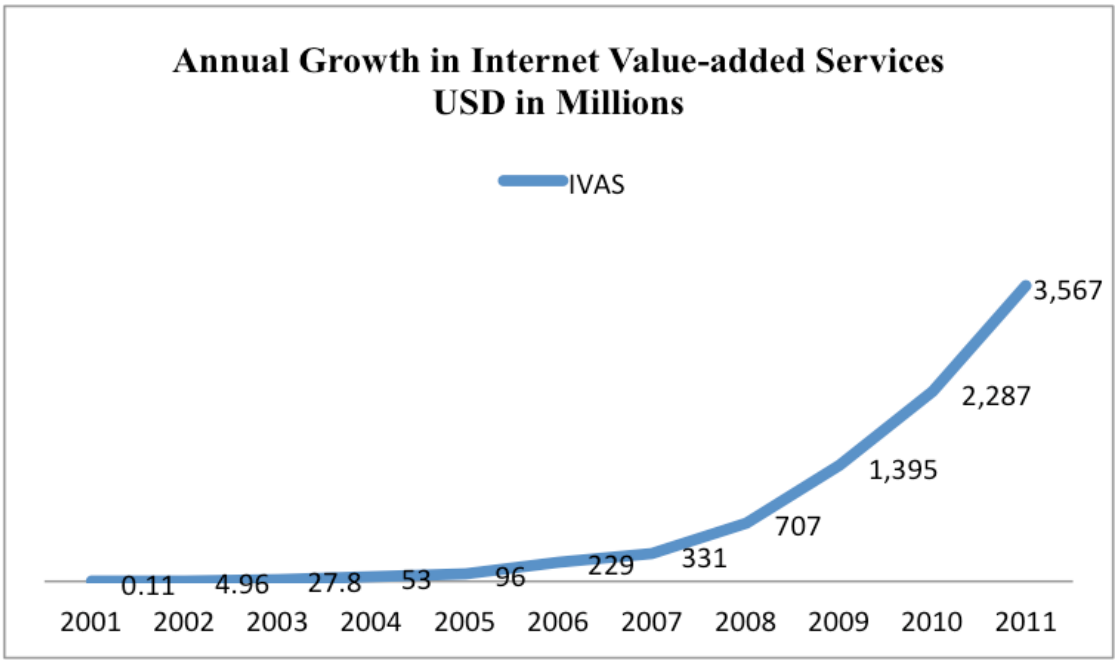
	Revenue							
Year	IVAS		MVAS		Online advertising		Other	
	Total RMB (millions)	% of Total	Total RMB (millions)	% of Total	Total RMB (millions)	% of Total	Total RMB (millions)	% of Total
2001	0.9	1.9	38	77.3	8	15.7	2	4.9
2002	41	15.5	199	75.6	19	7.3	4	1.6
2003	230	31.3	467	63.6	33	4.4	5	0.7
2004	439	38.4	641	56.1	55	4.8	9	0.7
2005	787	55.1	517	36.3	113	7.9	10	0.7
2006	1,825	65.2	700	25.0	267	9.5	8	0.3
2007	2,514	65.8	808	21.1	493	12.9	7	0.2
2008	4,915	68.7	1,399	19.6	826	11.5	15	0.2
2009	9,531	76.6	1,906	15.3	962	7.7	41	0.4
2010	15,482	78.8	2,716	13.8	1,373	7.0	75	0.4
2011	23,043	80.8	3,271	11.5	1,992	7.0	190	0.7

Sources: Tencent, Prospectus, 9; Tencent, Annual Report, 2004–11 (revenue year end of December 31).

[395] Ibid., 5.

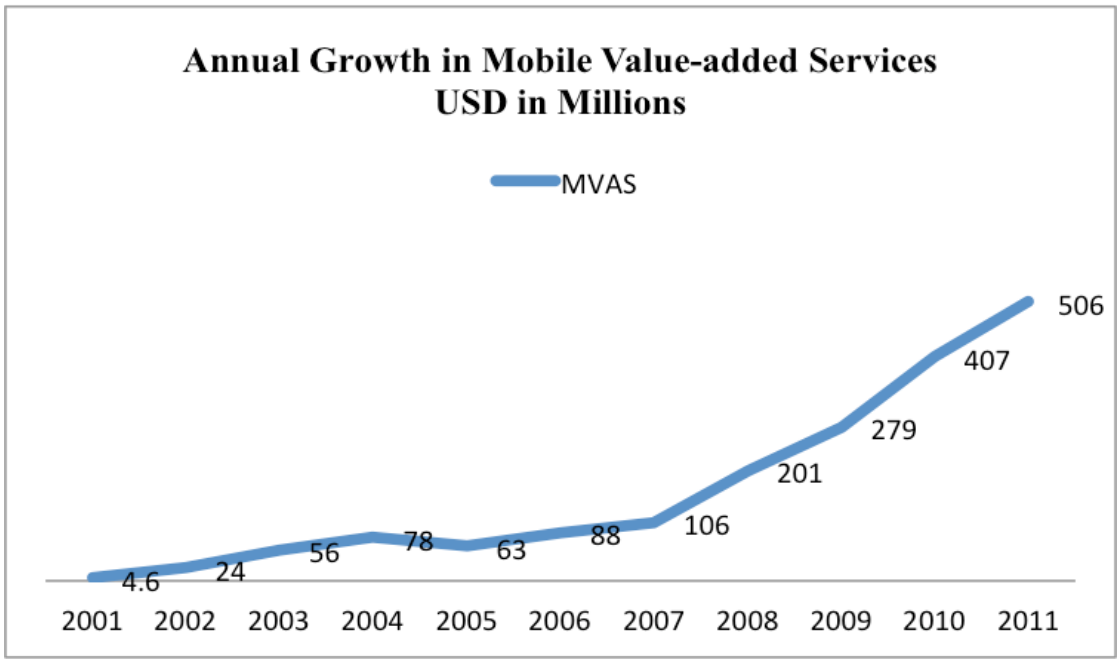
[396] Tencent, Annual Report, 2012, 6.

Figure 2.4. Annual Growth in Internet Value-Added Services, 2001–11



Sources: Tencent, Prospectus, 9; Tencent, Annual Report, 2004–11 (revenue year end of December 31).

Figure 2.5. Annual Growth in Mobile Value-Added Services, 2001–11



Sources: Tencent, Prospectus, 9; Tencent, Annual Report, 2004–11 (revenue year end of December 31).

In 2012 Tencent reorganized its business structure by "aligning the product development and management" of some core services between PC and mobile versions.[397] Subsequently, its spreadsheet combined the IVAS and MVAS into one column, "Value-Added Services." In addition, in view of its expansion in e-Commerce, the spreadsheet included a new column for revenue from e-commerce transactions. However, due to some mergers and acquisitions, which I discuss later, the revenue of Tencent's own e-commerce decreased rapidly that from the first quarter of 2015, and e-commerce was grouped into the "Other" column on the balance sheet.[398]

Table 2.4. Tencent's Revenues by Business, 2012–15

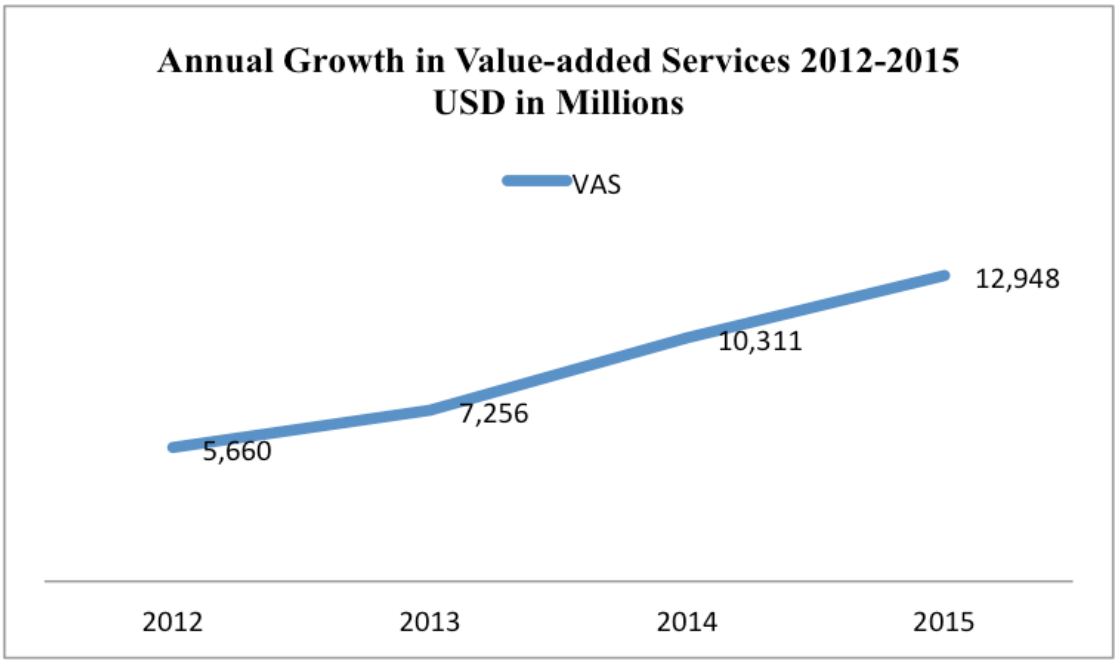
Year	Value-Added Services		Online Advertising		E-Commerce Transactions		Other	
	Amount RMB in millions	% of total revenues	Amount RMB in millions	% of total revenues	Amount RMB in millions	% of total revenues	Amount RMB in millions	% of total revenues
2012	35,718	81	3,382	8	4,428	10	366	1
2013	44,985	75	5,034	8	9,796	16	622	1
2014	63,310	80	8,308	11	4,753	6	2,561	3
2015	80,669	78	17,468	17			4,726	5

Sources: Tencent, Annual Report, 2012–15 (revenue year-end of December 31).

[397] Tencent, Annual Report, 2012, 8.

[398] Tencent, Annual Report, 2015, 12.

Figure 2.6. Annual Growth in Value-Added Services, 2012–15



Sources: Tencent, Annual Report, 2012–15 (revenue year-end of December 31).

Owners and Managers

Capital remains to be the crucial factor that enables or constrains a company's growth in any industry. In the Internet industry, to cover the large expenses incurred in obtaining and maintaining a critical mass in operations and for customers, a corporation needs a large amount of capital in a relatively short period of time to maintain the servers, systems, and platforms.[399] How and from whom, then, has Tencent secured enough funds for its growth? Who had ownership and control of the company? In this section, I aim at answering these questions by tracing how ownership and control evolved along Tencent's continuing development and what factors and players contributed to this process. Essential to understanding "who has power to make decisions and who benefits from these decisions," the issue of ownership and control lies at the center in many scholarly studies on the political

[399] Carl Shapiro and Hai R. Varian, *Information Rules: A Strategic Guide to the Network Economy* (Boston: Harvard Business, 1999); Matthew Crain, "The Revolution Will Be Commercialized: Finance, Public Policy, and the Construction of Internet Advertising," PhD dissertation, Communications, University of Illinois at Urbana-Champaign, ProQuest Dissertations, 2013.

economy of communication industries.[400] Clarifying the ownership and control of Tencent helps to specify its economic structure, which, in turn, is fundamental for related issues, such as profit strategy and diversification. Examining the company's investment and capital structure, I argue that Tencent was merely Chinese at its birth. The company's growth was deeply intertwined with the expansion of transnational capital into China.

Investors before Tencent's IPO

As mentioned before, Tencent's founders each put a different amount of money to make up the company's registered capital. As Carl Shapiro and Hai R. Varian argue, a golden rule in the Internet industry is to obtain capital sufficient to "get big fast."[401] It is crucial for Internet companies to accumulate sufficient capital quickly so that they are able to occupy a certain market and expand, as well.[402] Tencent upon its founding in 1998, immediately encountered the economic downturn in Southeast Asia and the bursting of the Internet bubble and had trouble raising money from other investors. Near the end of 1999, after unsuccessful attempts to sell its QQ service to local investors in Shenzhen, including Shenzhen Electronics Group, Shenzhen Telecom, and 21cn.com, a subsidiary of China Telecom, Tencent was hardly surviving.[403]

No domestic enterprise or bank was willing to either buy or fund Tencent, so the company sought investments from foreign venture capitalists,[404] first contacting a branch of the International Data Group (IDG). IDG Ventures China, a VC investor from the United

[400] André Sirois and Janet Wasko, "The Political Economy of the Recorded Music Industry: Redefinitions and New Trajectories in the Digital Age," in *The Handbook of Political Economy of Communications*, Janet Wasko, Graham Murdock, and Helena Sousa (Chichester, UK: Wiley-Blackwell, 2011).

[401] Shapiro and Varian, *Information Rules*, 280.

[402] Ibid.

[403] Wu, Biography of Tencent, 50–53.

[404].Li, *Investing in China*.

States.[405] Since the 1980s, IDG had established businesses in China, including publishing *China Computerworld*.[406] IDG Ventures China, founded in 1993, was one of the earliest firms to bring foreign VC into China.[407] Focusing on China's technology industry, IDG Ventures China invested in more than a dozen Chinese technology companies, including Sohu, Soufun, and Ctrip, before it connected with Tencent in 2000.[408] As of December 2016, IDG Ventures China, renamed IDG Capital Partners in 2009 and later IDG Capital, had made 370 investments in 253 companies in China.[409]

While in negotiation with IDG, Tencent also approached the Hong Kong telecom giant PCCW.[410] Shortly after the return of Hong Kong to China in 1997, PCCW was also seeking opportunities to enter the mainland telecom and Internet markets. In 1999 it participated in Sina's Series C fund-raising with six other companies: Dell as the lead investor, Creative Technology Marketing and Design, SoftBank, Sumitomo Corporation, Trend Micro, and United Overseas Bank for a total amount of $60 million.[411]

Ma Huateng and his colleagues drafted the business plan with IDG and PCCW based on two major issues: how much money Tencent would need to survive in the next year and how large a stake Tencent would allow the outside investors to hold.[412] After looking at the budget for buying equipment, maintaining services, and paying employees, Ma put the

[405] Bruce Einhorn and Brad Stone, "Tencent: March of the Penguins," *Bloomberg Businessweek*, August 4, 2011, accessed August 16, 2015, http://www.bloomberg.com/bw/magazine/tencent-march-of-the-penguins-08042011.html.

[406] Louis Hau, "IDG Goes to China," *Forbes*, August 28, 2006, accessed December 6, 2016, http://www.forbes.com/2006/08/25/idg-china-magazines-mcgovern-cx_lh_0828idg.html.

[407] "About," *IDG Capital*, n.d., accessed December 6, 2016, http://www.idgvc.com/en; David Cyranoski, "Venture Capitalists Tackle Chinese Hurdles," *Nature* 437, no. 1087 (2005), doi:10.1038/4371087a, accessed June 17, 2015, http://www.nature.com/nature/journal/v437/n7062/full/4371087a.html.

[408] IDG Capital Partners, "Timeline," *Crunchbase*, accessed December 6, 2016, https://www.crunchbase.com/organization/idg-capital-partners/timeline#/timeline/index.

[409] Ibid.

[410] Wu, Biography of Tencent, 53–57.

[411] Hans Lombardo, "Sina.com Closes $60 Million with Dell as Lead Investor," *InternetNews.com*, November 9, 1999, accessed December 6, 2016, http://www.internetnews.com/bus-news/article.php/234731/Sinacom+Closes+60+Million+with+Dell+as+Lead+Investor.htm.

[412] Wu, Biography of Tencent, 53–57.

company's assessed value at $5.5 million.[413] The core founders needed to hold majority positions and so in the final contract, they asked for $1.1 million from each investor, which made the company's ownership structure in 2000 as 60 percent of the shares held by the founders, 20 percent by IDG from the United States, and 20 percent by PCCW from Hong Kong.[414] The deal with PCCW was through one of its wholly owned subsidiaries, Millennium Vocal Limited (MVL).[415] While the founding members possessed majority control of the company, this first round of foreign VC investments inserted transnational elements into Tencent.

Neither IDG's nor PCCW's investments lasted long. Immediately after Tencent signed the deal with IDG and PCCW, the global Internet industry entered its winter in the spring of 2000. The dot-com crash started from the sharp fall of the stock prices of U.S. Internet companies, including Yahoo, Cisco, and Amazon, and quickly spread to other parts of the world.[416] Those Chinese Internet companies listed on the NASDAQ board, such as Sina, Sohu, and NetEase, were near the edge of vanishing in days. Tencent was not spared, either. The crash was combined with the problem in Tencent itself. Regardless of QQ's popularity back then, Tencent was not yet able to find a way to monetize its products. Throughout 2000, Tencent put money in maintaining the software's server without much monetary return from users. It was not until 2001 when the company started working with telecom carriers to launch Mobile QQ that QQ was able to contribute to Tencent's spreadsheet. By the end of 2000, Tencent was short of money again and would count on a $2

[413] Lin and Zhang, *Ma Huateng's Tencent* Empire, 68–69.

[414] Ibid., 72.

[415] "Our History and Structure [Tencent]," *HKEX*, http://www.hkexnews.hk/listedco/listconews/sehk/2004/0607/0700/EWP113.pdf.

[416] David Kleinbard, "The $1.7 Trillion Dot.com Lesson," *CNN Money*, November 9, 2000, accessed November 9, 2016, http://cnnfn.cnn.com/2000/11/09/technology/overview/.

million loan from IDG and PCCW.[417] At the same time, both investors were actively looking for buyers who would like to take over their shares in Tencent and allow them to exit.

In early 2001, South African media corporation Myriad International Holdings (MIH), whose parent company is Naspers Limited, approached Tencent to initiate an investment. MIH reached the deal with PCCW and IDG to buy all the 20 percent shares PCCW held and 12.8 percent of IDG's shares, with IDG retaining a 7.2 percent stake in Tencent.[418] By 2001 Tencent execs continued to own a majority 60 percent of the company, with MIH being the second-largest holder with 32.8 percent shares and IDG with 7.2 percent. In 2002 MIH bought an additional 13.5 percent from Tencent execs, for a total of 46.3 percent control.[419] At that time, though, the Tencent team held a majority of 46.5 percent control. Through 2002 to 2004, a set of transactions took place among Tencent, MIH, and IDG that eventually left Tencent and MIH each holding 50 percent of the company in 2003, as the capital structure before Tencent's IPO.[420]

MIH was a wholly owned subsidiary of Naspers Limited, a South African media conglomerate. To give a quick view of the company (discussed in-depth in a later chapter), Naspers had a complex layout of businesses. Aside from its dominance in South African TV, online video, and publishing markets, Naspers had expanded over the years to South Asia, Russia, Eastern and Central Europe, Brazil, and Latin America. Naspers proposed an idea of focusing on BRICSA (with SA also referring to Sub-Sahara Africa). Besides Tencent, Naspers had stakes in other Chinese media companies, including the *Beijing Youth Daily*, *Xinan Media*, and *Titan Media*. Tencent, however, composed one of Naspers's largest annual-income sections. The person who worked on Nasper's Tencent transaction was David

[417] Wu, Biography of Tencent, 60–63.

[418] Lin and Zhang, Ma Huateng's Tencent Empire, 77–78.

[419] Ibid.

[420] Tencent, Prospectus, 306.

A. M. Wallerstein, vice president of MIH's China business development sector exploring business opportunities for MIH. In 2001 Wallerstein joined Tencent's senior management and later became senior executive vice president.[421] He is now Tencent's chief exploration officer. According to his public profile disclosed by the company, Wallerstein has a master's degree in political economy from the University of California–Berkeley and is a longtime consultant in China's telecommunications and IT industries.[422] While no official documentation discloses the negotiation process between Tencent and Naspers or explains why and how Naspers came to the decision to invest in Tencent, Charles Searle, CEO of Naspers Listed Internet Assets and on Tencent's board of directors, relates that what made Tencent attractive was the "number of users and the 'stickiness' of their instant messaging service."[423] Referred to as a "bet" by a *Financial Times* story, the investment transformed "Naspers from an ageing local print business into Africa's biggest media company."[424] As of August 2016, as a *Seeking Alpha* report suggests, the current value of Naspers's stake in Tencent —which was worth approximately $83 billion—outpaced Naspers's own market capitalization—$73 billion, based on its closing price on August 19, 2016.[425]

In April 2004, prior to Tencent's IPO, the founders of the company and MIH entered into a three-year shareholders agreement, which set the tone for how they were about to control the company: "Each Founder and MIH will vote their Shares so that the Board and

[421] Tencent, Annual Report, 2011, 43.

[422] Ibid.

[423] Patrick Boehler, "South African Media Group Struck Gold by Taking a Chance on Tencent," *South China Morning Post*, February 21, 2014, accessed December 13, 2016, http://www.scmp.com/news/china-insider/article/1432550/south-african-publishing-group-struck-gold-taking-chance-tencent.

[424] Andrew England, "Naspers Looks beyond Tencent Success," *Financial Times*, June 27, 2015, accessed December 13, 2016, https://www.ft.com/content/82e365aa-1984-11e5-a130-2e7db721f996.

[425] Kevin Quon, "Why Naspers Is an Undervalued Tech Play on the Developing World," *Seeking Alpha*, August 21, 2016, accessed December 13, 2016, http://seekingalpha.com/article/4001032-naspers-undervalued-tech-play-developing-world; Dana Sanchez, "Naspers Owns a Third of What Is Now China's Most Valuable Company: What This Means for South Africa," *AFK Insider*, September 6, 2016, accessed December 13, 2016, http://afkinsider.com/132392/naspers-owns-a-third-of-what-is-now-chinas-most-valuable-company-what-this-means-for-south-africa/.

any board of directors of a subsidiary in which the Company holds more than half of the equity interests (the 'Equity Controlled Subsidiaries') will have an equal number of directors nominated by the Founders and MIH, respectively. They will also take all necessary action within their respective authority to ensure that the Directors so nominated constitute the majority of the Board and the sole directors of each Equity Controlled Subsidiary."[426]

As stated in the agreement, the founders of Tencent nominated the chief executive officer, and MIH named the chief financial officer. Other than appointing its own financial director, however, Naspers did not seem to interfere in Tencent's managing or decision-making process, according to another member from Naspers sitting on Tencent's board, Antonie Roux.[427] In an interview with *Bloomberg*, Roux said, "We don't micromanage these guys."[428]

Owners and Managers

According to HKEX regulations, "substantial shareholders are required to disclose interests in shares of listed corporations. Directors and chief executives of a listed corporation are required to disclose interests in shares and debentures of the listed corporation and its associated corporations"; "substantial shareholders," defined as "individuals and corporations who are interested in 5 percent or more of any class of voting shares in a listed corporation, must disclose their interests, and short positions, in voting shares of the listed corporation."[429] As the IPO allowed Tencent to raise money from public shareholders and thus diluted the shares held by Tencent and MIH, the company's shareholding structure immediately upon its

[426] Tencent, Prospectus, 135.

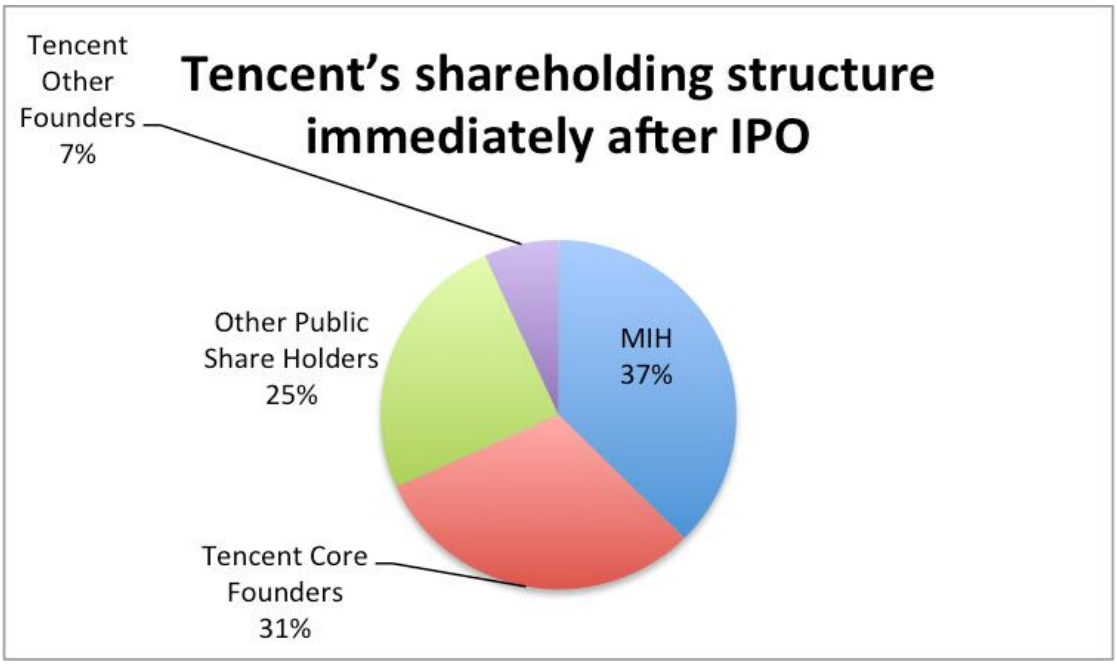
[427] Boehler, "South African Media Group Struck Gold." *South China Morning Post* (February 21, 2014), accessed December 13, 2016 http://www.scmp.com/news/china-insider/article/1432550/south-african-publishing-group-struck-gold-taking-chance-tencent

[428] "Naspers Scours Emerging Markets after Tencent Success," *Bloomberg*, December 14, 2010, accessed December 13, 2016, http://chinese988.blogspot.com/2010_12_12_archive.html.

[429] HKEX News, "Shareholding Disclosures," n.d., accessed August 16, 2016, http://sdinotice.hkex.com.hk/di/NSSrchMethod.aspx; "Securities and Futures Ordinance Part XV—Disclosure of Interests," *Securities and Futures Commission (Hong Kong)*, n.d., accessed August 16, 2016, http://www.sfc.hk/web/EN/rule-book/sfo-part-xv-disclosure-of-interests/.

IPO took the form shown in figure 2.7. Of the 30.73 percent shares owned by Tencent's core founders, Ma Huateng held 14.43 percent, and Zhang Zhidong 6.43 percent.[430]

Figure 2.7. Tencent's Shareholding Structure Immediately after IPO on June 16, 2004



Source: Tencent Prospectus

In 2005 ABSA Bank Limited, a wholly owned subsidiary bank of the Barclays Africa Group, started holding 10.46 percent security interest in Tencent, the arrangement a result of deals made between ABSA and Naspers.[431] As a South African financial institution, ABSA launched free ISP services in 2001, which resulted in a decrease of Naspers's Internet subscribers.[432] In March 2005, MultiChoice Africa Limited—a Naspers wholly owned subsidiary—and its operating company for the Sub-Saharan pay-television businesses entered

[430] Tencent, Prospectus, 74, 134.

[431] "Overview," ABSA, n.d., accessed December 13, 2016, http://www.absa.co.za/Absacoza/About-Absa/Absa-Bank/Absa-Overview.

[432] Naspers, "Form F-4," *Securities and Exchange Commission*, November 1, 2002, accessed December 13, 2016, https://www.sec.gov/Archives/edgar/data/1106051/000091205702040648/a2091992zf-4.htm.

into an agreement with ABSA for a revolving loan facility.[433] As part of the deal, the Naspers Group "pledged 110,474,041 shares in United Broadcasting Public Company Limited (UBC) and 185,000,000 shares in Tencent Holdings Limited as security for the loan facility."[434] During the term of the loan agreement, from 2005 to March 3, 2010, 185,000,000 shares of Tencent were pledged to ABSA, or approximately 10 percent of Tencent, while the exact number varied year by year.[435]

In 2010 JPMorgan Chase & Co. acquired 5,655,577 shares as beneficial owner, 34,888,700 as investment manager, and 51,354,694 as custodian corporation or approved lending agent that altogether was 5.01 percent of Tencent's issued share capital.[436] No available document discloses in what ways the bank became interested in Tencent and to what extent it exerted control over Tencent's operation. As Maurice Zeitlin observed in 1974, large corporations heavily depended on a small number of large banks who dominated the capital market.[437] The connection between Tencent and JPMorgan Chase attests to the "actual coalescence of financial and industrial capital."[438] A more recent study by Andriy Bodnaruk, Massimo Massa, and Andrei Simonov further analyzes the role of investment banks in modern merger and acquisition deals where investment banks took advantage of their "access to privileged information" and, hence, possessed a level of corporate control.[439] In another study on the capital structure of Internet companies, scholars document an increasing reliance on banks by Internet companies, as these companies were more likely to use international

[433] Naspers, "Form 20-F," *Securities and Exchange Commission* (September 30, 2005), accessed December 13, 2016, https://www.sec.gov/Archives/edgar/data/1106051/000095015705000630/naspers-20f.htm.

[434] Ibid.

[435] Tencent, Annual Report, 2005, 32.

[436] Ibid., 2010, 44.

[437] Maurice Zeitlin, "Corporate Ownership and Control: The Large Corporation and the Capitalist Class," *American Journal of Sociology* 79, no. 5 (1974): 1101.

[438] Ibid.

[439] Andriy Bodnaruk, Massimo Massa, and Andrei Simonov, "Investment Banks as Insiders and the Market for Corporate Control," *Review of Financial Studies* 22, no. 12 (2009): 4989–5026.

financing to raise money regardless of currencies.[440] These all suggest that the interconnection between financial institutions and Internet industry was a necessary step to help the Internet industry access the global capital market. JPMorgan remained a substantial shareholder of Tencent, and its stakes increased to an approximate 7.01 percent shareholding as of August 2016.[441]

Zhang Zhidong, a cofounder and the company's technology chief, retired from Tencent in September 2014 and was no longer disclosed as a substantial shareholder. He is "the Advisor Emeritus of the Company and Honorary Dean of Tencent Academy."[442] As of 2015, the major shareholders with stakes over 5 percent were MIH with 33.51 percent, Ma Huateng with 9.10 percent, and JP Morgan Chase & Co with 6.24 percent.[443]

Table 2.5. Tencent's Major Shareholders, 2004–15

Year	Shareholder				
	MIH QQ (BVI)	Ma Huateng	Zhang Zhidong	ABSA	JPMorgan Chase
2004	35.71	13.74	6.12		
2005	35.62	13.14	5.26	10.46	
2006	35.64	13.10	5.04	10.46	
2007	35.24	12.81	4.64	10.34	
2008	35.08	11.85	4.29	10.30	
2009	34.65	11.54	3.75	10.17	
2010	34.33	11.16	3.66	10.08	5.01
2011	34.26	10.32	3.63		(unspecified)
2012	34.01	10.25	3.56		(unspecified)
2013	33.85	10.20	3.49		5.02
2014	33.63	9.86			6.27
2015	33.51	9.10			6.24

Sources: Tencent, Annual Report, 2004–15 (revenue year end of December 31).

[440] Anton Miglo, Zhenting Lee, and Shuting Liang, "Capital Structure of Internet Companies: Case Study," *Journal of Internet Commerce* 13, no. 3–4 (2014): 253–81.

[441] Tencent, Interim Report 2016, 79. There was no disclosure of information related to JPMorgan in Tencent's 2011 and 2012 annual reports. However, in the 2012 interim report, JPMorgan was disclosed again as a substantial shareholder with 5.00 percent in August 2012. I think it was because its shares fell below 5 percent between 2011 and 2012 that JPMorgan was not mentioned in these Annual Report, but it seems consistent that the bank was a beneficial owner, investment manager. and custodian corporation/approved lending agent of Tencent since 2010.

[442] "Management Team," *Tencent*, https://www.tencent.com/en-us/company.html.

[443] Tencent, Annual Report, 2015, March 2016.

In addition to such a transnational owners' structure of Tencent, another important indicator of control is the composition of the board of directors. Kyun-Tae Han's study on the composition of the boards of directors for major media corporations suggests a strong interdependency between corporations and their board members.[444] As he argues, board members are selected based on the resources they can bring to a corporation for their ties to "other major industrial firms, banks, think tanks, law firms, business policy-planning groups, and foundations."[445] Using the resource-dependency theory, Han examined the boards of directors of one hundred media corporations and warns that the interlocking directorship might cause conflicts of interests in the flow of information and expression.[446] For Tencent, its board of directors was mostly composed of the core founders and those who had prior connections to MIH and Naspers. In addition, Martin Lau, the former executive director at Goldman Sachs (Asia), who worked on Tencent's IPO project, joined Tencent in 2005 as the chief strategy and investment officer. He was appointed as the president of the company in 2006 and an executive director of the board starting in 2007.[447]

Table 2.6. Tencent's Board of Directors, 2004–15

Board Member	Position	Affiliation	Ties to Tencent or Ma Huateng
Jacobus Petrus Bekker (appointed November 14, 2012)	non-executive director	managing director, CEO, Naspers	—
Iain Ferguson Bruce	independent non-executive director	former senior partner KPMG, former chairman KPMG Asia Pacific	—

[444] Kyun-Tae Han, "Composition of Board of Directors of Major Media Corporations," *Journal of Media Economics* 1, no. 2 (1988): 85–100.

[445] Ibid., 85.

[446] Ibid., 97.

[447] Tencent, Annual Report, 2006, 26.

Table 2.6. (continued)

Lau Chi Ping Martin (appointed March 21, 2007)	executive director	chief strategy and investment officer, Tencent (since February 2005); president, Tencent (since February 2006)	former chief operating officer Goldman Sachs (Asia), Telecom, Media and Technology Group. Goldman Sachs team for Tencent IPO
Li Dong Sheng	independent non-executive director	chairman, CEO, TCL	—
Ma Huateng	chairman, executive director	CEO, Tencent	core founder
Antonie Andries Roux (deceased June 24, 2012)	non-executive director	CEO, Internet operations, MIH group	—
Charles St. Leger Searle	non-executive director	director of corporate development, MIH group in Asia	—
Ian Charles Stone	independent non-executive director	consultant, PCCW; director, CEO, UK Broadband	—
Zhang Zhidong (retired March 20, 2014)	executive director	chief technology officer, Tencent	core founder

Sources: Tencent, Annual Report, 2004–15 (revenue year-end of December 31).

Table 2.6 lists all Tencent's past and present directors. Of these names, except for the deceased Antonie Andries Roux and the retired Zhang Zhidong, all are active board members as of today. As can be seen here, Tencent's directors are internationally connected, rather than specifically Chinese.

Conclusion

By studying Tencent as a business unit, in this chapter, I laid out Tencent's company history, ownership and control, capital structure, and profiles of management. As I further show in the following chapters, Tencent's emergence from a small local company to a global digital giant can be characterized by a number of interconnected elements. The first and

foremost important element, arguably, was the opening up of the domestic market to foreign capital in various forms and, especially, the participation of transnational VC in the Internet industry that supported Tencent's seed funding as well as financed its continual expansion. This further warrants the established argument from the previous chapter that China's Internet industry grew out of a time of political-economic changes when domestic needs for capitalist reproduction met the transnational wants for enlarging market investments.

By looking at its capital structure, I argue that Tencent is a China-based transnational Internet company. As I will further unveil, to study Tencent means much more than learning about the company as an isolated organization unit. To study Tencent is to understand how control, collaboration, competition, and other forms of relations are formed, represented, and negotiated by and around Tencent in a transnational capitalist system.[448]

[448] Paula Chakravartty and Yuezhi Zhao, "Toward a Transcultural Political Economy of Global Communication," in *Global Communication: Toward a Transcultural Political Economy*, ed. Chakravartty and Zhao (Lanham: Rowman and Littlefield, 2008), 11.

Chapter 3

Weaving the Web: Tencent's Domestic Expansion and Diversification

In the previous chapter, I examined the trajectory of Tencent's own growth by focusing on its ownership and control. As I have shown, Tencent, born as a local Chinese computer-technology company, managed to become a transnational Internet giant, first and foremost, by introducing various units of foreign portfolio investment into its capital structure.

While ownership and control remain consistently important to the identification of power locations in the capitalist communication system, as Maurice Zeitlin points out, ownership and control are referred to as the power of "an identifiable group of proprietary interests to realize corporate objectives over time and regardless of resistance."[449] According to Zeitlin, the specific intra- and intercorporate relationships are the key to analyzing the actual location of power and control, which means that to investigate the company's connection to other corporations, the state, foreign governments, banks and financial institutions, and other sources of raw materials and markets is as important as to examine the kinship relations or the ties among managerial personnel within a company. Zeitlin's argument is elaborated by Edward Herman, who examines the internal and external structures and relations within which corporate power and control are institutionalized. In particular, Herman emphasizes the external forces, such as the influence of financial institutions and government.[450] Financial powers, such as lenders or institutional investors, according to Herman, exert a strong influence on large corporations' policies and strategies. Both Zeitlin's and Herman's works illustrate that ownership and control are shaped by social relations, which are both complicated and intertwined—to some extent paradoxically both adversarial and supportive. It is in this context that the issues of intercapital and capital-state relations acquire importance as manifestations of the structural setting within which a company or an

[449] Zeitlin, "Corporate Ownership," 1091.

[450] Edward Herman, *Corporate Control, Corporate Power* (Cambridge: Cambridge University Press, 1981), 161.

industry is able to grow. Therefore, in order to further locate power and control in China's Internet industry, I also need to look at the relations between Tencent and other units of Internet capital, as well as Tencent and the state apparatus, as critical aspects of the political economy of Internet industry.

On the other side, as theoretically articulated and empirically examined by political-economy scholars, ways of domination and reproduction in the media and cultural industries continued to evolve and transform. While there is an intrinsic trend to expand horizontally and vertically in the media and communications industries, just like any other capitalist industry, issues of concentration, cross-ownership, monopolization, and synergy have unfolded to be new features of communications industries. As early as 1970s, Graham Murdock and Peter Golding showed through analysis that the British publishing, press, broadcasting, cinema, and records industries exhibited characteristics of integration, diversification, and internationalization.[451] Similarly in the United States, the Hollywood film industry, according to Janet Wasko, demonstrated a high level of concentration, integration, and diversification and engaged in transindustrial activities including marketing, advertising, branding, merchandising, home television, cable provision, videos, outdoor leisure, and theme parks, among others.[452] In traditional news media, the trends toward media monopoly and concentrated ownership were also extensively studied and documented by critical media scholars, such as Ben Bagdikian, Edward Herman, Noam Chomsky, and Robert McChesney.[453]

With the growing ICT and Internet industry, such tendency of horizontal and vertical integration, concentration, and monopolization was even strengthened.[454] Not only has the

[451] Murdock and Golding, "For a Political Economy."

[452] Wasko, Hollywood in the Information Age.

[453] Herman and McChesney, *Global Media*, 104.

[454] D. Schiller, *Digital Capitalism*, 208–9.

Internet industry become an integral part of a transnational capitalist communication system but it also was dominated by only a number of U.S.-based Internet companies, such as Apple, Microsoft, and Google.[455] In order to foster and consolidate their control, Internet companies were also devising new ways of dominance by incorporating and reorganizing elements of information, production, consumption, finance, and computation. Examples as such include newly emerged search engines, online advertising, and cloud computing industries, and very often, they coexist in one Internet conglomerate as different business divisions.[456]

In this chapter, I explore Tencent's profit-maximization strategies. Specifically, through examining the realm and the reach of its business activities, I first sketch the broad range and extent of its value-added, Internet-related services. I then clarify the courses of integration and diversification as the company collaborated with other domestic units of Internet capital. In doing so, I answer through what strategies Tencent has grown. I argue that Tencent has displayed those intrinsic trends of capital reproduction and expansion in forms of horizontal integration, vertical integration, and diversification.

Dissecting the Tencent Empire

Tencent encompassed a broad range of domestic and international services and businesses. In this section, I provide a closer look at each major sector of Tencent's businesses, focusing on the company's own product development and processes of diversification. While my discussion on business sectors and activities may to some extent overlap with the analysis in next section about Tencent's integration strategies, here I give primary attention to the course of Tencent's growth and outreach rather than its intercapital relations with other Internet companies. My discussion mainly follows the business units

[455] McChesney, Digital Disconnect, 131.

[456] Crain, "Revolution Will Be Commercialized"; Mosco, *To the Cloud*; S. Yeo, "Behind the Search Box."

identified by the company, and I also consider the chronological thread of product development in each segment.

I argue, in this section, that Tencent's business evolution exemplified the processes many political-economy scholars term *commodification* and *diversification*. The transformation of information into commodities was not invented in the Internet era. As Herbert Schiller insightfully describes in his 1989 book *Culture, Inc.*: "Transforming information into a salable good, available only to those with the ability to pay for it, changes the goal of information access from an egalitarian to a privileged condition. The consequence of this is that the essential underpinning of a democratic order is seriously, if not fatally, damaged. This is the ultimate outcome of commercializing information throughout the social sphere. For this reason, though countless important questions confront the American public information sphere, the issue of commercialization of information is the transcendent question."[457]

Although Schiller situated the issue within the context of U.S. libraries and academic institutions, the commercialization of information was an overarching and fundamental process pertaining to the political economy of communications.[458] As defined by Vincent Mosco, the process of commodification in communication involves "transforming messages, ranging from bits of data to systems of meaningful thought, into marketable products."[459] The pressure to commodify contents and audiences was accelerated in the new-media era. As put forward by Dan Schiller, technologies of information objectification "have provided indispensable sites of capitalist accumulation" where the commodification process has "repeatedly congealed around new means of information production."[460] In the following

[457] H. Schiller, *Culture, Inc.*, 76.

[458] Mosco, Political Economy, 133.

[459] Ibid.

[460] Dan Schiller, "The Information Commodity: A Preliminary View," in *The Political Economy of Communication: A Reade*r, ed. Jin Cao and Yuezhi Zhao (Shanghai: Fudan University Press, 2008), 89–104.

paragraphs, I show that Tencent's rise to a successful Internet company represents the commodification of numerous aspects of online lifestyles, ranging from communication and information exchange to social networking, entertainment, and shopping. At the core of Tencent's strategy was the reliance on its massive user base and the social network formed within it.

Communications Platforms

QQ. Tencent was one of the first developers in the IM industry in China. As mentioned above, Tencent adapted the Israeli-developed ICQ and launched its own IM product, OICQ, in 1999. OICQ, provided free to users, allowed them to deliver messages and interact with friends instantly. Because this was initially designed as a free service, registered users grew very quickly. In May 2000, the *People Daily* website published an article appraising QQ's success: "As of 20:43 on May 27, OICQ's online users reached 100,000. As a domestically developed online paging software, OICQ was the best. It brought us a lot of conveniences and friends."[461]

The popularity, however, did not really bring much profit for Tencent at the beginning. Instead, to maintain the normal function of the service, Tencent had to put in a great deal of money into maintaining and updating the servers. This a major reason why in 1999 and 2000 Tencent encountered serious financial difficulties.

Table 3.1. Growth in Number of QQ Accounts, 2004–15

Year*	Account	
	Registered IM user (million)	Active user (million)
2004	369.7	134.8
2005	492.6	201.9
2006	580.5	232.6

[461] "OICQ Users Reached 100, 000," *People's Daily* (May 29, 2000), accessed August 10, 2016, http://www.people.com.cn/GB/channel5/28/20000529/80561.html

Table 3.1. (continued)

2007	741.7	300.2
2008	891.9	376.6
2009	—	522.9
2010	—	647.6
2011	—	721.0
2012	—	798.2
2013	—	808.0
2014	—	815.3
2015	—	853.1

* Tencent no longer documented this item starting with the 2009 annual report.

Note: Figures are for the last sixteen days of the fiscal year, ending December 31.

Sources: Tencent, Annual Report, 2004–15 (revenue year-end of December 31).

It was not until QQ became available on mobile devices that Tencent started to find ways to monetize its services. As Tencent's prospectus states, the launch of Mobile QQ in May 2000 was one that aimed at commercial interests.[462] Mobile QQ was similar to QQ in function as it allowed users to exchange instant messages through preinstalled QQ software on mobile SIM cards and devices. In order to make this work, Tencent built collaborative relations with telecommunications carriers and device manufacturers. Telecommunications carriers, including China Mobile and China Unicom, for example, started launching SIM cards with QQ applications preinstalled in 2001. While users enjoyed chatting with friends on Mobile QQ and other related VAS with the mobile software, they also brought traffic and, hence, revenues to telecom operators' networks. A large portion of Tencent's revenues in mobile and telecom value-added services came from the mobile-data fee subscribed by mobile users; the fee was determined according to fixed terms with Chinese telecom giants.[463] The fees contributed 63.6 percent of Tencent's revenues in 2003.[464] With the mobile device manufacturers, similarly, Tencent built strategic collaborations to "preload QQ

[462] Tencent, Prospectus, 5.

[463] Ibid., 84.

[464] Ibid., 6; Tencent, Annual Report, 2004.

client software on the advanced mobile phones and conduct joint marketing activities to customize the QQ client software for various mobile handset environments."[465]

Building a QQ community with value-added services. Building on QQ's popularity is a set of fee-based value-added services that construct an interactive online community. Users within this community through purchasing different services are able to customize their own individualized virtual identities, interact with friends or strangers, and play casual games, among other activities, all of which were centered around the QQ brand, such as Premium QQ, QQ show, QQ fantasy, QQ pet, QQ magic, QQ ring, QQ farm, and QQ ranch, to name a few.[466] In other words, the QQ-related value-added services has become a new time-space for self-display, self-expression, relationship maintenance and establishment, and entertainment.[467]

Tencent launched QQ membership system in November 2000, which was a higher-level IM service based on a monthly membership fee.[468] By paying a monthly charge of $1.20 (RMB 10.00), users were able to buy some additional services to individualize their QQ usage, such as "the ability of users to choose their own QQ numbers, the ability to store message logs on QQ servers, 100 megabytes storage space, free credits to use various QQ value-added services (including online entertainment services), special indicators throughout the QQ network to allow others to recognize them as QQ Members, and exclusive access to additional chat rooms."[469] To use a QQ number as an example, when a user registered for a QQ account, he or she was assigned a unique identification number. According to Tencent's

[465] Ibid.

[466] "Internet Value-Added Services," *Tencent*, accessed August 20, 2016, http://www.tencent.com/en-us/ps/internetservice.shtml.

[467] Sonia Livingstone, "Taking Risky Opportunities in Youthful Content Creation: Teenagers' Use of Social Networking Sites for Intimacy, Privacy, and Self-Expression," *New Media & Society* 10, no. 3 (2008): 393–411; Dal Yong Jin, "Critical Analysis of User Commodities as Free Labour in Social Networking Sites: A Case Study of Cyworld," *Continuum* 29, no. 6 (2015): 938–50.

[468] Lin and Zhang, Ma Huateng's Tencent Empire, 133.

[469] Tencent, Prospectus, 87.

designing, these numbers were assigned sequentially starting from 10,000. The company reserved the first 200 numbers for its own staff members, with Ma Huateng's being 10001.[470] Public users received QQ numbers starting at 10200. As the registered users grew, the numbers were extended by digits that now reached billions.[471] A member who paid a premium fee had the liberty to choose a particular number, such as a combination of figures that represented his or her birthday, the birthday of another person, or a date with special meaning. The service got so popular that Tencent now had an entire website—haoma.com—to manage the selling and issuing of customized QQ numbers. In addition to selling a QQ number that was of special meaning to a user him- or herself, the website also provided services to parents who would like to choose QQ numbers for their children based on the date and time of birth or other special combination of numbers, as well as any customer who could buy a QQ number that was very close to his or her own and send the number as a gift to his or her partner.[472] In other words, QQ numbers were sold and exchanged as a commodity that represents the consumer's name and identity online.

The fee-based QQ membership had now developed into a tier-based system that was integrated into every aspect of Tencent's value-added services. The system had nine tiers from "ordinary users" to "SVIP8," each level enjoying a different set of benefits and privileges.[473] For example, an ordinary user who did not pay any premium fee was allowed to have up to five hundred QQ friends and 2G online storage. At SVIP8—the highest level, the user was able to have up to two thousand QQ friends, two chatting groups of two thousand people, storage of up to fourteen hundred personalized stickers on the account, a 500G online

[470] Lin and Zhang, Ma Huateng's Tencent Empire, 118.

[471] "QQ Haoma," *Tencent*, accessed August 19, 2016, http://haoma.qq.com/index.html?ADFROM=other.index.

[472] Ibid.

[473] "Tier-based Privileges," *QQ Membership*, accessed December 14, 2016, http://vip.qq.com/freedom./freedom_grade.html?ADTAG=www.tencent.com/en-us/ps/internetservice.shtml&SNO=1481753754605.

photo album, 2.5T online storage, and 350 QQ coins that could be redeemed to purchase other services within the QQ system.[474] All of these symbolized a privileged "social-economic status" of those members in the virtual world. To be sure, these privileges were only part of the QQ membership, relating to the daily use of QQ accounts. Other categories were "gaming privileges," "life privileges," "shopping privileges," and "decoration privileges."[475] Gaming privileges, for instance, included early access to newly released games and free toolkit packages for game use, promotions, and discounts, among others; shopping privileges connected an online lifestyle to offline activities by providing users with offline shopping coupons.[476]

Related to the premium membership system was a variety of micro-applications installed in QQ software that allowed users to customize their profile pictures and message-notification ringtones, play casual games, raise virtual pets, and so on. The QQ Show, one of the earliest and most successful of micro-apps, was a virtual avatar system in which QQ users were able to choose an individual virtual character and pay for "virtual clothing, hairstyles, scenes and accessories of all themes" to decorate his or her own image.[477] The service was carried out in January 2003 and commercially run two months later.[478] Tencent promoted the service by first providing particular QQ Show items free. The company gradually introduced new features to the service with different levels of charges.[479]

Enterprise IM. Aside from providing IM services for personal users, Tencent also developed IM systems for corporate communication. In April 2002, Tencent first launched

[474] Ibid.

[475] "Four Reasons to Join the Membership," *QQ Membership*, accessed December 14, 2016, http://vip.qq.com/help/why.html?ADTAG=www.google.com/&SNO=1481754886316.

[476] Ibid.

[477] "Internet Value-Added Services."

[478] Wu, Biography of Tencent, 84–87.

[479] Tencent, Prospectus, 89.

BQQ, a corporate version of QQ for business communication inside enterprises.[480] In August 2003, Tencent upgraded the BQQ and launched a new product, Real Time eXchange (RTX).[481] In working with individual companies, Tencent helped to build an internal communication network that allowed corporate employees to communicate instantly and locally.[482] In the following years, Tencent collaborated with IBM and Cisco in developing RTX, and the IBM and Cisco provided their expertise in enterprise communications services and software technologies.[483] Some important customers were Postal Savings Bank of China, Jiangsu Provincial Taxation Bureau, Air China Limited, the northwestern subsidiary of Sinopec Group, and Chia Tai Group.[484]

Weixin and WeChat. On January 21, 2011, Tencent released a mobile device–based chatting service Weixin and WeChat, with Weixin the name for its Chinese services and WeChat the one targeting overseas users.[485] The preliminary service was based in IM, but Weixin/WeChat was more than just a communication tool. It integrated other value-added functions, such as social networking, entertainment, e-commerce, group purchase, local business review, online payment, and so on. Eventually, it was a gateway for users to connect online and offline lives and to integrate the two into one app. Upon its launch, Weixin/WeChat gained immediate growth, as the company stated in its 2012 report: "Weixin enjoyed substantial user growth in 2012, thanks to its innovative features and compelling user

[480] Wen, "Tengxun BQQ xiandai bangong xin liangdian" 腾讯 BQQ 现代办公新亮点 [Tencent's BQQ brought new highlight to modern office], *Zhonggong Jisuanji Bao* 中国计算机报, April 22, 2002.

[481] Ying Hu, "Cong QQ2003 dao RTX" 从 QQ2003 到 RTX [From QQ2003 to RTX], *Jisuanji Shijie* 计算机世界 August 25, 2003, E06.

[482] Tencent, Prospectus, 92.

[483] "Tencent Reached an Agreement with IBM for Close Cooperation in the Future," press release, *Tencent*, November 3, 2003, accessed March 20, 2017, https://www.tencent.com/en-us/articles/80237.html; "Cisco and Tencent Launch Unified Communications Solution for Chinese Market," press release, Cisco, September 9, 2010, accessed March 20, 2017, https://newsroom.cisco.com/press-release-content?type=webcontent&articleId=5692711.

[484] RTX, "Successful Cases," *Tencent*, accessed March 20, 2017, http://rtx.tencent.com/rtx/case/index.shtml.

[485] Jiulong Cheng, "Weixin PK duanxin Tengxun tiaodou yunying shang" 微信 PK 短信 腾讯挑逗运营商 [Weixin versus text message Tencent challenging carriers], *21st Century Business Herald*, January 25, 2011, 20.

experience. It has quickly become a major communications and social platform for smartphone users in China. Beyond the domestic market, we have launched the product 'WeChat' which leverages Weixin's technology to serve the international markets. Recently, total registered user accounts of Weixin and WeChat have exceeded 300 million."[486]

Table 3.2. Weixin and WeChat Combined Monthly Active Users (MAU) (millions)

	2011	2012	2013	2014	2015
Active users	—	160.8	355.0	500.0	697.0

Source: Tencent, Annual Report, 2013–15 (revenue year-end of December 31).

Other value-added services of social networking, entertainment, gaming, e-commerce and online payments were continually introduced into the Weixin and WeChat platform, which made it a multifunction server for online lifestyles. For example, Weixin/WeChat Moments, a feature to share experiences, blogs, photos, and articles through publishing on a user's Weixin/WeChat contact list, became another social platform for user interactions, in addition to Tencent's well-established QZone.[487] Using another example, Weixin/WeChat Payment was an integrated online payment service. Weixin Payment also offered further monetization channels for Tencent through online advertising and e-commerce transactions: "With the increasing popularity of Weixin Pay, bank handling fees related to C2C payment transactions via Weixin Pay, mainly arising from money transfers, increased significantly, amounting to over RMB 300 million (net of related revenue we received from users) for the month of January 2016."[488]

[486] Tencent, Annual Report, 2012, 7.

[487] Ibid.

[488] Tencent, Annual Report, 2015, 7.

Social Platforms

In addition to the basic communication platforms and the online community built around QQ and Weixin/WeChat, Tencent also promoted a set of websites specifically for social networking.

QZone. QZone was launched in 2005 as a featured product in social networking and online community interactions. It was a personal home page "bundled with avatars, web blog, photo album and online music," where users could update personal blogs and post pictures for other people to view.[489] Each QQ user automatically received a QZone with his or her QQ numbers. While users posted blogs and photos on QZone, their QQ friends were also able to view the contents and interact with them by leaving comments. Largely drawing traffic from QQ, QZone has become one of the top three social-networking sites (SNS) in China.[490] Another report on global social-network websites put QZone as the third-largest worldwide in 2013, only behind Facebook and YouTube.[491] With primary functions of "self expression, content sharing and peer interaction," QZone gradually developed into a major social-networking platform that combined various functions of blogging, microblogging, photo sharing, social-activities updating, and marketing promotions by certified official accounts.[492] Associated with QQ accounts, QZone also implemented a nine-level membership system that offered paying users and nonpaying users different services on QZone, which included things such as using different themes to decorate the home page or selecting different account

[489] Tencent Annual Report, 2005, 12.

[490] Kai Lukoff, "China's Top Four Social Networks: RenRen, Kaixin001, Qzone, and 51.com," *VentureBeat* April 7, 2010, accessed December 14, 2016, http://venturebeat.com/2010/04/07/chinas-top-4-social-networks-renren-kaixin001-qzone-and-51-com/

[491] "Top 24 Social Networks Worldwide: Facebook, YouTube, and Qzone Lead the Way," *Digital Strategy Consulting*, October 31, 2013), accessed December 14, 2016, http://www.digitalstrategyconsulting.com/intelligence/2013/10/top_24_social_networks_worldwide_facebook_youtube_and_qzone_lead_the_way.php#more

[492] Jinping Huang and Yue Guo, "Kankan Weixin de lao duishou shinian guoqu QQ kongjian weihe haiyou 6.53 yi ren" 看看微信的老对手 十年过去，QQ 空间为何还有 6.53 亿人 [Reviewing Weixin's Competitors: Why Does QZone Still Have 653 Million Users after 10 Years], *Southern Weekly*, December 4, 2015, accessed December 14, 2016, http://www.infzm.com/content/113495.

security settings.[493] As of the end of December 2015, QZone maintained 640.1 million active user accounts.[494]

Real-name social networking site (SNS). While QZone was based on QQ users who mostly used faked names in the virtual world, Tencent launched a real-name social-networking site, Xiaoyou.com, in January 2009 for university students and alumni to make connections.[495] The name of the site was changed to Pengyou.com in 2010, which suggests a broader scope of targeted users, including university students and graduates and a wider range of professional communities, such as white-collar workers.[496] The original name, Xiaoyou, means "alumni" in Chinese, and the new site, Pengyou means "friends." Similar to QZone, Xiaoyou.com and Pengyou.com were integrated with multiple social networking, interactive, and entertaining programs and third party–developed applications. At the end of 2012, Pengyou.com reached 247 million active users.[497]

Media Platform

Online portal: QQ.com. QQ.com was Tencent's major online portal for news, entertainment, sports, videos, technologies, fashion, automobiles, shopping, and links to Tencent's value-added services, among others.[498] Launched in December 2003, the website served as an information-distributing center. Tencent launched multiple media campaigns in promoting the QQ.com brand. At the end of 2004, the company put together a one-year anniversary celebration for the website with a slogan, "New life, my style." Targeting young

[493] "Huangzuan guizu" 黄钻贵族 [Yellow Diamond VIP], *Tencent*, accessed December 13, 2016, http://v.qzone.qq.com/priv_level.

[494] Tencent, Annual Report 2015, 7.

[495] Tencent, Annual Report 2008, 7.

[496] Tencent, Annual Report 2010, 10.

[497] This was the latest official account of Pengyou.com usage by Tencent.

[498] Tencent, Prospectus, 8.

people, Ma Huateng announced at the event that Tencent aimed to make QQ.com the number one website for fashion and entertainment in China.[499]

In addition to the strategy of attracting the young generations for fashion and entertainment information, starting from 2006, QQ.com collaborated with provincial news agencies to build regional news portals as subsites of the main portal.[500] For example, in March 2006 Tencent worked with the *Chongqing Economic Times* to launch cq.qq.com as a local-media portal for Chongqing audiences. The Chinese name of cq.qq.com is "Da Yu Wang." which means the website for the area of Yu—the acronym of Chongqing—a southwestern metropolis. Shortly, Tencent established many more local news portals using the acronym of different regions. These portals, on the one hand, became an important content provider for QQ.com and, on the other, tightened the connections between users from different places and Tencent's media platforms.

In 2007 Tencent further promoted the QQ.com brand by reporting significant political-economic news and strategically working with large sports events, which boosted the website's profile among online advertisers.[501] For example, in 2008 when Sichuan suffered a disastrous earthquake, aside from providing real-time news, QQ.com called for an online donation from audiences that ultimately raised more than $3.31 million (RMB 23 million) for the earthquake victims.[502] The website was also active in other big social economic events, such as the Bo'ao Forum, World Economic Forum, and World Expo,

[499] Jian Li, "Tengxun tui qingnian menhu zhanlue qiangwei yule neirong shichang" 腾讯推青年门户战略抢位娱乐内容市场 [Tencent launched youth portal strategy in order to compete in entertainment content market], *Tongxin xinxi bao* 通信信息报, December 22, 2004, B5.

[500] Zhen Liu, "Tengxun quandi quyu menhu" 腾讯圈地区域门户 [Tencent marched into regional media portal (market)], *21st Century Business Herald*, July 5, 2006, 19.

[501] Tencent, Annual Report, 2007, 9.

[502] Ibid., 2008, 7.

particularly, as the exclusive Internet-service sponsor to the 2010 Shanghai World Exposition.[503]

With regard to sports events, the portal leveraged opportunities presented by the 2010 and 2014 World Cups, 2008 and 2012 summer Olympics, and regional sport events. Taking the 2008 Beijing Olympics as an instance, QQ.com reached a traffic record of 1.1 billion page views a day during the event as it provided comprehensive coverage including live reports in the forms of texts, images, and videos.[504] In 2014 Tencent signed exclusive partnerships with HBO and the National Basketball Association (NBA) for distributing their TV shows and sports events in China, which further enhanced traffic on Tencent's media portal.[505] The sports channel, for paid members, carries a number of membership packages with various levels of access to the NBA, the Premier League, the National Collegiate Athletic Association (NCAA), and the National Hockey League (NHL) games.[506] Accordingly, the channels for TV shows and movies on QQ.com provide VIP services for paid members, such as early access to newly released movies and the option to skip advertisements when streaming.[507]

Search Engine

In March 2006, Tencent launched its own search engine: soso.com.[508] Although Baidu dominated China's search-engine market with more than a 70 percent share, Tencent's Soso was the second leading search engine in China's mobile search market.[509] In September

[503] Ibid., 7.

[504] Ibid., 7.

[505] Tencent, Annual Report, 2014, 9.

[506] "Sports Membership," *Tencent*, accessed December 14, 2016, http://vip.sports.qq.com/.

[507] "Video Membership," *Tencent*, accessed December 14, 2016, http://kf.qq.com/faq/120312BfIry6160812qmUzeI.html.

[508] Xian Sheng, "Tengxun sousuo: Dong jing zhijian de zhanlue xin jueze" 腾讯搜索：动静之间的战略新抉择 [Tencent's search business: A new strategic choice], *Jingli Ribao* 经理日报, July 27, 2007, C2.

[509] Tencent, Annual Report, 2011, 7.

2013, Tencent entered an agreement with another player in China's search-engine industry, Sogou.com. Tencent made a substantial investment in Sogou and merged its search-related businesses into Sogou, which is discussed in the next section.[510]

Online Advertising

While online advertising has been a fundamental aspect of the Internet economy, unlike its pioneers, such as Google, Yahoo, Microsoft, AOL, and Facebook, that "served profile-based targeted advertising and/or collected consumer data across expansive networks," Tencent was not able to take full advantage of its tremendous user traffic for advertising revenue until 2007 when it developed targeted online-advertising technology.[511] This was partly due to the low diffusion rate of the Internet in China during the early 2000s when "the Internet has not been proven as a widely accepted medium for advertising."[512] According to Tencent's prospectus, revenues from online advertising only accounted for 4.5 percent of its total revenues in 2003.[513] This number grew gradually with the wider diffusion of Internet value-added services in China. The large user base of Tencent's IM platforms and value-added services, in particular, put the company in an advantageous position, as its 90 percent coverage of Chinese online users made it easy for Tencent to identify users' demography, location, preferences, and online context.[514] In March 2011, Tencent further developed a web-based video platform for advertising, which boosted video advertising revenue by 70 percent in the fourth quarter of 2011.[515] The growth of online advertising was entangled with

[510] Ibid., 2013, 7.

[511] Matthew Crain, "Financial Markets and Online Advertising: Reevaluating the Dotcom Investment Bubble," *Information, Communication, and Society* 17, no. 3 (2014): 371–84; Crain, "Revolution Will Be Commercialized," 251.

[512] Tencent, Prospectus, 11.

[513] Ibid., 6.

[514] Jin Sun, "Shangxian guanggao jingzhun dingxiang xitong Tengxun yu rang butong yonghu kandao butong guanggao" 上线广告精准定向系统腾讯欲让不同用户看到 不同广告" [Tencent aiming at customizing online advertising], *China Business News* 第一财经日报, December 7, 2007, C4.

[515] Tencent, Annual Report, 2011, 10.

the development of the company's media portal QQ.com, mobile software, and all kinds of value-added services.[516]

Online Games

Online gaming stood out as one of the most important contributors to Tencent's value-added services. In 2015 the revenue generated by value-added services was $12.969 billion (RMB 80.669 billion), with $9.097 billion (RMB 56.587 billion) coming from online games.[517] Of the revenue in online games, smartphone games contributed more $3.424 billion (RMB 21.300 billion).[518]

QQ game portal. Gaming started out as a part of Tencent's entertainment service when the company developed casual mini-games, such as "board games, card games and other games of skill."[519] The service was provided in 2003 through QQ Game Portal, a program bundled with the QQ software package.[520] Provided free to users with the easy access to basic game services, QQ Game Portal quickly attracted a large number of users and became the largest casual-game portal in China.[521] New games, such as QQ Tang (a 2004 collection of a few mini-games for friends), QQ Speed (a self-developed car racing game), and QQ Dancer (a 2008 musical dancing game) were continually launched, and Tencent monetized them by adding fee-based subscriptions and game item purchases for casual games.[522] In view of its growing popularity, Tencent launched Game Center on both Mobile QQ and Weixin/WeChat in 2013, which immediately contributed over $96.93 million (RMB

[516] Ibid., 2014, 9.

[517] Ibid., 2015, 12.

[518] Ibid.

[519] Tencent, Prospectus, 89.

[520] Ibid.

[521] Tencent, Annual Report, 2010 10.

[522] Ibid., 2004, 17; 2007, 8; 2008, 8; 2004, 17.

600 million) to the revenue in that year.[523]

Massive multiple-player online games (MMOG). Another real moneymaker for Tencent was its massive multiple-player online game (MMOG) business. In promoting the business, Tencent, on the one hand, was actively seeking licenses from foreign game developers and importing games permitted under the Chinese regulations.[524] As Tencent notes, China's Ministry of Culture (MOC) promulgated in 2003 and 2004 a series of regulations on online cultural activities, including producing, broadcasting, and disseminating game products.[525] Specifically, for any party that would like to operate imported online games in China, it would need to apply for MOC's approval of both the contents of and the license contracts for them.[526] Tencent brought its first MMOG into China in April 2003, which was *Sephiroth*, licensed by Korean developer Imagic.[527] *Dungeon and Fighter* (DNF)—a well-liked MMOG developed by Neople and Samsung—to give another example, was licensed to Tencent for its Chinese distribution in 2007 and launched in June 2008.[528] DNF gained peak concurrent users (PCU) of 1.2 million at the end of that year.

On the other hand, Tencent was also devoted to creating its own MMOG by primarily adopting storylines fitting in Chinese contexts. For example, in 2007 Tencent launched its first self-developed MMOG *QQ SanGuo*, which features the ancient Chinese history of the wars between three Kingdoms around AD 220 to 280.[529] *QQ Huaxia*, another MMOG launched in the same year, was codeveloped by Tencent and Shenzhen Domain Computer

[523] Ibid., 2013, 9.

[524] Tencent, Prospectus, 42.

[525] Ibid., 64.

[526] Ibid.

[527] Le Wang, "Tengxun qianyue Imagic gongsi Sephiroth jinru zhongguo" 腾讯签约 Imagic 公司 Sephiroth 进入中国 [Tencent signed contract with Imagic and Sephiroth entered Chinese market], *ChinaByte*, April 24, 2003, accessed August 20, 2016, http://news.chinabyte.com/371/1665371.shtml.

[528] Tencent Annual Report, 2007, 8; 2008, 8.

[529] Ibid., 2007, 8; "Games: QQ Sanguo Background," *Tencent*, accessed August 20, 2016, http://sg.qq.com/web2009/gamedata/gamedata_newpalyer.htm.

Network Company Limited, a Tencent investee company.[530] This game was also plotted against the background of an ancient, mythical China.[531] Other like games, such as *Silk Road Hero*, *Hero Island*, and *World of West*, were developed in 2009 and 2011.[532]

First-person shooting (FPS). As the company states in its report: "2007 was a year of foundation building. During the year, we focused on three areas: 1. building our user platform and exploring different ways to leverage our platform to promote new games; 2. strengthening our internal research and development capability; and 3. building partnership with high quality game studios to publish their games on our platform."[533] In addition to MMOG, Tencent made an aggressive effort in developing FPS games starting in 2007 when it gained the licensing of *Cross Fire* by Neowiz.[534] Launched in 2008, the game achieved one million PCU in 2009, which was a world record.[535] Carrying on the success, Tencent introduced another Korean-developed FPS game, *A.V.A.*, in 2010 by working with Neowiz again as its Chinese agent.[536]

Children's games. In July 2010, Tencent entered the children's game segment by launching *Roco Kingdom*, which later became an online-gaming community for children from seven to fourteen.[537] Adapting from the storyline in the game, Tencent later produced a series of animated movies that won a box office of $24.4 million (RMB 150 million).[538]

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[530] Tencent Annual Report, 2007, 8.

[531] "Interactive Entertainment Service," *Tencent*, accessed August 20, 2016, http://www.tencent.com/en-us/ps/ieservice.shtml.

[532] Tencent Annual Report, 2009, 8; 2010, 11.

[533] Ibid., 2007, 8.

[534] Ibid.

[535] Ibid., 2009, 8.

[536] Ibid.

[537] Ibid., 2010, 10.

[538] Yue Wang, "Tencent Is Now Building a Movie Empire," *Forbes Asia*, September 17, 2014, accessed August 20, 2016, http://www.forbes.com/sites/ywang/2014/09/17/tencent-is-now-building-a-movie-empire/#139fdd7c6dc0.

International expansion. As Tencent's gaming kingdom grew large, it started an international expansion through mergers and acquisitions. In 2010 it acquired a major stake of 92.78 percent in Riot Games and became the parent company of the U.S.-based online-game developer and publisher of *League of Legends*, a widely played game across the world.[539] As of 2015, Riot Games became a wholly owned subsidiary of Tencent.[540] In June 2016, Tencent bought a majority stake in Supercell, a Finnish mobile game developer and the publisher of *Clash of Clans*, for $8.6 billion.[541] The company's roadmap to a global game giant is discussed further in chapter 5.

E-Commerce and Online Payment

Tencent's business was further extended by an e-commerce sector when it launched a customer-to-customer (C2C) auction platform, Paipai.com, in 2005.[542] The website attracted 230,000 certified sellers with 300,000 commodities for sale within one month of its establishment.[543] Launched together with Paipai.com to assist online transactions was Tencent's escrow online payment system, Tenpay.[544] Certified by China Information Security Evaluation Center in 2006, Tenpay was further integrated into Tencent's online system by providing payment services to online phone bills, flight tickets, and lotteries.[545] To strengthen its e-commerce sector, Tencent launched a new business-to-business-to-consumer (B2B2C)

[539] Tencent, Annual Report, 2010, 190.

[540] Ibid., 2015, 191.

[541] Paul Carsten, Jussi Rosendahl, and Ritsuko Ando, "China's Tencent Buys 'Clash of Clans' Maker Supercell for $8.6 Billion," *Reuters*, accessed August 20, 2016, http://www.reuters.com/article/us-supercell-m-a-tencent-holdings-idUSKCN0Z716E.

[542] Lei Zhao, "Tengxun chuji C2C" 腾讯出击 C2C [Tencent entered C2C], *Zhonghua Gongshang Shibao IT Tongxun Zhoukan* 中华工商时报 IT 通讯周刊, September 14, 2005, 13.

[543] Jun Jiang, "Sanjia mache ladong Tengxun pingtai shengji" 三驾马车拉动腾讯平台升级 [Three driving forces upgraded Tencent's platform], *Minying Jingji Bao* 民营经济报, October 18, 2005, C2.

[544] Tencent, Annual Report, 2005, 5.

[545] Shan Jiang, "Tengxun caifutong tuijin Zhongguo dianzi zhifu guifanhua" 腾讯财付通推进中国电子支付规范化 [Tencent's Tenpay facilitated e-payment standardization in China], *Zhonghua Gongshang Shibao 中华工商时报* December 27, 2006, 10; Jinping Huang, "Tengxun: Quanmin gongdi de xin qianbao" 腾讯：全民公敌的新钱包 [Tencent's new money pocket], 南方周末, August 5, 2010, D17.

platform, Buy.qq.com, in 2011, which incorporated other institutional e-commerce operators, such as OkBuy, an online retailer for outfits and shoes; Yixun.com, a website selling digital products and home appliances; and Kela, an online jewelry vendor, into its platform.[546]

The competition in China's e-commerce industry, however, was very intense. Before Tencent stepped in, there were already a few established players, such as eBay, Alibaba's Taobao, Yipai, and Dangdang.[547] Tencent's Paipai, on the one hand, had to survive fierce competition from them but, on the other hand, also brought pressure to its competitors. Jack Ma, the founder and chairman of Alibaba Group, once openly accused Paipai.com of "copycatting others" and Tencent of luring away Taobao's staff.[548] Jack Ma even predicted that Paipai.com would become a burden to Tencent in a few years.[549] Under such circumstances, in March 2014, Tencent announced a strategic partnership with Jingdong (JD.com)—China's second-largest online retailer.[550] Tencent acquired 351,678,637 ordinary shares of JD.com accounting for 15 percent of JD.com's ordinary shares and further purchased 5.0 percent of the outstanding JD.com ordinary shares after JD.com's expected IPO on NASDAQ in May 2014.[551] The shares Tencent held in JD.com altogether made the Tencent the second-largest stakeholder in JD.com, the first being its founder, Liu

[546] Tencent, Annual Report, 2011, 7; "Tengxun chaoji dianzi shangwu pingtai buy.qq.com" 腾讯超级电子商务平台 buy.qq.com [Tencent launched super e-commerce platform buy.qq.com], *Keji Tai* 科技台, September 20, 2011, http://www.kejitai.com/shishenme-157-1.html.

[547] Yup Lu, "Tengxun muqian bu zhiwang Paipai yingli" 腾讯目前不指望拍拍盈利 [Tencent is not expecting Paipai.com to profit at the moment], *China Business News* 第一财经日报, March 14, 2006, C4.

[548] Guoqiang Yang, "Ma Yun: Tengxun Paipai doushi chaolai de" 马云：腾讯拍拍都是抄来的 [Jack Ma: Tencent's Paipai.com is nothing but a copycat], *China Business News* 第一财经日报, June 20, 2006, C04.

[549] Yu Lin, "Ma Yun gaodiao huiying mingqiang anjian" 马云高调回应明枪暗箭 [Jack Ma responded to critics loud and clear], *Minying Jingji Bao* 民营经济报, June 26, 2006, A10.

[550] Paul Carsten, "Tencent-JD.com Partnership Goes Straight for Alibaba's Throat," *Reuters*, March 10, 2014, accessed August 20, 2016, http://www.reuters.com/article/jd-tencent-hldg-idUSL3N0M70JY20140310.

[551] Tencent, Annual Report, 2013, 188.

Qiangdong.[552] Under the deal, Tencent transferred all of its e-commerce business into JD.com and embedded JD.com's services into Mobile QQ and Weixin.[553] The partnership was a significant one not only for both companies' business reorganizations but also to China's Internet landscape. Tencent was finally able to compete with Alibaba in the e-commerce market—an area in which Tencent had been weak.[554] Especially with Tencent's wide reach in mobile users, the JD-Tencent alliance advanced their weight in mobile e-commerce. In August 2016, Tencent became JD.com's largest shareholder with 25 percent of its shares.[555] I elaborate further on the strategic partnership between Tencent and JD in the next section.

To summarize, Tencent has become a force in many areas online in China and, at least prospectively, beyond.

Research and Development

As an Internet company, Tencent emphasizes research and development. As the company affirms, "we believe that our ability to develop IM technology, Internet, mobile and online entertainment applications has been a key factor in the success of our business."[556] The expenses in research and development have grown in recent years.

[552] Songqing Zhou, "Jingdong Tengxun hezuo xijie baoguang Qie zuoer wangyi Liu Qiangdong houshou gongwei" 京东腾讯合作细节曝光 企鹅坐二望一刘强东后手拱卫 [Details of Jingdong and Tencent's collaboration revealed], *21st Century Business Herald 21* 世纪经济报道 May 22, 2014, 14.

[553] Tencent, Annual Report, 2013, 9.

[554] Carsten, "Tencent-JD.com partnership."

[555] Qionghui Wang, "Tengcun cheng Jingdong diyi da gudong xutui yidong shejiao dianshang zhanlue" 腾讯成京东第一大股东 续推移动社交电商战略 [Tencent became Jingdong's no. 1 stakeholder to further promote mobile e-commerce], *Caixin Wang* 财新网, August 19, 2016, accessed August 20, 2016, http://companies.caixin.com/2016-08-20/100979849.html.

[556] Tencent, Prospectus, 99.

Table 3.3. Research and Development Expenses, 2004–15 (RMB million)

Year	R&D
2004	56
2005	162
2006	297
2007	376
2008	710
2009	1,191
2010	1,685
2011	2,684
2012	4,176
2013	5,095
2014	7,581
2015	9,039

Sources: Tencent, Annual Report, 2004–15 (revenue year-end of December 31).

Tencent established Internet-research academies in Beijing, Shanghai, and Shenzhen in 2007, one year after it announced its plan to explore Internet technologies by collaborating with universities from these three places.[557] Each academy focused on one of six areas: data storage, data mining, multimedia, language processes, distribution network, and wireless technology, utilizing the strengths of different universities.[558]

In 2008, Tencent established the Tencent Scholarship for Excellence in Science and Technology in top Chinese universities, including Peking University, Tsinghua University, Shanghai Jiaotong University, Huazhong University of Science and Technology, Harbin Institute of Technology, South China University of Technology, Northwestern Polytechnical University, and University of Electronic Science and Technology of China. The company was the first among Chinese Internet enterprises to reward students' talents in computer

[557] Quanfeng Zhu, "Tengxun chengli yanjiuyuan zhugong liuda hexin jishu" 腾讯成立研究院 主攻六大核心技术 [Tencent launched research institute aiming at six core technologies], *Jisuanji Shijie* 计算机世界, October 22, 2007, A07; Mo Zhang, "Tengxun touzi yiyuan choujian Hulianwang yanjiuyuan" 腾讯投资亿元筹建互联网研究院 [Tencent cast hundreds of millions to establish research academies], *Zhongguo Gaoxin jinshu chanye daobao* 中国高新技术产业导报, October 30, 2006, B08.

[558] Zhu, [Tencent launched research institute aiming at six core technologies], A07.

science.[559] According to the terms with Peking University, for example, every year three students with distinguished academic performance are each awarded $2.173 thousand (RMB 15 thousand), and another ten students with merits each receive $724 (RMB 5,000).

Valuing high-tech human resources, Tencent implemented attractive employee benefits and policies to recruit and reward talents. In 2011 it proposed a three-year "Anju Plan," which provides housing loans without interest to employees. Any employee who had been with the company for more than three years and needed money to buy his or her first condominium or house could apply to get up to $46,150 (RMB 300,000) in loans from the company; repayments of the loan were deducted from the employee's monthly salary over six years.[560]

At the same time, Tencent was also very aggressive about its own employees leaving for other Internet companies. In November 2008, Tencent filed a legal case against fifteen of its former employees who went to 51.com, a company founded in 2005 and a leading provider in social network and game services in China—and a competitor with Tencent in many areas.[561] According to Tencent, those employees who went to 51.com violated their contracts, which stated that they could not join a company in similar industries within a certain period of time after they left Tencent.[562] Apparently, Tencent worried that these former staffers would reveal business secrets to the competitor.

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[559] "Tengxun zai quanguo zhongdian gaoxiao shou she zhuoyue jiangxuejin" 腾讯在全国重点高校首设卓越奖学金 [Tencent launched scholarships for academic excellence in top Chinese universities], *Keji Ribao* 科技日报, July 1, 2008, 006.

[560] Jingke Zhang, "Tengxun gongbu Anju jihua xize gei yuangong zuigao 30 wan mianxi daikuan" 腾讯公布安居计划细则给员工最高 30 万免息贷款 [Tencent announced details of "Anju Plan"], *China Business News* 第一财经日报 June 28, 2011, B03.

[561] Liming Zhang and Lihua Gao, "Tengxun wajiao shijian wu yingjia geren yao kaolv xinyong daijia" 腾讯挖角事件无赢家 个人要考虑信用代价 [No winner in the incident of undermining Tencent's human resources], *Jingli Ribao* 经理日报, November 24, 2008, A03; "Company Overview," *51.com*, accessed August 20, 2016, http://www.51.com/company/en.

[562] Zhang and Gao, [No winner].

In view of the growing human-resource competition among high-tech companies, Tencent designed an employee incentive scheme (EIS) to reward employees with limited liability partnership. According to this program, the company would give company shares as bonuses to employees.[563] On July 6, 2016, Tencent issued a total of 56,213,500 new shares to 3,315 and 7,068 employees for their loyalty from August 2015 to June 2016, respectively.[564] Based on the closing price of Tencent's shares that day, the market value of the rewards was worth approximately $1.26 billion.[565]

As discussed earlier, several factors have contributed to the rise of Tencent's businesses, such as the rising population of urban working class contributing to the wide diffusion of QQ, the commodification strategy that turned almost every aspect of online activity—social network, personal contact, individual identity, leisure time, entertainment, content accessing, and viewing—into exchange value, and the grasp over human talents and research resources.[566] Although Tencent's service growth exemplified the general processes of commodification and diversification, in the next section I focus on its expanding strategies through integration.

Expansion through Horizontal and Vertical Integration

At the same time when Tencent established different business groups, it has also been actively expanding its territories by extending control to horizontal and vertical markets, in forms of mergers and acquisitions (M&A) and strategic alliances.

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[563] Tencent, Annual Report, 2013, 164.

[564] "Issue of New Shares Pursuant to Share Award Scheme," *HKEX News*, July 6, 2016, accessed December 14, 2016, http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0706/LTN201607061191.pdf

[565] Ibid.; "US Dollar (USD) to Hong Kong Dollar (HKD) Exchange Rate History," n.d., accessed December 14, 2016, http://www.exchangerates.org.uk/USD-HKD-exchange-rate-history.html.

[566] Qiu, Working-Class Network Society, 99.

My goal is not to exhaustively catalogue every single investment Tencent has made but to develop an understanding of Tencent's synergistic empire by scrutinizing the public documents detailing various types of business expansion. In doing so, I argue that Tencent's collaborations with domestic partners experienced several distinct stages. At the early stage of the company's development between 1998 and 2005, as shown in the last section, Tencent aimed at growing big and tried to extend its business into as many areas as possible. Starting in 2005, Tencent planned large volumes of acquisitions of and mergers with other companies relatively smaller than Tencent's size as ways to strengthen the businesses it had stakes in. After 2010, however, Tencent turned to strategic investments and alliances with other strong players in the market, as it acquired minority stakes in those companies—instead of buying the whole company or including the company in its family as a subsidiary. Altogether, these M&A and strategic alliances assisted Tencent to horizontally and vertically integrate within the broadly defined Internet value-added services.

In the paragraphs below, l present these processes primarily by chronicling these stages, while I also organize the analysis by tracing Tencent's roadmap into each business market. For simplicity of analysis, I define "horizontal integration" as purchasing other companies that operate in the same product markets and at the same level of production and "vertical integration" as extending control at different levels of production through input to output.[567] In doing so, I aim to show not only the range and scale of Tencent's business but also how it has gradually conquered each piece of the Internet soil as the range of Internet applications and services itself has widened. I will also show that acquisitions and mergers started as occasional and opportunistic choices but after 2010 became a comprehensive strategy that was upheld and carried forward by the company's leadership. The tipping point

[567] Murdock and Golding, "For a Political Economy."

for such a full-scale investment strategy was the fight between Tencent and Qihoo 360, discussed in the next chapter.

Horizontal Integration

E-mail service. On March 16, 2005, Tencent acquired a leading Chinese e-mail client software developer called the Foxmail Group.[568] The acquisition of Foxmail was Tencent's first formal business acquisition.[569] Foxmail was originally developed by Xiaolong Zhang (Allen Zhang) in 1997 and acquired in 2000 by Boda China—a Guangzhou-based Internet-service company—for $1.47 million (RMB 12 million) when Zhang also joined the company as corporate vice president.[570] Tencent's acquisition deal of Foxmail was, therefore, made with Boda China, upon which Zhang and the whole Foxmail research-and-development team relocated to Tencent.[571] Foxmail, occupying the largest share of email service in China, contributed not only 5 million users to Tencent but also its expertise in providing institutional or corporate communication services on a large scale.[572] As Chinese IT reporters analyze it, the deal came at a time when Tencent was in fierce competition with Microsoft's MSN and Hotmail.[573] To include Foxmail in its mail-service team obviously was to enhance Tencent's ability in email service. Zhang, the core founder of Foxmail, also became a core member of

[568] Tencent, Annual Report, 2005, 114.

[569] Wu, Biography of Tencent, 140–43.

[570] "Official Exchange Rate (LCU per US$, period average," *World Bank*, 2017, accessed August 29, 2016, http://data.worldbank.org/indicator/PA.NUS.FCRF?end=2015&locations=CN&start=1960&view=chart; "Foxmail bianxie zhe Zhang Xiaolong chengwei Boda Gongsi fu zongcai" Foxmail 编写者张小龙成为博大公司副总裁 [The programmer of Foxmail became vice president of Boda], *Sina Tech* (April 18, 2000), accessed August 29, 2016, http://tech.sina.com.cn/news/it/2000-04-18/23063.shtml.

[571] Weixing Lu, "Tengxun 500 wan meiyuan shougou Foxmail xiayibu yu Wangyi hebing?" 腾讯 500 万美元收购 Foxmail 下一步与网易合并? [Tencent bought Foxmail for $5 million], *Shanghai Qingnian Bao* (March 18, 2005), accessed August 29, 2016, http://biz.163.com/05/0318/14/1F4PLUBA00020QBS.html.

[572] Yijian Zhang, "Tengxun weishenme yao shougou Foxmail" 腾讯为什么要收购 Foxmail [Why did Tencent buy Foxmail], *Sina Tech* (April 8, 2005), accessed August 29, 2016, http://tech.sina.com.cn/i/2005-04-08/1746576584.shtml.

[573] Ibid.

Tencent's research-and-development team and later stood out as the chief designer of Tencent's Weixin/WeChat service.[574]

MVAS. In 2006, Tencent acquired a 100 percent equity interest in two mobile and telecommunications service providers: Joymax Development Limited and Nanjing Wangdian Technology Company Limited. Specifically, on January 16, 2006, Tencent reached a deal with Beijing Joymax Development Limited, a Shenzhen-based computer-software developer and MVAS provider to acquire the whole equity interests in the company and its subsidiaries.[575] Joymax was established in 2003 and specialized in providing SMS-based VAS and marketing and branding through mass media.[576] In the October of the same year, Tencent bought Wangdian Technology, founded in 2000 in Nanjing and also an MVAS provider.[577]

In 2007 Tencent further strengthened the MVAS sector by acquiring Beijing BIZCOM Technology Company Limited and Beijing Starsinhand Technology Company Limited, which both provide MVAS.[578] On March 20 and May 23, 2008, Tencent acquired 100 percent equity interest in two more domestic mobile and telecommunications value-added service providers—Guangzhou Yunxun and Tianjin Shouzhongwanwei for a total amount of $1.59 million (RMB 11 million).[579]

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[574] Tencent, "Management Team."

[575] Tencent, Annual Report, 2005, 115; "Company Overview of Beijing Joymax Development Limited," *Bloomberg*, accessed August 29, 2016, http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=34034966.

[576] "Tencent to Acquire Wireless Service Provider," *Tencent*, accessed August 29, 2016, http://www.tencent.com/en-us/content/ir/news/2006/attachments/20060116.pdf; "Tengxun jiang shougou wuxian zengzhi fuwu tigong shang Zhuoyimaisi" 腾讯将收购无线增值服务提供商卓意麦斯 [Tencent about to acquire wireless value-added service provider Joymax], *Sina Tech* (January 16, 2006), accessed August 29, 2016, http://tech.sina.com.cn/i/2006-01-16/1810821683.shtml.

[577] Tencent, Annual Report, 2006, 118.

[578] Ibid., 120.

[579] Ibid., 2008, 168.

Online games. Tencent started out as a minority stakeholder in Shenzhen Domain Computer Network Company Limited, an independent high-tech software and online-gaming developer established in 1997 in Shenzhen, with 19.9 percent of the company's equity for a price of $3.78 million (RMB 29.9 million) in 2005.[580] Upon the investment, Tencent and Shenzhen Domain colaunched *QQ Huaxia*, a MMOG plotted against ancient Chinese mythology. On November 20, 2007, the two companies reached an agreement that allowed Tencent to acquire an additional 40.1 percent equity interest in Shenzhen Domain for a cash deal of $13.99 million (RMB 106.3 million), making Shenzhen Domain a subsidiary of Tencent.[581] In 2009 the two companies copresented another blockbuster MMOG, *Hero Island*.[582] Eventually in 2010, Shenzhen Domain became a wholly owned subsidiary of Tencent after the latter acquired the exercisable option equity interest in Shenzhen Domain for $22.76 million (RMB 154.1 million).[583]

Tencent made similar moves with Gamegoo Group Limited, a Beijing-based online-game developer, which became a subsidiary of Tencent on November 4, 2011. Tencent held 37 percent preference shares and 13 percent ordinary shares in Gamegoo and acquired an additional 15 percent from Gamegoo's shareholders in a cash deal of $20.74 million (RMB 134 million), which gave Tencent a 62.5 percent equity interest.[584] However, in October 2013, Tencent, fulfilling an October 2012 agreement with B-Ray Media, sold its entire stake in Gamegoo to B-Ray Media,[585] based in Chengdu and listed on the Shanghai Stock Exchange,

[580] Ibid., 2005, 73.

[581] Ibid., 2007, 142.

[582] "Corporate History," *Shenzhen Domain*, accessed August 29, 2016, http://www.szdomain.com/about/history.html.

[583] Tencent, Annual Report, 2010, 185.

[584] Ibid., 2011, 182.

[585] Ibid., 2013, 142; Chenglin Guo, "Manyougu fuza shenshi cang xuanji" "漫游谷"复杂身世藏玄机 [Complexities in Gamegoo's background], *Shanghai Securities News* 上海证券报, October 26, 2012, 02.

because Gamegoo had failed to exist as an overseas IPO option, according to an industry report.[586]

BBS and online community. In September 2010, Tencent acquired a Beijing-based Internet community software and service provider, the Comsenz Group, as its wholly owned subsidiary for a price of $43 million (RMB 292 million).[587] Comsenz is a leading player in providing online community services, such as social networking software, bulletin-board systems, and cloud servers in China.[588]

Search engines. On September 6, 2013, Tencent paid $448 million in cash (RMB 2.741 billion) to Sogou for 36.5 percent of the equity capital in the company, whose controlling holder was Sohu.com, China's leading online service provider.[589] Toward the end of 2013, Tencent's share capital in Sogou increased to 40 percent with 24.8 percent of the voting power.[590] Tencent president Lau Chi Ping Martin and chief operating officer Ren Yuxin joined the Sogou board of directors.

Sogou stood as China's third-largest search service provider with a 10 percent share of the market, after Baidu with 63 percent and Qihoo 360 with 18 percent.[591] At the same time, Sogou owned a line of online and mobile applications, including Sogou Pinyin—a top Chinese-language input software, Sogou browser (a web browser with third-largest market share in China), Sogou Web Directory, and other mobile applications, such as mapping and

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[586] Haoyu Li, "Tengxun caiwu touzi: 10 bei shiyinglv paoshou Manyougu" 腾讯财务投资：10 倍市盈率抛售漫游谷 [Tencent's financial investment: Gamegoo sold at a 10 times premium], *Tech.163.com* 网易科技报道, October 29, 2012, accessed March 27, 2017, http://tech.163.com/12/1029/00/8EUOVCTN000915BF.html.

[587] Tencent, Annual Report, 2010, 183.

[588] "Introduction to Comsenz," *Sequoia Capital*, accessed February 13, 2017, https://www.sequoiacap.com/china/en/companies/comsenz/; Comsenz Company Profile, https://www.bloomberg.com/profiles/companies/COMSENZ:CH-comsenz-inc.

[589] "Financial Releases of 2013: Sohu, Sogou, and Tencent Jointly Announce Strategic Cooperation," *Tencent*, accessed August 31, 2016, https://www.tencent.com/en-us/news_timeline.html.

[590] Tencent, Annual Report, 2013, 143.

[591] Eric Pfanner, "Web Giant in China Invests in Search Site," *International Herald Tribune*, September 18, 2013, 20.

voice search.[592] In the agreement, the two companies were to "to jointly develop, cross-promote and integrate their respective products and services, while collaborating in areas of search technology, user insights and data sharing."[593] As Tencent chairman Ma Huateng said, "we believe Sogou is the ideal partner for Tencent to further develop search opportunities within China. This reinforces our 'open, win-win' philosophy of working with leading teams to create innovative products for users, and build a healthy, diversified ecosystem for the industry."[594]

Tencent and Sogou had been in a zero-sum situation just a few years before this collaboration, taking each other to the court. The two companies were rivals in a few business sectors. Discussed in last chapter, Tencent ran its own search-engine service, Soso, the fourth-largest player accounting for 5.5 percent of search-engine queries in mainland China.[595] In addition, Tencent launched its own Chinese input system, QQ Pinyin, in 2007, which was soon accused by Sogou of copycatting its services.[596] The accusation eventually escalated into a suit against Tencent in 2009 when Sogou filed an unfair competition case to Beijing Number 2 Intermediate People's Court.[597] In response, Tencent also filed an unfair competition case against Sogou to Beijing Number 1 Intermediate People's Court. After several rounds of the trial, to the surprise of many, Sogou and Tencent reached a settlement,[598] as they eventually paid each other around $35.13 thousand (RMB 240

[592] "Financial Releases of 2013."

[593] Ibid.

[594] Ibid.

[595] Sophie Yu, "Tencent Teams Up with Sohu to Vie for No 2 Spot," *South China Morning Post*, September 17, 2013, 06.

[596] Jia Bei, "Tengxun 'chaoximen' buliaoliao zhi Ma Huateng Zhang Chaoyang huojiang yizhan" 腾讯"抄袭门"不了了之 马化腾张朝阳或将一战 [Copycat incident of Tencent left unsettled], Securities Daily 证券日报, January 15, 2009, C01.

[597] Yancheng Li, "Sogou Tengxun duiqia shurufa" 搜狗腾讯"对掐"输入法 [Sogou and Tencent fought on input method]," *Zhongguo Qiye Bao* 中国企业报, November 30, 2009, 003.

[598] Na Li and Doudou Wang, "Sogou Tengxun yizhi gaikou cheng yuanyi tiaojie" 搜狗腾讯一致改口称愿意调解 [Sogou and Tencent agreed to settle the dispute], *Legal Daily* 法制日报, April 19, 2010, 005.

thousand)—an amount much lower than they requested in the original claims—according to the rulings.[599] In 2012 when Tencent announced a reorganization of corporate structure and internal business units, the team of Soso search was split into two different sectors, the Mobile Internet Group and the Technology and Engineering Group, signaling a change in search service.[600] Immediately after the deal, Soso search-related businesses were merged with Sogou, together with a few other Tencent assets.[601]

The partnership, coming in a period of a heated competition within China's search-engine market, not only regrouped both Tencent's and Sogou's related businesses but also turned the tables around in the wider Internet industry. Tencent was not the only one interested in Sogou. Before Tencent's deal with Sogou, there was much discussion on the potential acquisition of Sogou by Qihoo 360. Mentioned above, Qihoo was the second-largest search service provider, and it also held a leading position in China's online security system development and provision. At the time, Qihoo and Tencent were still in the long-lasting fight they were conducting against each other, the details of which are discussed shortly. Qihoo, in the end, dropped the acquisition plan because it had "different business values," according to Qihoo's CEO Zhou Hongyi.[602] In the meantime, Alibaba and Baidu had just closed a few high-profile acquisitions and investment deals, respectively, further marching along their own roads toward conglomerates. Alibaba, in April 2013, paid $586 million to Sina Weibo for an 18 percent stake in China's leading microblogging service, provoking a

[599] "Sougou Tengxun buzhengdang jingzheng an xuanpan" 搜狗诉腾讯不正当竞争案宣判：腾讯被判赔 20 万 [Case settled between Sogou and Tencent on unfair competition], *Sina Tech*, June 22, 2010, accessed August 31, 2016, http://tech.sina.com.cn/i/2010-06-22/11214335893.shtml.

[600] Hui Zhang, "Tengxun Soso zao chaifei yushi sousuo shichang shengbian" 腾讯搜搜遭拆分预示搜索市场生变 [Tencent's Soso was split signaling changes in the search market], *China Business Herald* 中国商报, May 29, 2012, 007.

[601] Tencent Annual Report, 2013, 7.

[602] Dan Ye, "Zhou Hongyi huiying fangqi shougou Sogou yuanyou" 周鸿祎回应放弃收购搜狗原由 [Zhou Hongyi responded why Qihoo quit acquiring Sogou], *Southern Daily* 南方日报, September 24, 2013, A17.

head-on confrontation with Tencent Weibo.[603] One month later, in May, Alibaba invested $294 million for 28 percent shares in an online mapping company, AutoNavi, which in 2014 became a wholly owned subsidiary of Alibaba.[604] Baidu in July announced a deal worth $1.9 billion, the largest one in China's Internet industry history, to acquire 91 Wireless, China's leading mobile app–store operator.[605] All three Internet giants were expanding their territories.

E-Commerce. In March 2014, Tencent and JD.com, the second-largest e-commerce operator in China after Alibaba and held a 17.5 percent market share in China's e-commerce sector, began a strategic collaboration.[606] In the deal, Tencent bought 15.0 percent of JD for $214.66 million (part of a subscription agreement before JD's IPO)[607] and gave JD 100 percent interest in its own B2C platform QQ Wanggou and C2C site PaiPai and 9 percent equity interest in Tencent's Yixun.com.[608] Upon JD's IPO in May 2014, Tencent further purchased 5 percent shares.[609] On December 2, 2014, Tencent acquired additional 0.45 percent of JD.com, which gave Tencent overall a 17.88 percent interest in JD as of the end of 2014.[610] Tencent's president Lau Chi Ping Martin was appointed as JD's director.[611] Although possessing a large ownership stake, Tencent only held a 3.7 percent voting stake,

[603] Pfanner, "Web Giant in China."

[604] Sarah Rabil and Brian Womack, "Alibaba Agrees to Buy AutoNavi in $1.5 Billion Map Deal," *Bloomberg*, April 11, 2014, accessed August 31, 2016, http://www.bloomberg.com/news/articles/2014-04-11/alibaba-agrees-to-buy-autonavi-in-1-5-billion-mapping-deal.

[605] Lulu Yilun Chen, "Baidu Pays $1.9 Billion in Biggest Takeover to Gain Mobile Share," *Bloomberg*, July 16, 2013, accessed August 31, 2016, http://www.bloomberg.com/news/articles/2013-07-16/baidu-to-buy-91-wireless-for-1-9-billion-to-add-app-store.

[606] Sophie Yu, "Tencent in Bid to Boost W-Commerce Presence," *South China Morning Post*, January 16, 2014, 4.

[607] Tencent, Annual Report, 2013, 188.

[608] Bien Perez and Sophie Yu, "Tencent's JD Deal Puts the Heat on Alibaba," *South China Morning Post*, March 11, 2014, 3.

[609] "Financial Releases of 2014: JD.com and Tencent Form Strategic Partnership to Transform eCommerce Industry in China," *Tencent*, accessed September 2, 2016, https://www.tencent.com/en-us/news_timeline.html.

[610] Tencent, Annual Report, 2014, 142.

[611] JD.com, Annual Report, 2014, 123.

with JD founder Liu Qiangdong maintaining a dominant voting position.[612]

Major considerations of the collaboration were to expand JD's mobile shopping market and Tencent's e-commerce business. With Tencent's leverage in mobile communication, JD embedded its service into Tencent's Mobile QQ, Weixin, WeChat, and Tencent's other platforms.[613] Scholars analyze this as a direct countermeasure to the Alibaba–Sina Weibo alliance.[614] Mentioned elsewhere, Alibaba formed a strategic partnership with Sina Weibo in the spring of 2013, which not only boosted Sina Weibo's profit but also enlarged marketing promotion for Alibaba's retailers.[615] The two agreed to share the advertising revenue, as Weibo created advertising space for Taobao retailers to send customized posts and interacted with followers taking advantage of the mass user base on this leading microblogging platform.[616] Tencent and JD further consolidated the collaboration in 2015 when they jointly invested in an online e-commerce platform of automotive industry, Bitauto.[617]

Online publication and reading service. In early 2015, Tencent and Shanda formed China Reading Limited, moving their own online publishing and literature services, namely, Tencent Literature and Shanda Cloudary, together into one company specializing in online publishing and e-book services.[618] Shanda Group, founded in Shanghai in 1999, was originally an online game company and became an investment group that focused on

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[612] Chris Nolter, "JD.com Shares Rise in Debut," *The Deal Pipeline*, May 22, 2014.
[613] "Financial Releases of 2014: JD.com and Tencent."

[614] Lize Zhang, "The Survival and Development of Chinese New Media Business: Among State, Market, and Public," Master's thesis, National University of Singapore, 2016.

[615] Ibid.

[616] Tracey Xiang, "Sina Weibo Monetization Finally Takes Off," *China Daily*, September 4, 2013, accessed September 2, 2016, http://www.chinadaily.com.cn/business/tech/2013-09/04/content_16942500.htm.

[617] "Financial Releases of 2015: Bitauto, JD.com, and Tencent Announce Strategic Partnership," *Tencent*, accessed September 2, 2016, https://www.tencent.com/en-us/news_timeline.html.

[618] Wu Nan, "China's Amazon? Tencent and Shanda to Merge Online Publishing and eBook Services," *South China Morning Post*, March 17, 2015, accessed September 5, 2016, http://www.scmp.com/lifestyle/technology/article/1740029/merger-chinese-online-publishing-sites-will-create-chinas.

"financial services, technology and healthcare sectors."[619] The newly launched China Reading Limited was codirected by Tencent Literature's former CEO Wu Wenhui and Shanda Cloudary's former CEO Liang Xiaodong. Tencent held a majority 66.4 percent stake in China Reading.[620]

Tencent had only launched its own online reading service in 2014,[621] but the deal, more an acquisition than a merger, made China Reading the largest online publishing and e-book company in China.[622] Said to have more than 600 million registered users in China, China Reading in 2017 was planning an initial public offering in Hong Kong.[623]

Online music. In July 2016, Tencent partnered with China Music Corporation in promoting the digital music business by acquiring a majority stake of 61.6 percent of China Music Corporation.[624] Upon the deal, the two joined Tencent's QQ Music and China Music Corporation's KuGou and Kuwo to form a new company, with Tencent's vice president Pang Kar Shun as the CEO and China Music Corporation's co-CEOs Xie Guomin and Xie Zhenyu as copresidents.[625] The alliance created a dominant player in China's music-streaming market, as China Music Corporation KuGou and Kuwo each occupied 28 percent and 13 percent of the mobile music market, respectively, with another 15 percent owned by QQ Music.[626] In addition to an overwhelming market share, the strategic merger also advanced the battle

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[619] "About Us," *Shanda*, accessed February 13, 2017, http://www.shanda.com/about-us.

[620] Tencent, Annual Report, 2015, 191.

[621] Wu, "China's Amazon?"

[622] Ibid.

[623] Zen Soo, "Tencent-Backed China Reading Plans IPO of Up to US$800 Million in Hong Kong, *South China Morning Post*, February 6, 2017, accessed February 16, 2017, https://www.techinasia.com/wechats-growing-empire-tencent-invested-acquired-2014.

[624] Tencent, Interim Report 2016, 66.

[625] "Financial Releases of 2016: China Music Corporation and Tencent's QQ Music Announce a Strategic Merger to Jointly Develop Digital Music Business in China," *Tencent*, July 15, 2016, accessed September 5, 2016, https://www.tencent.com/en-us/news_timeline.html.

[626] Alec MacFarlane and Juro Osawa, "Tencent to Buy Majority Stake in China Music Corp., Creating Streaming Giant," *Wall Street Journal*, July 14, 2016, accessed September 5, 2016, http://www.wsj.com/articles/tencent-to-buy-majority-stake-in-china-music-corp-creating-streaming-giant-1468470851.

against online piracy in China, considering that the combined exclusive content licenses held by Tencent and China Music Corporation represented "more than 60 percent of all available music rights in China."[627] According to Tencent's announcement, a "freemium" model was to be introduced which users could stream authorized music but would pay for premium services.[628] While the scale of the premium services was not disclosed, the targeted customers were primarily artists and record companies.[629]

Vertical Integration

Online travel agency: eLong. On May 17, 2011, Tencent formed a strategic partnership with eLong, a China-based, leading online and mobile travel agency listed on NASDAQ, by purchasing about 11 million newly issued shares, which made Tencent a 16.15 percent equity interest in eLong, at a price of $84.4 million (RMB 548 million).[630] The deal made Tencent the second-largest shareholder of e-Long, the first being the U.S.-based online travel giant Expedia with a 56 percent.[631]

Being Tencent's first significant investment in the travel market, the collaboration added another piece to Tencent's ever-enlarging online lifestyle kingdom with e-Long's online travel products, which include hotels, flights, resorts, and so on not only within China but throughout the world in view of Expedia's worldwide reach.[632] Tencent's president Martin Lau remarked in a press release, "We believe this partnership will combine our online platforms with eLong's online travel expertise to bring innovative and quality online travel services to our users. Through the implementation of our open platform strategy, we will

[627] Ibid.

[628] "Financial Releases of 2016: China Music Corporation and Tencent's QQ Music Announce a Strategic Merger to Jointly Develop Digital Music Business in China," *Tencent*, July 15, 2016, accessed September 5, 2016, https://www.tencent.com/en-us/news_timeline.html.

[629] ibid.

[630] Tencent, Annual Report, 2011, 139; Bien Perez, "Tencent Buys Stake in Travel Agency eLong," *South China Morning Post*, May 18, 2011.

[631] Perez, "Tencent Buys Stake."

[632] "Financial Release of 2011: Tencent Acquires 16% of eLong in Strategic Investment, Expedia, Inc. Co-invests," *Tencent*, May 17, 2011, accessed August 30, 2016, https://www.tencent.com/en-us/news_timeline.html.

continue to enhance our service offering to fulfill users' various lifestyle needs online."[633] For eLong and Expedia, Tencent's established dominance in Chinese online communities brought not only traffic and access but, most important, users to them.[634] With Xiaoguang Wu, Tencent's senior executive vice president of Internet business, sitting as a member of e-Long's board of directors upon the deal, Tencent maintained significant influence in business decisions on eLong, as well.[635]

Online software security. Kingsoft Corporation Limited, a Chinese leading software developer and Internet service provider in Internet security, became a Tencent associate on July 6, 2011, when Tencent acquired a 15.28 percent shareholding in the company for a total amount of $114 million (HKD 892 million).[636] At the same time, Tencent also invested about $20 million (RMB 129 million) in Beijing Kingsoft Internet Security Software Corporation for 10 percent shareholding in this Kingsoft subsidiary.[637] Martin Chi Ping Lau, Tencent president and executive director, was appointed as a non-executive director of Kingsoft on July 28, 2011.[638] Although the deal gave Tencent a substantial portion of Kingsoft's issued shares, the three core founders of Kingsoft maintained that they would "act in concert to effectively remain as the company's largest shareholder," with Kau Pak-kwan, Cheung Shuen-lung, and Lei Jun together owning 23 percent.[639] The alliance came at a time when Tencent was in a cut-throat competition with another Chinese online security firm, Qihoo 360, discussed further later. Citing a Morgan Stanley report, the financial website Bloomberg

[633] Ibid.

[634] Perez, "Tencent Buys Stake."

[635] "Board of Directors," *eLong*, May 21, 2013, accessed August 16, 2016, http://www.elong.net/aboutus/backup_20130521/board_directors.html.

[636] "Financial Release of 2011: Tencent Acquires 15.68% of Kingsoft in Strategic Investment," *Tencent*, accessed August 30, 2016, https://www.tencent.com/en-us/news_timeline.html; Tencent, Annual Report, 2011, 139.

[637] Tencent, Annual Report, 2011, 139.

[638] "Board of Directors," *Kingsoft*, accessed August 30, 2016, http://ir.kingsoft.com/phoenix.zhtml?c=189890&p=irol-govBoard.

[639] Sophie Yu, "Kingsoft Founders Sign Pact after Sale of Stake," *South China Morning Post*, July 8, 2011.

reported that Kingsoft and Tencent together possessed 20 percent of market share in China's online-security sector, which was only surpassed by Qihoo 360.[640] According to Tencent's chairman Ma Huateng, "The strategic partnership can combine our security technologies and operational strengths in the Internet industry, bringing the Chinese Internet users more trustworthy Internet security services and safer online experiences."[641]

In June 2013, Tencent purchased an additional 8 percent of the shares of Kingsoft Internet Security Software Corporation Limited (KIS), a non–wholly owned subsidiary of the Kingsoft Group, which was renamed the Cheetah Technology Corporation Limited,[642] at approximately $47 million (RMB 290 million) and increased its stakes in KIS to 18.0 percent.[643]

Ridesharing and online taxi reservation. In April 2013, Tencent invested $15 million in Didi Dache, a mobile application for taxi reservation or ridesharing, now embedded in the Tencent Weixin/WeChat system.[644] In January 2014, Tencent further invested in Didi to support its competition with Kuaidi Dache, a similar mobile application providing cab-calling services and backed by Alibaba.[645] The rivalry between Didi and Kuaidi was so fierce that they rewarded those customers who chose their services by reimbursing some money to customers through Tencent's Weixin/WeChat payment and Alibaba's Alipay, respectively, to

[640] Mark Lee, "Tencent Buys $115 Million Kingsoft Stake to Expand Security," Bloomberg, July 7, 2011, accessed August 30, 2016, http://www.bloomberg.com/news/articles/2011-07-06/tencent-agrees-to-buy-15-7-stake-in-kingsoft-for-115-million.

[641] "Financial Release of 2011: Tencent Acquires 15.68 % of Kingsoft."

[642] "Connected Transaction Issue of Series B Preferred Shares by KIS to the Company and TCH," 2013 Announcements, *Kingsoft*, June 23, 2007, accessed August 31, 2016, http://ir.kingsoft.com/phoenix.zhtml?c=189890&p=irol-Announcements&nyo=3.

[643] Tencent, Annual Report, 2013, 143.

[644] Zheng Wu and Vanessa Plao, "China Ride App Raises $700 Million," *International New York Times*, December 12, 2014, 21; Xiuqian Zong, "Touziren jiangshu didi kuaidi hebing beihou de gushi" 投资人讲述滴滴快的合并背后的故事 [The story behind Didi and Kuaidi's merge], *Tech.qq.com* 腾讯科技, accessed September 2, 2016, http://tech.qq.com/a/20150304/011410.htm.

[645] Wu and Plao, "China Ride App."

attract more customers.[646] Eventually in February 2014, Didi and Kuaidi reached a partnering deal so that they no longer engaged in cut-throat competition with each other.[647]

Logistics and trade services. On January 15, 2014, Tencent teamed up with a Chinese logistics facilities operator, China South City Holdings Limited, by acquiring 9.9 percent of its shares in $191.6 million (HKD 1.497 billion).[648] Lin Ching Hua (Davis), general manager of Tencent's strategy development department and social and performance advertisement department, was appointed as non-executive director of China South City in June 2014. In September 2014, Tencent further subscribed China South City's shares, raising its interest to 11.55 percent.[649] The strategic partnership connected South China City's offline trade services, warehouse and logistics expertise, to Tencent's online and mobile strengths of e-commerce, marketing, payment solution, and customer reach.[650]

Online review platform for local businesses. In February 2014, Tencent invested in an online review and transaction platform for local businesses—Dianping.com—that offered such services as "local merchant listing, consumer reviews, money saving deals such as group buying/e-coupon and other popular services such as online restaurant reservation and take out ordering."[651] A Yelp.com-like site, Dianping would connect its service to Tencent's mobile ports, including Mobile QQ, Weixin, and others, after the collaboration. In addition,

[646] "China's Mobile Payment War Escalates," *China Daily*, February 22, 2014.
[647] Feng Liao, "Didi Kuaidi lianyin" 滴滴快的"联姻：仅 22 天完成合并计划 补贴或降 [Didi and Kuaidi started collaborating], *Jinghua Shibao* 京华时报, February 15, 2015, accessed September 2, 2016, http://news.xinhuanet.com/fortune/2015-02/15/c_1114373031.htm.

[648] Tencent, Annual Report, 2014, 143.

[649] South China City, Annual Report, 2014–15, 25, accessed August 31, 2016, http://www.chinasouthcity.com/en/ir/.

[650] "Financial Releases of 2014: Tencent Makes Strategic Investment in China South City," *Tencent*, January 15, 2014, accessed August 31, 2016, https://www.tencent.com/en-us/news_timeline.html.

[651] "Financial Releases of 2014: Dianping and Tencent Jointly Announce Strategic Cooperation," *Tencent*, accessed September 2, 2016 https://www.tencent.com/en-us/news_timeline.html.

for an approximate $500 million deal, Tencent bought a 20 percent stake in Dianping.[652] At the core of the partnership, according to the two companies, was strengthened mobile platforms and group buying, relying on Tencent's advantage in mobile users and their social networks.[653] For Tencent, this was another step in building a comprehensive "ecosystem" that advantages its large online user base to provide offline purchasing information and transactions.[654] Later that year, in December, Tencent and Dianping together invested in a public Wi-Fi service provider Wiwide to support their online-transaction services and e-payment systems.[655] Wiwide ran commercial Wi-Fi services in public spaces, such as restaurants and stores, with over thirty thousand hotspots in China.[656] The cooperation would allow some of Tencent's and Dianping's business customers to push alerts to individual users who were on a local Wi-Fi hotspot.[657]

In June 2014, Tencent formed an alliance with another online and mobile platform that provided information for location-based local merchants and consumers, 58.com Inc.[658] Tencent invested $736 million (RMB 4.541 billion) in June and $140 million (RMB 863 million) in September in exchange for a total 24.0 percent stake.[659] In 2015, after a few changes and reorganizations, Tencent held 22.9 percent of 58.com's equity interest.[660] Wu

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[652] Wei Pan, "jiuchan 6 nian Tengxun gongxia Dazhong Dianping" 纠缠 6 年腾讯攻下大众点评：资本的乘法效应 [Tencent won deals with Dianping.com after six years' efforts], *21st Century Business Herald* 21 世纪经济报道, February 24, 2014, 27.

[653] "Financial Releases of 2014: Dianping and Tencent Jointly Announce."

[654] Lina Choi and Gary Lau, "Tencent's Investment in Dianping Is Credit Positive," *Moody's Investors Service*, February 20, 2014, accessed September 2, 2016, https://www.moodys.com/research/MoodysTencents-investment-in-Dianping-is-credit-positive--PR_293296.

[655] "Tencent, Dianping Invest in Wiwide," *China Daily*, December 9, 2014.

[656] Paul Bischoff, "Starbucks' Public Wifi Provider in China Gets $49M Investment from Tencent, Dianping," *Tech in Asia*, December 17, 2014, accessed March 26, 2017, https://www.techinasia.com/starbucks-public-wifi-provider-china-49m-investment-tencent-dianping.

[657] Ibid.

[658] Tencent, Annual Report, 2014, 143.

[659] Ibid.

[660] Ibid., 2015, 141.

Xiaoguang, Tencent's senior vice president of Internet services division, became a member of 58.com's board of directors in August 2014.[661] The partnership added one more piece to Tencent's online-to-offline services, with 58.com's specialty in serving local merchants and consumers for classified business information. For 58.com, points of connection on Tencent's online and mobile platforms, including QQ, Weixin, QQ.com, and QQ browser, also expanded its reach to consumers, especially with the promotion by Weixin/WeChat official accounts and Enterprise QQ.[662]

Online real-estate service. On March 21, 2014, Tencent made a $180 million (RMB 1.102 billion) investment in a Chinese online-to-offline (O2O) real estate–services provider Leju Holdings Limited.[663] Before the trade, Leju was a wholly owned subsidiary of E-House, a Chinese real-estate service provider, listed on New York Stock Exchange since 2007, that covered a range of real-estate services including e-commerce, online advertising, brokerage and marketing, real-estate databases, financial services, and community value-added services.[664] On April 22, 2014, Leju was publicly listed on New York Stock Exchange while Tencent put additional $20 million (RMB 125 million) in Leju's shares to maintain a 15 percent stake.[665] Tencent's president Lau Chi Ping Martin was also appointed a director in March 2014.[666]

The alliance primarily targeted the mobile-based, real-estate e-commerce market by bringing Leju's online real-estate service to Tencent's mobile platforms, promoting Leju's

[661] 58.com, Annual Report, 2014, 85. accessed August 31, 2016, http://58.investorroom.com/index.php?s=120.

[662] "Financial Releases of 2014: Tencent and 58.com Enter Strategic Partnership to Strengthen Local Services Ecosystem," *Tencent*, June 27, 2014, accessed August 31, 2016, https://www.tencent.com/en-us/news_timeline.html.

[663] "Financial Releases of 2014: E-House and Tencent Announce Tencent's Strategic Investment in Leju," *Tencent*, March 21, 2014, accessed August 31, 2016, https://www.tencent.com/en-us/news_timeline.html.

[664] "Company Overview," *E-House China*, accessed August 31, 2016 http://www.ehousechina.com/1defining.htm.

[665] Tencent, Annual Report, 2014, 142.

[666] "Board of Directors," *Leju.com*, accessed August 31, 2016, http://ir.leju.com/phoenix.zhtml?c=252998&p=irol-govboard.

brand through Weixin/WeChat official accounts, and providing mobile payment access to Leju's users.[667]

Digital mapping. In April 2014, Tencent joined NavInfo Company Limited, as its second major stakeholder by subscribing approximately 11.28 percent of the company's share capital of $187.6 million (RMB 1.173 billion).[668] The China-based and Shenzhen Stock Exchange–listed NavInfo provided geographical information services, such as digital mapping, telematics, instant traffic updates, and location-based big-data applications.[669] Owning nine wholly owned companies, eleven holding companies, and six joint-stock companies, as the company claimed, NavInfo was China's largest and the world's third-largest digital map provider, supplying a number of automakers' in-dash navigation systems in China, including BMW, VW, Mercedes-Benz, GM, Volvo, Ford, SAIC, Toyota, Nissan, Hyundai, and Peugeot Citroen.[670] The collaboration between Tencent and NavInfo came almost at the same time as Alibaba acquired the entire equity interest of AutoNavi, making it a wholly owned subsidiary, as mentioned earlier.[671] The complex patterns of confrontation and cooperation among Baidu, Alibaba, and Tencent continued in the realm of digital mapping service.

While Tencent has displayed distinctive expanding strategies by horizontal and vertical integration, some caveats need to be pointed out in these processes. Due to the widely-spread scope and categories of online value-added services, there are lacks of clear boundaries between different strategies. Different services often coexist within one application, where forms of expansion are also entangled. Tencent's business expansions, for

[667] "Financial Releases of 2014: E-House and Tencent Announce."

[668] Tencent, Annual Report, 2014, 143; "SASAC Approves China Survey's Navinfo Stake Transfer to Tencent," *China Business News*, May 22, 2014.

[669] "About Us," *NavInfo*, accessed August 31, 2016, http://www.navinfo.com/en/aboutus/index.aspx.

[670] Ibid.

[671] "State Assets Regulator Approves Tencent's Navinfo Stake," *China Daily European Edition*, May 22, 2014.

example, have combined horizontal integration, vertical integration, and a more general process of diversification. The company first expanded into many business areas by diversifying its own business scopes, as discussed in last section. Then as I have shown in this section, Tencent horizontally expanded in some service markets in which it already had a strong presence, such as email, IM, online community and BBS, email service, media portal, search engine, and e-commerce. In other areas that provided online-to-offline connections and tied new apps to Tencent's messaging and communication portals, it expanded more through the form of vertical integration. With the reach and scale of its businesses becoming so broad now, one particular business move, very often, could entail a number of different strategies. This has actually become a salient feature of the Internet industry that the breadth and depth of the services very often intersect, and some boundaries get blurred.

Diversification under the "Internet Plus" Policy

In addition to horizontal and vertical integration, under China's recent national policy of Internet Plus, which was to build a social economic network around an integrated online to offline platform through the Internet, Tencent also started a more encompassing diversifying strategy around 2013—on a scale much broader and deeper than previous ones—that expanded into some new businesses.

Investment Advisory

In November 2014, Tencent acquired a 23.0 percent stake in CITIC Capital Holdings Limited, an investment management and advisory company with strong ties to the Chinese state, for $263 million (HKD 2.040 billion).[672] The deal, under a round of the CITIC Group's additional share offering, was expected to boost collaboration on Internet finance between the

[672] Tencent, Annual Report, 2014, 144; Jonathan Browning, "Citic Adds Investors including Tencent, Och-Ziff to Share Sale," *Bloomberg*, June 17, 2014, accessed February 16, 2017, https://www.bloomberg.com/news/articles/2014-06-17/citic-adds-investors-including-tencent-och-ziff-to-share-sale.

two companies.[673] Moreover, relying on CITIC's expertise in investment and finance, Tencent would also enhance its own investment profile. In 2015 alone, the two together participated in at least three major investments in Chinese technology companies.[674] In 2016 CITIC Capital jointed Tencent's consortium to buy the Finnish game developer Supercell as a co-investor.[675]

Banking

On December 16, 2014, Tencent, together with its partners including Shenzhen Baiyeyuan Investment Company Limited and Shenzhen Li Ye Group Company Limited, were granted a license by the state's banking regulatory commission to establish a privately owned commercial bank, Shenzhen WeBank Limited, in which Tencent held 30.0 percent interest.[676] In January 2015, WeBank started to provide loans to small- and medium-size businesses. The move came under China's government's relaxation in banking and financial systems, which allowed privately owned lenders to operate banks under a pilot program.[677] Tencent was one of the ten approved companies to establish private banks, as was Alibaba.[678]

[673] Jiadai Jiang, "Tengxun rugu Xinzhongxin" 腾讯入股"新中信" 第二批机构投资者另类出场 [Tencent invested in CITIC Capital Holdings], *21st Century Business Herald* 21 世纪经济报道, June 18, 2014, accessed February 16, 2017, http://it.sohu.com/20140618/n400984094.shtml.

[674] Steven Millward, "Tencent's Biggest Investments of 2015," *Tech in Asia*, December 23, 2015, accessed February 16, 2017, https://www.techinasia.com/tencent-startups-invested-acquired-2015.

[675] Donny Kwok, "China's AVIC, CITIC, Others Inject $850 Million to Fund Tencent's Supercell Purchase," *Reuters*, October 17, 2016, accessed February 16, 2017, http://www.reuters.com/article/us-supercell-m-a-tencent-holdings-idUSKBN12H0A8.

[676] "History," *WeBank*, August 31, 2016, http://www.webank.com/aboutus/about.html.

[677] Gabriel Wildau, "Tencent Launches China's First Online-Only Bank," *Financial Times*, January 5, 2015, accessed August 31, 2016, http://www.ft.com/cms/s/0/ccc5a6dc-9488-11e4-82c7-00144feabdc0.html#axzz4J7B9TbU6.

[678] Michele Chandler, "Alibaba and Tencent Extend Their Rivalry to Banking Business," *Investor's Business Daily*, February 10, 2015, A04.

Media and Film Industry

In 2015 Tencent ambitiously entered the film industry and established a movie production unit, Penguin Pictures,[679] which Tencent, however, had been preparing for in the previous years by investing in the media and film industries.

In May 2011, Tencent made its first step into the movie industry by buying a 4.60 percent stake in Huayi Brothers Media Corporation, a Chinese giant in film production and publicly listed on the Shenzhen Stock Exchange since 2009.[680] With an investment of $69 million (RMB 445 million), Tencent became the largest institutional shareholder in China's biggest nonstate film company.[681] The deal was said to have been made at a premium of 9.89 percent higher than Huayi Brothers' regular stock price, which suggests Tencent's eagerness for entering the market.[682] Tencent and Huayi Brothers started their strategic partnership in December 2011 to collaborate in movie production, content distribution, and online promotion. At the time of Tencent's investment, the two primary individual shareholders were Wang Zhongjun and Wang Zhonglei, the cofounders of the company, who held 26.14 percent and 8.27 percent stakes, respectively. Meanwhile, Jack Ma, chairman and founder of Alibaba Group, who became an investor in Huayi Brothers in 2006, sat on the board of directors of the film company as the third-largest shareholder with 5.50 percent shares.[683]

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[679] Patrick Frater, China's Tencent Hatches Penguin Pictures," *Variety*, September 11, 2015, accessed March 19, 2017, http://variety.com/2015/film/asia/chinas-tencent-hatches-penguin-pictures-1201591001/.

[680] Tencent, Annual Report, 2011, 146.

[681] Jonathan Landreth, "China's Internet Titan Tencent Invests $69 Million in Film Studio Huayi Brothers," *Hollywoodreporter.com*, October 20, 2011.

[682] Meng Yang, "yijia shougou Huayi Xiongdi Tengxun jinjun yingshi quan buchaqian" 溢价收购华谊兄弟 腾讯进军影视圈"不差钱" [Tencent invested in Huayi Brothers with a premium price], *Securities Daily* 证券日报, May 12, 2011, 02.

[683] "Annual Report 2011," *Huayi Brothers Media Corporation*, 64, accessed August 30, 2016, http://www.huayimedia.com; Clarence Tsui, "Chinese Tech Tycoon Jack Ma Reduces Stake in Film Studio Huayi Brothers," *Hollywoodreporter.com*, June 6, 2013, accessed August 30, 2016, http://www.hollywoodreporter.com/news/jack-ma-reduces-stake-huayi-563849.

In the same year, Tencent made another investment, $17.14 million (HKD 132 million), for 5.01 percent stake in the Hong Kong–based film production and distribution company Media Asia Group Holdings Limited. [684]

Tencent continued exploring the movie industry in 2012 when it acquired 619,400,000 ordinary shares of ChinaVision Media Group Limited.[685] The deal, worth $31.713 million (HKD 247.76 million), gave Tencent an 8 percent stake in the HKEX-listed and mainland-based television and cinema content producer and distributor.[686] Similar to Tencent's investment in Huayi Brother, ChinaVision's issue price was a premium of 8.7 percent to its average closing price within a one-month framework, which again proves Tencent's strong will to get a slice of China's increasing media market.[687] However, in the March 2014, Alibaba Group entered into a deal with ChinaVision to buy a 60 percent stake in the company at a discount of 22 percent from ChinaVision's closing price.[688] Alibaba Group became the controlling shareholder of ChinaVision, which was renamed Alibaba Pictures Group Limited in August 2014.[689]

Conclusion

To systematically sum up Tencent's pattern of business expansion, it featured a combination of horizontal and vertical integration and a widening diversification. Not many documents indicate the financial source of these investments. Limited texts from Tencent's own financial reports and trade journals suggest a majority of these investments were self-

[684] Tencent, Annual Report, 2011, 146.

[685] Tencent, Annual Report, 2011, 189.

[686] Sophie Yu, "ChinaVision to pay HK$2b for China Entertainment," *South China Morning Post*, October 24, 2011, 04.

[687] Ibid.

[688] Euro Osawa, "Alibaba to Buy 60% Stake in ChinaVision Media," *Wall Street Journal*, March 12, 2014, accessed August 31, 2016, http://www.wsj.com/articles/SB10001424052702304020104579432822257342270.

[689] Alibaba Pictures Group Limited, Annual Report, 2014, 4.

funded, while several other deals resorted to fund-raising from bank loans and investment partners.[690] Above all, several points can be drawn from the discussion here.

First, Tencent's collaboration with other domestic Internet companies or technology investors demonstrates a strategic choice of different forms of acquisitions, mergers, and partnerships. If it is acknowledged that Tencent achieved half of its horizontal integration by its own business exploration, then the other half was strengthened through acquisitions and mergers. For example, in areas of its strength, such as online and mobile value-added services and QQ- and Mobile QQ–related online-community communication, Tencent mostly took a horizontal integration approach by acquiring smaller companies in the same area.

Secondly, vertical integration was also accomplished to different extents where Tencent formed strong alliances with other leading players in the business. Especially after 2010, Tencent started massively investing in many segments: online traveling, e-commerce, media and film production, online publishing, search engine, online real estate, digital mapping, online taxi-calling and ridesharing, online local life service, online entertainment (video and music streaming), and online banking. While most of these expansions were built around its mobile communication platform Weixin/WeChat, Tencent had built through strategic partnerships a comprehensive and seamlessly connected online-offline living complex. In its deals with e-Long, Sogou, and JD, for instance, we can see a typical model of vertical integration through the exhibition and distribution of offline services on Tencent's online platforms. In the online and mobile game market, to give another example, Tencent not only focused on horizontal integration by continually absorbing game-development teams into the company but also explored this vertically through acquiring and investing both in upstream firms specialized in game-system operation and engine development and in

[690] Donny Kwok, "China's AVIC, CITIC, Others Inject $850 Million to Fund Tencent's Supercell Purchase," *Reuters*, October 17, 2016, accessed February 16, 2017, http://www.reuters.com/article/us-supercell-m-a-tencent-holdings-idUSKBN12H0A8.

downstream companies in game distribution. Tencent's vertical integration in the game industry, however, was more salient in its overseas expansion than in domestic market, which I discuss in next chapter.

Thirdly, apparently, diversification had become a priority, shown not only in its full-scale investments in the various Internet services but also in its most recent collaborations with investment, finance, and banking businesses. This was not only about Tencent's collaboration with other banking or financial institutions to provide their services via Tencent's platforms. It was more of a sign of Tencent's ambition to become a major player in investment and financial service provision. Such an ambition not only corresponded to the trend to diversify one's business in a media industry but also reflected the special context in China, where the overall political economy now was expected to restructure around the central pivot of the Internet—a national strategy referred by the Chinese state as Internet Plus, discussed in previous chapters. Under such context, Tencent no longer bound itself to the businesses that were only online in the traditional senses and started building a complex of one-stop style in online-offline living and incorporating all the living necessities for individuals. For the moment, a large portion of this plan was synergized entirely on the single mobile application Weixin/WeChat, which, in turn, reinforced a network effect and reconsolidated Tencent's ability in capturing users.[691]

Tencent's pattern of expansion through horizontal and vertical integration and diversification is parallel to those of U.S. Internet giants.[692] Though initially and still disproportionately bred in China, the outline of Tencent's growing businesses is similar to those of Google, Facebook, and Amazon.

Last but not least, as many speculated that Tencent's full-scale strategy would come to cohere in the critical battle between the company and Qihoo 360 (discussed in the next

[691] McChesney, *Digital Disconnect*, 132.

[692] Ibid.

chapter), a roadmap of Tencent's growth also indicates the dynamic intercapital relations in China's Internet industry.[693] The company's achievement largely depended on its successful alliances with a number of leading Internet companies in China. These collaborations also had to be understood under the dynamics of fierce rivalries within China's Internet industry as responses to competitors. The intercapital collaboration and rivalry, always going hand-in-hand, must be analyzed as two sides of the capital and power reproduction process. Then the questions remain: How much room was there in other industries for the emerging Internet capital? How did the rising Internet giants negotiate terms with traditional monopoly industries, such as telecommunications? Was this reorganization process mediated by other forces? What kind of role did the state play in it? I pick up these questions in the next chapter.

[693] Wu, *Biography of Tencent*, 259–72; Longfei Su, "Tengxun 530 yi de binggou weikou ruhe yangcheng" 腾讯，530 亿的并购胃口如何养成 [Tencent's $8.63 billion (RMB 53 billion) investments], *Xin Caifu* 新财富, August 22, 2014, accessed February 16, 2017, http://finance.ifeng.com/a/20140822/12978170_0.shtml.

Chapter 4

Intercapital Rivalries and State Interventions

In last chapter, I focused on the intercapital collaborations and alliances in China's Internet industry and examined Tencent's expansion strategies. In this chapter, I turn to another side of the intercapital relations—the rivalries between Tencent and other Chinese Internet and telecommunications companies, with primary attention to the high-profile legal case between Tencent and Qihoo 360, as well as Tencent's relations with major Chinese telecomm carriers. In the first section, I present an overview of the role of the central state of China in developing economic space for Internet and general ICT capital. That China's state has been consistently protective of the domestic ICT industry and that the state has successfully prevented Google, Apple, Amazon, Facebook, and other U.S.-based digital giants from taking over the Chinese market, are well established.[694] However, the state's role with respect to Chinese Internet companies has been neglected. I begin the work of clarifying this role in the second section by examining a high-profile legal case in the domestic Internet industry, where the court system on various levels came in play. Through closely reading the regulatory and judicial texts developed out of the Tencent versus Qihoo 360 disputes, I highlight the nature of the rivalry. I also discuss the role of the Chinese state with respect to its approaches to domestic Internet industry and the implications of the court rulings. In the third section of this chapter, I look at Tencent's relation to China's major telecommunications carriers, which is crucial not only to Tencent's own growth but also the overall development of China's Internet industry. I argue that Tencent has displayed both the general business nature of communications industry and the structural features conditioned by China's Internet policies and overall social-political economy.

[694] D. Schiller, *Digital Depression*, 231–33; ShinJoung Yeo, "Geopolitics of Search: Google versus China?" *Media, Culture, and Society* 38, no. 4 (2016): 591–605.

Reconceptualize the State's Role in China's ICT

The role of the state has always been at the center of political-economy approach. According to Ralph Miliband, the state in capitalist society is subjected to "a multitude of conflicting pressures from organized groups and interest," which it is to accommodate and reconcile.[695] For communications studies, particularly, a primary concern in this line of inquiry is in what ways the state's policies assist the development of the capitalist communications system. The role of government policies and subsidies, for example, is crucial in "creating and extending the commercial system" of the Internet.[696] In the U.S. context, the huge political and, specifically, lobbying power of those digital giants has enormously shaped the government's regulation over a number of issues that aim at eliminating the threat of public ownership and the concern for public interests. By tracing a few important legal cases that have historically defined the nature of ISPs and, subsequently, the direction the Internet takes, McChesney shows that policy-making institutions in the United States, including the Federal Communication Commission (FCC) and Congress, are "under the thumb of big money."[697] This resonates with Tim Wu's observation on the historical process of technological changes from telephone and radio to the Internet.[698] Wu describes an interesting phenomenon that every time a new technology comes out, people tend to praise it as open, revolutionary, and potentially democratic. But it is no exception that the new technologies end up being highly concentrated and controlled by monopolies. In such transitions, government's regulations and policies play a defining role. As critical studies have shown, very often the government has made policies in favor of private

[695] Ralph Miliband, *The State in Capitalist Society* (New York: Basic Books, 1969), 4.

[696] McChesney, *Digital Disconnect*, 96.

[697] Ibid., 92.

[698] Tim Wu, *The Master Switch* (New York: Knopf, 2010).

interests—something political-economy scholars demand changes in. Wu states, "Government's only proper role is as a check on private power, never as an aid to it."[699]

When it comes to China, however, a prevalent theme pertaining to the role of the state in communications and the Internet very often puts the state on the opposite side to the capitalist market deriving from the discourse of liberation from the state.[700] As discussed earlier, mainstream scholars tend to dichotomize the relation between the state and the private sector, overlooking their interlocking relation in China's opening-up and reform processes. A majority of scholarship on China's Internet has followed these mainstream traditions, engendering one-dimensional analysis that takes the Internet as a site that either facilitates or constrains political, economic, and cultural discourses and actions.[701] Taking the Internet merely as a new sphere where China's long-established political participation and struggles take place, Yongmin Zhou argues that through new technologies, people have made new political participation models.[702] Similarly, in his book examining the interaction between the Internet and China's civil society, Zixue Tai terms Internet regulation in China as "fragmented authoritarianism" that allows various players in the civil society to interact on the Internet and transform the forms and practices of public deliberation in Chinese society.[703] Guobin Yang studies online activism in China by proposing a "multi-interactionalism" model that investigates the interaction among state power, culture, market,

[699] Ibid., 308.

[700] Jens Damm, "The Internet and the Fragmentation of Chinese Society," *Critical Asian Studies* 39, no. 2 (2007): 273–94; Ian Weber and Lu Jia, "Internet and Self-Regulation in China: the Cultural Logic of Controlled Commodification," *Media, Culture, and Society* 29, no. 5 (2007): 772–89; Weiyu Zhang and Arul Chib, "Internet Studies and Development Discourses: The Cases of China and India," *Information Technology for Development* 20, no. 4 (2014): 324–38; Jinqiu Zhao, "A Snapshot of Internet Regulation in Contemporary China: Censorship, Profitability, and Responsibility," *China Media Research* 4, no. 3 (2008): 37–42.

[701] Christopher R. Hughes and Gudrun Wacker, eds., China and the Internet: Politics of the Digital Leap Forward (London: Routledge, 2003); Johan Lagerkvist, After the Internet, before Democracy: Competing Norms in Chinese Media and Society (Bern: Lang, 2010); Q. Tai, "China's Media Censorship"; Guobin Yang, The Power of the Internet in China: Citizen Activism Online (New York: Columbia University Press, 2009); Yongming Zhou, Historicizing Online Politics: Telegraphy, the Internet, and Political Participation in China (Stanford: Stanford University Press, 2005).

[702] Zhou, Historicizing Online Politics.

[703] Zixue Tai, The Internet in China: Cyberspace and Civil Society (New York: Routledge, 2006), 108.

civil society, and transnationalism on the Internet platform.[704] On the other side, some efforts are made in examining the state's regulatory role, skeptically questioning the potential of China's Internet being an engine for liberation and democratization.[705] While these scholars may have noticed, to various extents, the roles played by these official agencies, still not enough attention is given to the structural relations within which different political, economic, and social actors interact and negotiate the terms for China's Internet.

The relation between China's Communist Party–state apparatus and the Internet industry in China has recently become a more nuanced subject of analysis than it had been. A growing number of scholars have drawn attention at least somewhat to the importance, the complexities, and the changing dynamics that characterize the Chinese state's entanglements with capital. Even a partial list must make room for research by Yongnian Zheng, Yuezhi Zhao, Lize Zhang, Jing Wang, Jack Linchuan Qiu, Yu Hong, and Hong Shen, all of which has enriched our understanding of interconnections between the Internet and China's state within the country's ongoing restructuring.[706] A common theme of this expanding literature is the intertwining of different state agencies and various units of capital. Yongnian Zheng, from the view of political and social control, highlights the mediating role of the Internet as a site of negotiation between the state and the society.[707] He argues that neither China's state nor China's society should be viewed as a monolithic entity and that they are actually

[704] G. Yang, Power of the Internet, 7.

[705] Zixiang Tan, "Regulating China's Internet: Convergence toward a Coherent Regulatory Regime," *Telecommunications Policy* 23 (1999): 261–76; Assafa Endeshaw, "Internet Regulation in China: The Never-Ending Cat and Mouse Game," *Information & Communications Technology Law* 13, no. 1 (2004): 41–57; Lyombe Eko, Anup Kumar, and Qingjiang Yao, "Google This: The Great Firewall of China, the IT Wheel of India, Google Inc., and Internet Regulation," *Journal of Internet Law* (September 2011): 3–14; Taofu Zhang, "China's Regulation and Systematization of Internet," *China Media Report Overseas* 7, no. 3 (2011): 1–6.

[706] L. Zhang, "Survival and Development"; Jing Wang, "'Stir-Frying' Internet Finance: Financialization and the Institutional Role of Financial News in China," *International Journal of Communication* 11 (2017): 581–602; Qiu, *Working-Class Network Society*; Jack Linchuan Qiu, *Goodbye iSlave: A Manifesto for Digital Abolition* (Champaign: University of Illinois Press, 2016); Y. Hong, *Labor, Class Formation*; Y. Hong, *Networking China*; Yu Hong, "Pivot to Internet Plus: Molding China's Digital Economy for Economic Restructuring?" *International Journal of Communication* 11 (2017): 1486–506; H. Shen, "Across the Great (Fire) Wall."

[707] Yongnian Zheng, *Technological Empowerment: The Internet, State, and Society in China* (Stanford: Stanford University Press, 2007), xvii.

"mutually transformative via their interactions in Internet-mediated public space."[708] Zheng argues that the Internet has empowered both the state and the society as "an integral part of nation-state building" and that it has strengthened the state's capacities in national economy-building and governance.[709] While Zheng's focus is on the political domain, his optic can be widened to suggest that the Internet and the state are interacting in complex ways that impact China's political economy overall.[710] For example, in Yu Hong's work on China's digital economy, she foregrounds the "indispensable" role of the state for the nation's capitalist development. As Hong writes, "to develop an industrialized market economy, governments at various levels initiate infrastructure construction and urbanization movements."[711] Furthermore, challenging the aforementioned prevalent framing on the role of Chinese state in controlling communication, Hong proposes a perspective to "see the state as a combination of contending functions and interests rather than a uniform entity."[712] According to Hong: "The (Chinese) state is partly constituted by contention, collusion, and compromises between regulatory bureaus and corporate actors, public and private sectors, transnational linkages and nationalistic interest, and powerful stakeholders and the rest of the society."[713]

Such a framework is further articulated in Hong Shen's study on China's approach to global Internet governance, which should be understood as "the result of multifaceted power interactions among a group of power-holders, including different state agencies and business units" on transnational levels.[714] Shen argues, accordingly, that the state-capital relation in

[708] Ibid., xviii.

[709] Ibid., 166.

[710] Y. Zhao, "China's Pursuits"; Wendy Su, "From Culture for the People to Culture for Profit: The PRC's Journey toward a Cultural Industries Approach," *International Journal of Cultural Policy* 21, no. 5 (2015): 513–28.

[711] Y. Hong, *Networking China*, 9.

[712] Ibid., 10.

[713] Ibid.

[714] H. Shen, "Across the Great (Fire) Wall," 83.

China's cyberspace has been "constantly changing and highly complicated" where "the territorial logic of the state and the expansive logic of capitalist" are intertwined.[715]

Joining these discussions on the heavy-handed state interventions in China's ICT-oriented development, I look at how the state and Internet capital interact in the historical process of building China's Internet industry as a prime dimension of the unfolding transformation of contemporary China. I focus on how the state system on different levels has managed to make room for domestic Internet capital to grow strong. Drawing attention to the legal cases derived from intercapital rivalries between Tencent and other Internet companies, I contribute to reconceptualizing the state-capital relation in Chinese communication industries.

The state, after all, encompasses a variety of elements and a range of functions. Executive, legislative, and judicial powers are each more or less important; we may specify, in addition, that the state's regulatory activities are arrayed across a variety of different and sometimes competing agencies. My examination of a few judicial rulings must be placed in this wider and more variegated context. Nevertheless, it aims to make contributions to what must be ultimately a more multifaceted study of the role of the Chinese state within the political economy of the Internet.

The Political Economy of *Tencent versus Qihoo 360*

Another side of the collaborations, mergers, acquisitions, and strategic partnerships is fierce competition, rivalries, and disputes. Many of Tencent's alliances involved some sort of competition with other companies. Like the ancient proverb goes, "The enemy of my enemy is my friend." While partnerships and collaborations were an indirect manifestation of the intensifying competition within China's Internet industry, another more direct expression was

[715] Ibid., 120.

through lawsuits and legal disputes. In this section, I examine a high-profile legal fight between Tencent and Qihoo 360 to reveal the intensifying intercapitalist conflicts in China's Internet industry and to examine the mediating and regulating role of the Chinese government and state agencies. By analyzing the time line, key players, debates, and ruling texts in the lawsuits between Tencent and Qihoo 360, I argue that not only is China's Internet an active part of the highly transnationalized and commercialized global digital industry but, more critically, the Chinese state is more encouraging than restraining in this process.

Tencent's dispute with Qihoo 360 was not the first, nor the last, of its legal battles with Internet companies. In 2006 Tencent was sued by the Korean game-developer Nexon and accused of copying its game *BNB*.[716] In 2008 Tencent filed a lawsuit against fifteen former employees who left Tencent for 51.com—a longtime competitor with Tencent in China's social-networking and gaming industries.[717] While the core of the case was around those former workers' violation against the labor contract they signed with Tencent, the dispute later developed beyond that of human resources. At the same time when Tencent was accusing its former employees, the company also criticized one of 51.com's products named Rainbow QQ, which was a very similar instant-messaging and social-networking application to Tencent's QQ.[718] Eventually, 51.com stopped its development and diffusion of the Rainbow QQ product.[719] The "3Q War"—an abbreviation for the battle between Qihoo360's

[716] Ning Ma, "wangluo youxi de zhishi chanquan baohu—Hanguo Nexon su Tengxun QQtang an yinfa de sikao " 网络游戏的知识产权保护－"韩国 NEXON 诉腾讯 QQ 堂"案引发的思考 [The intellectual property protection of online games], *Falv Tushu guan* 法律图书馆, January 31, 2008, accessed January 29, 2017, http://www.law-lib.com/lw/lw_view.asp?no=8845.

[717] Juliet Ye, "Tencent Launches 'Litigation-gate' against Former Employees," *Wall Street Journal*, November 13, 2008, accessed January 29, 2017, http://blogs.wsj.com/chinarealtime/2008/11/13/tencent-launches-litigation-gate-against-former-employees/; Wu, *Biography of Tencent*, 170–73.

[718] Xiaoyue Wang, "Tengxun cheng bupaichu qisu 51.com" 腾讯称不排除起诉 51.com [Tencent may sue 51.com], *Shangbao* 商报, November 27, 2008, accessed January 29, 2017, http://tech.sina.com.cn/i/2008-11-27/03212606838.shtml.

[719] Xiaoyue Wang, "51.com jiaoting Caihong QQ xuanchuan" 51.com 叫停彩虹 QQ 宣传 [51.com stopped promotion campaign on Rainbow QQ], *Shangbao* 商报, December 5, 2008, accessed January 29, 2017, http://tech.sina.com.cn/i/2008-12-05/01092626497.shtml.

Safeguard system and its affiliated 360 Kou Kou Guard, and Tencent's QQ together with its affiliated QQ Doctor—was the most well known and enduring of Tencent's legal conflicts.[720]

Time Line

The legal and media fight between Tencent and Qihoo 360 was a high-profile and long-lasting one. It involved three consecutive and interrelated lawsuits starting from 2010 and ending in 2014 with the final ruling on the third case by China's Supreme People's Court.[721] In this section I chronologically present the background and the development of the three lawsuits.

Qihoo 360, an Internet and mobile security company based in Beijing, developed 360 Safeguard, an antivirus software program.[722] The prelude of the story started in early 2010 when Tencent upgraded its own computer security system, QQ Doctor, a software package functionally similar to 360 Safeguard that scans users' disks for viruses and protects users' computers from being hacked or harmed by illegal software programs. Tencent's move was interpreted as an intention to compete with Qihoo's 360 Security System. Responding to Tencent's QQ Doctor, Qihoo 360 immediately designed a 360 Kou Kou Guard software, accusing QQ Doctor of invading users' privacy and claiming that Qihoo's 360 Kou Kou Guard was a better product than QQ Doctor in protecting users' QQ accounts. To be sure, the Chinese character of "Kou Kou" resembled the pronunciation of "QQ" in local language, and Qihoo was then accused by Tencent of being a copycatter of QQ Doctor. The competition between QQ Doctor and Kou Kou Guard—and thus between Tencent and Qihoo 360—accelerated in September of that year, when both sides launched upgraded versions of their

[720] There is no indication which specific media outlet or who first started using the term "3Q War". But at certain point of the case, the media started to commonly attribute the battle as "3Q War." http://it.people.com.cn/GB/119390/118342/207066/index.html/.

[721] "Zuigaofa xuanpan Qihu su Tengxun longduan jiufen shangsu an" 最高法宣判奇虎诉腾讯垄断纠纷上诉案驳回奇虎上诉维持原判 [The Supreme Court ruled on Qihoo suing Tencent for monopoly power], *Xinhua News*, accessed April 27, 2016, http://news.xinhuanet.com/tech/2014-10/17/c_127109368.htm.

[722] "Products and Services," *Qihoo 360*, accessed April 28, 2016, http://corp.360.cn/.

own computer-security systems that would disenable the other's programs or at the very least make them dysfunctional.[723] The intensification continued, and in November 2010 both Tencent and Qihoo informed users, in the name of protecting their privacy, that their products were no longer compatible with one another, which meant users had to choose to either use QQ Doctor bundled with QQ instant-messaging service or Qihoo 360's Kou Kou Guard. Each side stuck to its own arguments in its letters to users, the tone of which was similar—claiming that sadly they had no choice but to make this unfortunate decision.[724] As the incident became dramatic, and almost a sensational media story, it was ended by intervention from a state regulatory entity. On November 20, 2010, the Ministry of Industrialization and Information Technology (MIIT) released a circular that severely criticized the misconducts in competition by Tencent and Qihoo 360.[725] MIIT demanded the two companies apologize to the public, stop the mutual assault, and resume their normal services to all users immediately.

Amid this fight, the first lawsuit between Tencent and Qihoo 360 was filed at the end of October 2010, when Tencent took the initial legal action against Qihoo 360 by bringing a case of unfair competition to the People's Court of Chaoyang District in Beijing.[726] In April 2011, the Chaoyang District court ruled that Qihoo 360 together with two other subsidiary companies lost the unfair competition lawsuit to Tencent. Qihoo 360 was told to stop the

[723] "360 xiang Tengxun xuanzhan" 360 向腾讯宣战：新推软件直指 QQ 侵犯用户隐私" [360 started a war against Tencent], *Phoenix News*, accessed April 27, 2016, http://tech.ifeng.com/internet/special/360pkqq/content-1/detail_2010_09/27/2642931_0.shtml.

[724] "Tengxun chang bujianrong 360 shi zuidi kangzheng" 腾讯称不兼容 360 是最低抗争 向用户表达歉意 [Tencent claimed to make software programs incompatible being the least it can do], *Tencent News*, accessed April 28, 2016, http://tech.qq.com/a/20101104/000372.htm; "360 Koukou baobiao zhi yonghu xin" 360 扣扣保镖致用户信：发问腾讯和瑞星 [A letter from 360 Koukou Guard to users], *TechWeb*, accessed April 28, 2016, http://www.techweb.com.cn/internet/2010-11-06/717871.shtml.

[725] "关于批评北京奇虎科技有限公司和深圳市腾讯计算机系统有限公司的通报," *MIIT*, accessed April 28, 2016, http://www.miit.gov.cn/n11293472/n11293832/n12845605/n13916973/14019953.html.

[726] "Beijing Chaoyang Fayuan zhengshi shouli Tengxun su 360 buzhengdang jingzheng an" 北京朝阳法院正式受理腾讯诉 360 不正当竞争案 [Beijing Chaoyang district Court took Tencent's case against 360], *Tencent News*, accessed April 28, 2016, http://tech.qq.com/a/20101103/000474.htm.

circulation of its 360 Privacy Protector, which disseminated false information about Tencent and would potentially damage Tencent's commercial reputation.[727]

In August 2011, Tencent filed another case under the anti–unfair competition law against Qihoo 360 in the Higher People's Court of Guangdong Province.[728] The court made the decision, in April 2013, that Qihoo 360, by using Kou Kou Guard, conducted unfair competition against Tencent and intentionally sabotaged the normal functionality of Tencent's QQ instant-messaging system.[729] Qihoo 360 appealed to the Supreme People's Court. The Supreme Court accepted the case and opened the trial session in December 2013. The Supreme Court sustained the original ruling in February 2014 and confirmed that damages of $807,000 (RMB 5 million) should be paid to Tencent by Qihoo 360.[730]

At the same time when the second case was in trial, in November 2011, Qihoo 360 filed an antimonopoly case against Tencent before the Higher People's Court of Guangdong Province, accusing Tencent of abusing its power as a dominant player in the instant-messaging market and requested money from Tencent.[731] The Higher People's Court of Guangdong Province made an initial decision in March 2013, which dismissed Qihoo 360's claims. Qihoo 360 appealed against this ruling and eventually brought the case before the Supreme People's Court in June 2013. The case, taking almost a year and a half, was finally ruled on in October 2014, as the Supreme People's Court decided that Tencent lacked

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[727] "Tengxun su 360 qinquan an yishen xuanpan" 腾讯诉 360 侵权案一审宣判 360 登报道歉 30 天 [The court ruled Tencent's case against 360], *People News* (April 27, 2011), accessed April 28, 2016, http://society.people.com.cn/GB/14491170.html.

[728] "Tengxun su 360 Koukou Baobiao buzhengdang jingzheng an yishen panjue shu" 腾讯诉 360 扣扣保镖不正当竞争案一审判决书 [The initial court ruling text on Tencent's case against 360 Kou Kou Guard], *Sina News*(December 3, 2013), accessed April 28, 2016, http://tech.sina.com.cn/roll/2013-12-03/23198972306.shtml.

[729] Ibid.

[730] "3Q dazhan zhongshen xuanpan" 3Q 大战终审宣判：驳回上诉 维持原判 [Final ruling made on Tencent and Qihoo case], *Sina News* (February 24, 2014), accessed May 18, 2016, http://tech.sina.com.cn/i/2014-02-24/15449186997.shtml.

[731] "360 su Tengxun longduan an kaishen" 360 诉腾讯垄断案开审 争议涉及 22 个具体问题 [Court opening the case on 360 against Tencent on monopoly power], *People's Daily* (November 27, 2013), accessed April 28, 2016, http://hn.ifeng.com/jingji/qiyebang/detail_2013_11/27/1514285_0.shtml.

dominance in Chinese instant-messaging market, affirming the original judgment.[732] Major discussions, following, are based on the texts of Supreme Court's ruling decision in this case.

In summary, three cases were pursued between two companies, the first two filed by Tencent against Qihoo 360 under anti–unfair competition charges, and a third suit filed by Qihoo 360 against Tencent under the antimonopoly law. While in Western legal framework, antitrust is a more commonly used term, antimonopoly is frequently referred to in China's current legal discourse.[733] Therefore in the following analysis, I use antimonopoly and antitrust interchangeably.

Major Parties

From chapter 3 we know that Tencent is a Chinese company that has integral transnational elements. Qihoo 360 is a leading provider of Internet and mobile-security services in China.[734] Founded in 2005, the company is based in Beijing and now has a massive user base, the number of which, according to the official statistics published by the company, reached 514 million monthly active PC Internet users and about 800 million total mobile users by the end of June 2015.[735] The two cofounders of Qihoo 360, Hongyi Zhou and Xiangdong Qi, both worked at Yahoo! China and 3721.com before establishing Qihoo.[736] Zhou also worked briefly as a partner at IDG China before he founded Qihoo 360, which

[732] "3Q dazhan 4nian changpao luomu" 3Q 大战"4 年长跑落幕：为互联网竞争树司法标杆 [Fights between Qihoo and Tencent finally closed], *Phoenix News*, accessed April 28, 2016, http://finance.ifeng.com/a/20141016/13191381_0.shtml.

[733] Jessica Hua Su, "The Dispute between Qihoo 360 and Tencent: What We Have Seen Thus Far," *Kluwer Competition Law Blog*, May 10, 2012, accessed December 10, 2016, http://kluwercompetitionlawblog.com/2012/05/10/qihoo-360-v-tencent/; David Evans and Vanessa Yanhua Zhang, "Qihoo 360 v Tencent: First Antitrust Decision by the Supreme Court," *Contemporary Policy International*, October 21, 2014), accessed December 10, 2016, https://www.competitionpolicyinternational.com/qihoo-360-v-tencent-first-antitrust-decision-by-the-supreme-court/.

[734] "About Qihoo 360: Corporate Profile," *Qihoo 360*, accessed May 2, 2016, http://ir.360.cn/frame.zhtml?c=243376&p=irol-homeProfile.

[735] Ibid.

[736] "About Qihoo 360: Management," *Qihoo 360*, accessed May 2, 2016, http://ir.360.cn/frame.zhtml?c=243376&p=irol-govManage.

gave him experience and knowledge in VC investment and the Internet industry in China. In March 2011, Qihoo 360 announced an IPO on New York Stock Exchange.[737] At that time, Zhou and Qi were the primary individual stakeholders of the company, owning 18.61 percent and 10.76 percent of the shares, respectively.[738] Besides Zhou and Qi, two global VC firms, Highland Capital Partners VI Limited Partnership and its affiliates and Sequoia Capital China I Limited Partnership and its affiliates sat as Qihoo 360's major institutional holders.[739] Highland Capital Partners, based in the United States, has a long history investing in information-and-technology sectors across the world. Sequoia Capital China was established in 2005 as the Chinese arm of the Silicon Valley–based Sequoia Capital, also a well-known VC corporation in funding and incubating cutting-technology start-ups.[740] The shares Highland Capital and Sequoia Capital China held in Qihoo 360 were 15.91 percent and 8.50 percent, respectively.[741] At the same time, Highland Capital Partners and Sequoia Capital China each held 20.22 percent and 10.83 percent of votes in Qihoo 360, respectively.[742] Whereas Qihoo 360's largest stakeholders—unlike Tencent's—are individual capitalists from China, its ownership structure also incorporates transnational capital—the VC from the United States—to be specific.

Although it was a battle primarily between Tencent and Qihoo 360, a few other units of capital in China's Internet industry joined the 3Q War. In October 2010, Internet firms, including Baidu, Kingsoft, Maxthon, Keniu, and others, together with Tencent, announced a joint statement condemning Qihoo 360's unfair competition and calling for alliances within

[737] "Qihoo 360 Announces Pricing of Initial Public Offering," *Qihoo 360*, accessed May 2, 2016, http://ir.360.cn/phoenix.zhtml?c=243376&p=irol-newsArticle&id=1544049.

[738] "Prospectus," *Qihoo* 360, accessed May 2, 2016, http://www.stifel.com/prospectusfiles/pd_1246.pdf.

[739] Ibid.

[740] "Company Overview of Sequoia Capital China," *Bloomberg*, accessed May 2, 2016, http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=40985119.

[741] "Prospectus," *Qihoo 360*.

[742] Ibid.

the Internet industry to protect themselves from being harmed by Qihoo 360.[743] This again is a vivid demonstration of the ever-intensifying relations between all units of capital in China's Internet industry.

Aside from these private companies, regulatory entities also played important roles. Mentioned earlier, the first intervening entity in this feud was the MIIT, which demanded Tencent and Qihoo 360 stop making their applications noncompatible with one another. Although MIIT's legal capacity on this case was relatively limited considering the nature of its notice was only a warning, it still possessed high-level regulatory authority and signaled that the top state agency took the issue seriously —whether it was about a healthy Internet market or consumer right.

Secondly, in addition to the MIIT's intervention, the rulings from China's People's Courts at different levels and regions were the key to understanding the nature of this fight and its significance. The three cases were brought separately in front of Beijing Higher People's Court, Guangdong Higher People's Court, and the Supreme People's Court. By looking at where the headquarters of Tencent and Qihoo 360 are based, one could easily suspect that court actions were related to local governments—that decisions by these local courts were partial to protecting local companies.[744] For example, among those who sit on the board of directors or managerial team in these two companies, Ma Huateng—Tencent's CEO—was the only person who has been elected the deputy to People's Congress from Guangdong Province, which was an indicator that Ma might have special ties with Guangdong government and priority might be given to protect Tencent's interest in this case as a result of the connection. Citing the State Administration of Industry and Commerce

[743] "Fandui 360 buzhengdang jingzheng ji jiaqiang hangye zilv de lianhe shengming" 反对 360 不正当竞争及加强行业自律的联合声明 [A joint statement to oppose 360's unfair competition and to enhance self-discipline in the industry], *Tencent News*, accessed May 2, 2016, http://tech.qq.com/a/20101027/000455.htm.

[744] Bin Lu, "Zuigao fa luochui 3Q fan longduan" 最高法落槌 3Q 反垄断 [The Supreme Court ruled on 360 and Tencent's anti-monopoly case], *Faren* 法人, December 2013, 46–47.

(SAIC) that awarded Tencent as "a well-known trademark," Guangdong Higher People's Court ruled in favor of Tencent in the second unfair-competition case, making an argument that what Qihoo 360 damaged was not only Tencent's but also the government's reputation, as it endorsed Tencent's trademark.[745] Such an implication that local Guangdong government was protecting its local companies was brought up by Qihoo 360 as the rationale to appeal for retrials of the cases where Guangdong Higher People's Court ruled in favor of Tencent.[746] Qihoo 360 argued the cases should not be under the jurisdiction of Guangdong, since Qihoo 360 was based in Beijing, and thus Qihoo's alleged behaviors, if any, of damaging Tencent's commercial reputation took place on Qihoo 360's Beijing servers. The Supreme People's Court rejected the retrial request.[747]

Key Issues

From the time line, we know that the fight between Qihoo 360 and Tencent actually involved three separate cases, two on the ground of anti–unfair competition and one about antimonopoly. But the key issues, as suggested by the Supreme Court's final judgments, were about Tencent's business model, surrounding questions of whether Tencent's business model was reasonable and legal, whether Qihoo 360's software damaged Tencent's interests, and whether Tencent possessed monopoly power in China's Internet market. The seemingly complicated debate pertains to two simpler frames: what the nature of Tencent's business is and what the scope of China's Internet industry is.

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[745] "Shenzhen shi Tengxun jisuanji xitong youxian gongsi Tengxun Keji (Shenzhen) youxian gongsi yu Beijing Qihu Keji youxian gongsi Qizhi Ruanjian (Beijing) youxian gongsi buzhengdang jingzhen jiufen guanqiaquan yiyi ershen minshi caiding shu" 深圳市腾讯计算机系统有限公司、腾讯科技（深圳）有限公司与北京奇虎科技有限公司、奇智软件（北京）有限公司不正当竞争纠纷管辖权异议二审民事裁定书 [Court ruling on the jurisdiction of Tencent and Qihoo's unfair competition case], *Supreme People's Court*, accessed April 25, 2016, http://wenshu.court.gov.cn/content/content?DocID=eff499a2-b647-11e3-84e9-5cf3fc0c2c18&KeyWord=%E8%85%BE%E8%AE%AF.

[746] Lu, [The Supreme Court ruled], 46–47.

[747] [Court ruling on the jurisdiction of Tencent and Qihoo's unfair competition case], *Supreme People's Court*.

For the first matter, the key to the first two anti–unfair competition trials was to decide whether the development and diffusion of Qihoo 360's Kou Kou Guard disrupted the profit model of Tencent by blocking advertisements and other commercial promotions that were popping up to users on QQ. Tencent and Qihoo 360 debated the legitimacy of Tencent's business model, which is to turn users into targeted customers and to sell advertisements. The court ruled in favor of Tencent by approving its business model's legitimacy:

> The business model of the plaintiff is based on providing free instant messengering service to users and sell other value-plus services including social networking, information, online gaming, and entertainment through the platform of instant messengering, as well as placing advertisements for advertisers. This model—selling value-plus services and advertisements—is a common practice in the current instant-messengering industry throughout the world. Since users enjoy the free instant-messengering services without paying anything, it is the cost they should pay to spending time on viewing advertisements and the pop-ups for promoting other services or plug-ins. Those behaviors of some users, who would like to enjoy the free services without paying anything and at the same time shut out the advertisements or value-added plug-ins by destroying the original design of the software, are beyond being legal.[748]

This is a landmark statement, as it recognizes Tencent's business model of selling value-added services and advertisements as legal and reasonable. Although the Supreme Court deemed some sentences in the above statement inaccurate and inappropriate, they agreed in the final ruling that the users should not utilize inappropriate methods, such as the services provided by Kou Kou Guard, to intervene or even intentionally sabotage Tencent's

[748] [The initial court ruling text on Tencent's case against 360 Kou Kou Guard], accessed April 28, 2016, http://tech.sina.com.cn/roll/2013-12-03/23198972306.shtml; translated by the author.

legitimate commercial interests.[749] In order to justify its decision, the court made a comparison between the services of Internet browsers and the instant messengers, arguing that, similar to web browsers, IM service providers should also be allowed to display advertisings to consumers.

In a broad context of the Internet history and digital capitalism, online advertising has been essential to the commercialization of the Internet. Matthew Crain and Robert McChesney delineate the processes of how Internet giants in the United States are gradually granted legitimacy in profiting from online advertising.[750] In particular, through working closely with the then Clinton administration, Internet companies shaped the policy in favor of industrial interests, rather than the public ones. Crain, examining the cases of DoubleClick and CMGI, argues that online advertising and its network construction are a critical part of the U.S. Internet industry's growth model and commercial practices and essentially have transformed the web "from a non-commercial space into a functional and increasingly mainstream marketing platform" at the early stage of the commercialization of Internet industry dates back to mid-1990s.[751] As Crain studies the creation and wide adoption of "cookies," McChesney further elaborates on the pervasiveness and effectiveness of cookies, which have allowed marketers not only to legitimately allocate prospective consumers but also to track their users' online behaviors in order for companies to make their marketing strategies more efficient and accurate.[752] "Gathering as much information as possible on Internet users and knowing where to reach them online is the key to securing ad dollars," writes McChesney.[753]

[749] [Court ruling on the jurisdiction].

[750] Crain, "Revolution Will Be Commercialized"; McChesney, *Digital Disconnect.*

[751] Crain, "Revolution Will Be Commercialized," 22.

[752] McChesney, *Digital Disconnect*, 147.

[753] Ibid., 149.

In this Tencent versus Qihoo 360 case, the ruling statement about the use of advertising by Tencent, therefore, was critical to China's Internet history, as the statement declared that the government not only acknowledged online advertising as a legitimate part of Internet business model but also endorsed and encouraged its use for a commercialized online space in China.

For the second issue with respect to the scope of China's Internet, Tencent and Qihoo 360 also had a heated debate on the definition and identification of "relevant market." Although the Guangdong Higher People's Court and the Supreme People's Court defined the term differently, their discussions on how to define the "relevant market" reflect two intrinsic trends in China's Internet industry: vertical and horizontal integration. The texts provided by the courts also informed us of the state's attitudes toward these tendencies to expand vertically and horizontally.

First, China's Internet industry has been highly diversified and vertically integrated, and the courts debated about whether to consider services of instant messaging, social networking, and microblogging as interreplaceable and whether to put them in the same category of a relevant market.[754] The boundary between IM, SNS (or microblogging), peer-sharing, and entertaining became so blurred, very often one company would provide these services at the same time and even blend them together within one application. Tencent and Qihoo, for example, both have stepped into each other's major business areas by launching a set of services including search, browser, software security, input system, e-commerce, online payment, social networking site, map, and so on, which make it difficult to define an

[754] "Qiho gongsi yu Tengxun gongsi longduan jiufen shangsu an panjue shu" 奇虎公司与腾讯公司垄断纠纷上诉案判决书 [Court ruling on Qihoo's anti-monopoly case against Tencent], *Supreme People's Court*, accessed April 25, 2016, http://wenshu.court.gov.cn/content/content?DocID=4fe3cab6-8698-4f8f-9131-3ec8b921b96c&KeyWord=%E8%85%BE%E8%AE%AF; translated by author.

exact industry segment where they belong.[755] Such effort to expand and integrate is never unique. This effort speaks to the global trend in Internet industry where networks of all contents and services are built and is consistent historically with the vertical integrations that take place in other media industries. As put forward by McChesney, "information networks, in particular, generate demand-side economics of scale, related to the capture of customers, as opposed to supply-side economies of scale (prevalent in traditional oligopolistic industry) related to reduction in costs as scale goes up."[756] By offering consumers a series of products and services, from hardware, such as cell phones or tablet devices, to software that sells contents, services, and virtual lifestyles, among others, Internet giants are each building a kingdom of their own that tries to capture as many consumers as possible. This has been true both of U.S.-based global giants like Google, Apple, and Amazon and China's BATs—the acronym for Baidu, Alibaba, and Tencent, which represent China's booming Internet industry.[757]

Secondly, the contention around the geographical range of the market mirrors another ongoing trend in China's Internet industry—the horizontal integration and transnationalization processes that Tencent and Qihoo 360 are experiencing. In the initial ruling, Guangdong Court allowed the use of "a global market."[758] The argument was that many services Chinese users chose to adopt are provided by foreign companies, such as Yahoo and Microsoft. While these services are easily transmitted across the web without additional charges to users or costs for the companies, the court justified the definition of the "relevant market" in a worldwide range. Similarly, the services provided by Tencent or

[755] Henry Ling Hu, "The Political Economy of Governing ISPs in China: Perspectives of Net Neutrality and Vertical Integration," *The China Quarterly* 207 (September 2011): 523–40; Yaping Wang, "Analysis and Reflection of Legal Issues Aroused by '3Q War,'" social sciences ed., *Journal of Beijing University of Posts and Telecommunications* 13, no. 5 (2011): 35–39.

[756] McChesney, *Digital Disconnect*, 132.

[757] Ibid., 140.

[758] [Court ruling on Qihoo's anti-monopoly case against Tencent].

Qihoo 360 are also widely diffused globally. Therefore, a use of global market seems to be reasonable in this case. However, the Supreme Court disagreed, as it determined the market range in this case to be within China, by citing related regulations on foreign investment in China's telecommunication and Internet services. According to the Supreme Court, the real benchmark gauging the market terms should be the users who in this case were mainly based in mainland China.

An ironic paradox emerges in such an approach. On the one hand, as I showed, China's Internet capital has been highly transnationalized and horizontally integrated. But on the other, the case was legally confined to a domestic market. The paradox, however, seems to be consistent with the Chinese state's intention to protect the domestic innovative industry and put restrictions on foreign participation.[759] First, due to the regulatory restrictions, many foreign units of Internet capital chose forms of indirect collaborations, such as VIE, other than joint ventures, to enter the Chinese market. It is evident that, in a VIE structure, foreign capital's controlling capacity is weak.[760] Second and more important, the Chinese government in recent years promoted policies oriented to develop the domestic innovative industry and aimed at transforming its technology sector from the "world factory" that only produced low-end devices for others into a national economic pillar.[761] This was further supported by the texts in the Supreme Court's final ruling: "It is inappropriate that the defendant [Tencent] made their products incompatible with those of the plaintiff [Qihoo 360] and caused certain commercial lost. Nonetheless, the antimonopoly is not concerned with any

[759] Wei Huang and Guizhen Han, "Relevant Issues to the Definition of 'Relevant Market' and Establishment of Market Dominance in the Final Judgment for Qihoo 360 v. Tencent," *Journal of Science, Technology, and Law* 1 (2015): 190–209; Qiping Jiang, "3Q dazhan xuanpan juyou lichengbei yiyi" 3Q 大战宣判具有里程碑意义 [A milestone ruling on Qihoo and Tencent's case], *Hulianwang Zhoukan* 互联网周刊, November 5, 2014, 70; Min Tang, "A Chinese Tencent? Its Roadmap to Transnationalization," paper presented at 2015 IAMCR conference, Montreal.

[760] Tang, "Chinese Tencent?"

[761] Y. Zhao, "China's Pursuits"; Hong, "Reading the Twelfth Five-Year Plan."

individual business operator. Rather, it is concerned with the overall healthiness of the competitive market mechanism. It protects it from being manipulated or destroyed."[762]

The Supreme Court, by defining the case within the mainland Chinese market and by criticizing both companies, articulated both a politically and economically meaningful stance—that the intercapital rivalry here was only a domestic issue—and made a clear statement that the state was to encourage and protect the domestic Internet industry rather than attack or strangle it.[763]

Impacts and Significance

By examining the process and the ruling documents of the Tencent versus Qihoo 360 war, at least two points stand out. This was a milestone case not only because it attracted much media and public attention but also because it brought forward political-economic questions.

First, the intensified intercapitalist relation was a manifestation of the increasingly commercialized and transnationalized Chinese Internet industry. The Chinese Internet is neither just a propaganda machine for the Party-state to control and operate politically, nor should it be romanticized as a vanguard of free service and open expression. It should be viewed as a reproduction site, just like any other industry in a capitalist system, where capital seeks to grow and expand in collaboration or competition with each other. Moreover, the Internet has been already highly commercialized and transnationalized. It is likely to be more transnational, both in the senses that many Chinese Internet companies are aggressively going out and that transnational units of capital are enthusiastic about further penetrating into Chinese market. A recent deal between Apple and Didi Rideshare is only one example of this

[762] [Court ruling on Qihoo's antimonopoly case against Tencent], *Supreme People's Court*; translated by author.

[763] Jiang, [Milestone ruling], 70.

ongoing process.[764] In a more general sense, then, the Internet is an active actor in the historical process of China's social-economic development and structural transformation.

Secondly, the state, as can be seen from the court's decisions and multiple legal documents, is open and encouraging to the commercialization of the Internet sphere. This approach has proved to be an intentional design by the government since China's industrialization process and now is further developed in most recent national strategy of Internet plus, which is expected to reorganize the national economy by centering around the Internet. Rather than being antagonizing to or contesting with the capital, the state is very often endorsing capital expansion and facilitating the process.[765] The process, however, is not placid. Negotiations and rivalries inevitably take place in market competition, legal fights, PR campaigns, or other formats. The terms in China's Internet industry are very much to be defined rather than already played out, unfolding rather than complete. Within these conflicts, China's state claims a pivotal role.

The rulings, however, also left some questions unanswered. One of the most important is the relation between burgeoning private Internet capital and the public interest of the provision of the communications and information system. Despite the consumers being the actual victims in the fight between Tencent and Qihoo and being shut out of access to certain services and contents, the arguments during the trials were all centered on the interests or damages of the two companies without a mention of the interests of consumers.[766] This could also be connected to a more recent controversy of Baidu's publishing untrue

[764] Charles Clover and Jennifer Thompson, "Apple Invests $1bn in Chinese Ride-Hailing App Didi Chuxing," *Financial Times*, May 12, 2016, accessed May 23, 2016, http://www.ft.com/intl/cms/s/0/714ed1c4-18b8-11e6-bb7d-ee563a5a1cc1.html#axzz49WHMlyao.

[765] Yuezhi Zhao, "After Mobile Phones, What? Re-embedding the Social in China's 'Digital Revolution,'" *International Journal of Communication* 1 (2007): 92–120; Hong, *Networking China*, 51–78.

[766] Denglan Huang, "QQ yu 360 de falv zhizheng" QQ 与 360 的法律之争(一) [A legal fight between QQ and 360], *Intellectual Property* 335 (2012): 48–50.

advertisements and making profits by selling search-engine ranks.[767] A related problem is the falling behind of law making in Internet industry.[768] How then should the government regulate a highly commercialized market place of online advertising to begin with? How should the state balance the growing profits of private companies, like Qihoo 360, Tencent, and Baidu, and the public interests of accessing accurate and nonbiased information? These questions, sitting unaddressed, are acquiring more urgency in the current process of prioritizing China's domestic Internet industry as the pillar industry in national political-economic restructuring. They portend, again, that the state's role is nearly certain to grow.

Friend or Foe? A Bittersweet Relation with Telecom Carriers

In the cauldron of commercialization, media convergence and concentration, telecommunications infrastructures, mobile and desktop devices, operating systems, content productions, and value-added services were evolving separately as both different divisions of Internet industries and symbiotically as interlocked aspects of the growth of digital capitalism.[769] Telecomm carriers, in particular, faced an immediate threat from the Internet, which eventually would provide "all sorts of voice communication and access to all sorts of audiovisual entertainment at virtually no cost."[770] In the book *The Master Switch*, Wu describes the relations between the telecom carriers, such as AT&T, and Internet companies, such as Google. As Wu points out, the matter of net neutrality does not only concern the users' access to the Internet but is also a power tug between the telephone and cable

[767] "San bumen lianhe diaochazu jinzhu Baidu" 三部门联合调查组进驻百度 武警二院生物诊疗中心停诊 [A joint investigation team to inspect Baidu], *Beijing Daily* (May 3, 2016), accessed May 18, 2016, http://news.xinhuanet.com/legal/2016-05/03/c_128951689.htm.

[768] Zhiyong Liu and Yue Qiao, "Abuse of Market Dominance under China's 2007 Anti-monopoly Law: A Preliminary Assessment," *Review of Industrial Organization* 41 (2012): 77–107.

[769] Dan Schiller, "Rosa Luxemburg's Internet? For a Political Economy of State Mobilization and the Movement of Accumulation in Cyberspace," *International Journal of Communication* 7 (2013): 1–20.

[770] McChesney, *Digital Disconnect*, 109.

industries and the Internet companies.[771] While it was commonly acknowledged that both the telecom carriers and Internet giants had gone through reconfigurations, the specifics of their interconnections, the negotiations, and the collaboration and/or rivalry need continuing examination.

China is no exception. Part of an infrastructural apparatus indispensable for China's outward-looking market economy, China's telecommunications industry experienced historical reorganizations intended "to attract transnational capital to China, to give Chinese elites transnational linkages, and to support impressive GDP increases from China's export-processing regime" before Internet companies even entered the scene.[772] In the 1990s, two state-owned enterprises—China Unicom and China Telecom—were created to commercially operate landline services. The aim, according to Eric Harwit, was two-fold: to introduce "the utility of competition" in China's telecommunications service industry and to "maintain control of the strategically key sector."[773] On the one hand, in order to break up the Ministry of Post and Telecomm (MPT)'s traditional monopoly over China's telecommunications service, China Unicom was established in 1993 as a second common carrier, backed by the Ministry of Economics Industry (MEI), Ministry of Railway (MOR), and Ministry of Electronic Power (MEP).[774] As a rival to MPT's operation, China Unicom was allowed to provide both fixed-line and radio-based services.[775] On the other hand, MPT's own operating enterprise, China Telecom, until 1995 called the Directorate General of Telecommunications (DGT), was registered as an enterprise legal person under the central state's macro reform, thereby separating MPT's operating sector of telecommunication businesses from the formal

[771] Wu, Master Switch, 284.

[772] Hong, Networking China, 35.

[773] Eric Harwit, *China's Telecommunication Revolution* (New York: Oxford University Press, 2008), 44–45.

[774] Mueller and Tan, *China in the Information* Age, 49–50.

[775] Markus Wauschkuhn, "Telecommunications and Economic Development in China," *Berichte des Arbeitsbereichs Chinaforschun* 16 (2001), http://www.iwim.uni-bremen.de/publikationen/pdf/c016.pdf.

state apparatus.[776] Also in 1995, both China Unicom and China Telecom started developing global system for mobiles communication (GSM) networks.[777] In 1999 China Telecom's mobile unit was split into an independent enterprise, China Mobile.[778] The establishment of China Mobile came under another wave of industrial reorganization by the government when a number of other regional telecom carriers were launched, including China Satellite Communications, China Net, Jitong, and China Railway Communications—each supported and supervised by different central government entities.[779] In 2002 China Telecom was further split, when its operations in eleven northern provinces were regrouped with China Net and Jitong under the name of China Net, and the other, southern provinces were maintained by China Telecom.[780] In 2008 the central government of China started a fourth round of reform, as China Railway Communications was merged into China Mobile. At the same time, China Unicom maintained its own GSM sector and took in the entire China Net while China Unicom's code division multiple access (CDMA) network and China Satellite's basic telecom network were merged into China Telecom's operation.[781] Supported by the state policies' orientation toward upgrading the communications industry and accelerating network convergence, China Mobile, China Telecom, and China Unicom retained their positions as national champions.

While it may take another book-length project to explicate the processes, rationales. and dynamics behind China's telecommunication reform, the briefly outlined history above

[776] Mueller and Tan, *China in the Information Age*, 37–38.

[777] Y. Hong, "Repurposing Telecoms for Capital."

[778] Ibid.

[779] Ping Gao, Kalle Lyytinen, and Ram Somasundaram, "China's Telecommunications Transformation: A Strategy Perspective," Proceedings of the Ninth Americas Conference of Information Systems (AMCIS), August 4–5, 2003, Tampa, Florida.

[780] Ibid.

[781] Duo Zhang and Xiaokang Feng, "Xin yilun dianxin chongzu" 新一轮电信重组：大幕拉开，前路艰辛 [A new round of reorganization in the telecom industry], *Xinhua Net* 新华网, May 24, 2008, accessed September 6, 2016, http://news.qq.com/a/20080524/002846_1.htm.

presents the context within which an analysis of Tencent's relation to the telecommunications sector may take place. Dominant and powerful as Tencent was and is, access to the networks provided by telecommunications operators still is fundamental to Tencent's survival. As the company states in its prospectus, revenues, largely deriving from a consistent growth in Internet and mobile VAS, were dependent on stable relationships and collaborative arrangements with mobile and other telecommunications operators, as well as on the government's continued investment in the national fixed-line and mobile-telecommunications infrastructures.[782]

In this section, I chronicle the tangled relationship between Tencent and major Chinese telecommunications carriers, namely China Mobile Communications Corporation (China Mobile), China Telecommunications Corporation (China Telecom), and China United Network Communications Group (China Unicom), by focusing on three salient aspects of their interactions: Tencent's collaboration with them; the telecomm carriers' entry into the mobile instant-messaging (IM) market; the rise of Weixin/WeChat and the disputes around whether telecom carriers should charge Tencent or individual users service fees. Through examining these events, I argue that the relation between the Internet companies and telecom carriers is not static but, rather, in flux. The dynamics very much emblematize a tug-of-war between the traditionally dominant telecom capital and the newly thriving Internet capital, where the state's role has been to balance them and sometimes to check their efforts.

Monetizing QQ

An early round of Tencent-telecom negotiation took place around the turn of the new century, when the first massive wave of construction and diffusion of mobile networking was underway. As shown in the above paragraphs, telecomm carriers were also under fierce pressures to seek profits, as the Chinese state was aspiring to a fast and comprehensive

[782] Tencent, Prospectus, 21, 31.

reinsertion into global capitalism.[783] These telecom champions, new to the realm of content services and VAS, had to actively seek ways of profiting and diversifying their own business through collaborating with other content and service providers. Tencent's value-added mobile communication services, such as Mobile QQ, became a popular choice that helped bring in user attention and data traffic.

On the other side, the state-endorsed reconfigurations of the domestic telecommunications market reconsolidated these carriers' market power. While the intention of government-initiated reforms was to bring in a competition mechanism and to stimulate productivity, it arguably gave the public fewer choices. These three giants—China Mobile, China Telecom, and China Unicom—were market monopolies and contributed to establishing a widening urban/rural gap in rate of Internet adoption and 3G-network coverage.[784] In controlling fixed-line and mobile networks, the giants controlled not only users' wired and wireless access to the Internet but also Internet companies' access to users. To online content and VAS providers, the telecom operators were gatekeepers. Partnering with common carriers, then, became an important strategy and almost an unavoidable choice for Tencent's early development of its mobile VAS.

In 2000 Tencent started strategically collaborating with China Unicom and China Mobile's Guangdong bureaus, because both telecomm giants launched their initial wireless application protocol (WAP) services.[785] Tencent saw opportunities in providing its IM service through mobile phones. In June 2000, Shenzhen Unicom's newly issued 10000 cell-phone SIM cards had Mobile QQ as a preinstalled program.[786] Shortly after, upon the launch of its Monternet—mobile Internet—marketing campaign, Tencent signed another agreement

[783] Yuezhi Zhao, "'Universal Service' and China's Telecommunications Miracle: Discourses, Practices, and post-WTO Accession Challenges," *Info* 9, no. 2–3 (2007): 108–21.

[784] Hong, "Repurposing Telecoms."

[785] "Internet Timeline of China 1986~2003."

[786] "Tencent History."

with China Mobile.[787] Subsequently, Tencent started cooperation with the local bureaus of China Mobile in Beijing, Sichuan, Jiangsu, Zhejiang, and Shanxi, among others.[788] The alliance both boosted traffic for the telecomm carriers and helped Tencent to monetize QQ based on VAS.[789] The alliance followed a simple process: Telecomm operators first installed Mobile QQ in their SIM cards. Due to the popularity of QQ, many users chose to enjoy Mobile QQ on their cell phones, together with other mobile-enabled value-added services provided by Tencent, for which users had to pay a data-streaming fee to the carriers. In the end, a portion of the fees collected by China Mobile and China Unicom was conveyed to Tencent based on the fixed payment terms agreed to by these companies. Such collaborative mechanisms contributed hugely to Tencent's balance sheet and the diffusion of mobile Internet, as telecom operators wished. As of 2004, Tencent worked with forty-four subsidiaries and branches of China Mobile and China Unicom in delivering its mobile and telecommunications value-added services.[790] It was through working with China Mobile and China Unicom that Tencent began to gain profits from QQ:

> The Internet value-added services and mobile and telecommunications value-added services are offered through network platforms operated by third-party telecommunications operators in China. The telecommunications operators provide us access to their networks and customers, jointly market our services to their customers, and are responsible for the billing and collection of fees for the services that we provide. In exchange, we share a portion of our fees with the operators. In particular, we work closely with China Mobile and China Unicom to offer many of our mobile value-added

[787] Xiao, [Tencent's QQ wins big], A3.

[788] [Shanxi Mobile and Shenzhen Tencent worked together to launch mobile QQ], 5.

[789] Wu, Biography of Tencent, 66–71.

[790] Tencent, Prospectus, 72–73.

> services. Substantially all of the fees for our mobile value-added services and a majority of the fees for our Internet value-added services are separately settled and collected for us by the 29 affiliates of China Mobile and 15 affiliates or branches of China Unicom.[791]

In order to sustain a stable profit, as Tencent itself states, it tried to build "strong strategic relationships with telecommunications operators and terminal device manufacturers in China."[792] The company accomplished this but not for too long. In 2003 China Mobile named Tencent as "best performing partner" for SMS services on its Monternet platform.[793] The competition between Tencent and carriers, however, also surfaced in that year.

Rivals in IM

Notwithstanding Tencent's willingness to build congenial rapport with the two mobile telecom giants China Mobile and China Unicom and with China Telecom, the tycoon in fixed-line services and, subsequently, in broadband communications, these three carriers to different extents felt the threat posed by Tencent's IM service. Tencent was able to provide text messaging, voice communication, and visual exchanges, among other value-added services, at a price lower than the common charges through traditional telecom channels.

The three first approached the problem by renegotiating terms in their partnerships with Tencent. In October 2004, as a former executive from Tencent, Chengmin Liu related, China Mobile called for a sudden meeting with Tencent and asked to redefine the rates each side collected out of one MVAS—the 161 Mobile Chat.[794] According to Liu, the 161 Mobile Chat represented a significant portion of Tencent's overall earnings from telecom and mobile

[791] Ibid., 104.

[792] Ibid., 7.

[793] Ibid., 5.

[794] Wu, Biography of Tencent, 118.

VAS, which left Tencent little bargaining power with China Mobile.[795] On December 22, 2004, Tencent announced in an official release that it was in negotiations with China Mobile on the matter. [796] In view of the fact that 161 Mobile Chat contributed 10 percent and 16 percent of Tencent's net profit in the calendar year 2003 and the half year ended June 30, 2004, respectively, as the corporate release said, Tencent's monthly net profit derived from 161 Mobile Chat would be reduced by an approximate $484 thousand (RMB 4 million).[797] In January 2005, the two announced that their negotiations had terminated the shared fee-collection scheme of the previous arrangement and allowed Tencent to only receive "a predetermined monthly maintenance fee" until the end of June 2005.[798]

As a result of these changes, revenues in reflect an immediate decline in Tencent's mobile and telecommunication sectors: "Revenues from our mobile and telecommunications value-added services decreased by 19.3 percent to RMB 517.3 million for the year ended 31 December 2005 from RMB 641.2 million for the year ended 31 December 2004. The number of subscriptions decreased significantly due to the continuing 'cleaning up' of inactive user accounts by mobile operators, our self-initiated clean-up of inactive or delinquent user accounts, the termination of the 161 Mobile Chat fee-sharing arrangement with China Mobile, the change in China Mobile's MMS billing policy, and increased competition."[799]

A collateral impact was the unprecedented drop of Tencent's stock price, which fell by over 8 percent during negotiations with China Mobile in December 2004.[800] During the

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[795] Ibid.

[796] "Tencent in Negotiation with China Mobile on '161 Mobile Chat' Agreement with China Mobile," 2004 Financial Releases, *Tencent*, December 24, 2004, accessed February 13, 2017, https://www.tencent.com/en-us/news_timeline.html.

[797] Ibid. The currency exchange rate is based on "Historic United States Dollar Chinese Yuan Renminbi," accessed February 13, 2017, http://currencies.zone/historic/us-dollar/chinese-yuan/p68.

[798] "Tencent Signs New '161 Mobile Chat' Agreement with China Mobile," 2004 Financial Releases, *Tencent*, January 18, 2005, accessed February 13, 2017, https://www.tencent.com/en-us/news_timeline.html.

[799] Tencent, Annual Report, 2005, 16.

[800] Sidney Luk, "Tencent Sees Lower Profit on China Mobile Deal," *South China Morning Post*, December 23, 2004.

next two years, Tencent witnessed an array of buyback and repurchase of its own shares. Analysis said that this was aimed to show that the company was confident in its own continual growth. In March 2005, the board approved a general mandate to repurchase shares, which was proposed to the year's annual meeting.[801] In the November of the same year, the company launched a share-buyback program "to repurchase shares of Tencent up to the equivalent of $30 million" as a positive sign to investors.[802]

A second move, taken by telecom carriers, was that they started entering the instant-messaging business. As early as 2003, China Telecom started developing Vnet Messenger (VIM), signaling an intention to enter the IM market. VIM, primarily invented by the research and development team from Guangdong Telecom, was aimed at connecting its services of landline, lower-end cell phone (Little Smart), and mobile phone for chatting, document transmission, and video chatting.[803] To be sure, Little Smart ran on a much-cheaper technology than GSM or CDMA and "used wireless local loop (WILL) technology to connect mobile device with traditional landline networks, with its own set of base stations, switchers, and handsets."[804] Bound with China Telecom's broadband services, this VIM was also designed to be an integral platform for entertainment VAS, such as browsing pictures and downloading ringtones and mobile games for household desktops. "It was a reasonable move for China Telecom to develop its own IM," according to one VIM R&D staff,

[801] Tencent, "General Mandates to Issue and Repurchase Shares," March 30, 2005, https://www.tencent.com/en-us/notice_timeline.html; "Voting Results at the 2005 Annual General Meeting of Tencent Holdings Limited," April 27, 2005, https://www.tencent.com/en-us/notice_timeline.html.

[802] "Tencent Announces 2005 Fourth Quarter and Annual Results," Financial Releases, *Tencent*, March 22, 2006, accessed September 8, 2016 https://www.tencent.com/en-us/news_timeline.html.

[803] Xiaowu Cao, "Zhongguo Dianxin mizao VIM" 中国电信密造"VIM" 欲"拦截"虚拟运营商 [China Telecom developed VIM], *21st Century Business Herald 21 世纪经济报*道, November 22, 2003, accessed September 8, 2016, http://tech.sina.com.cn/it/t/2003-11-22/1636259281.shtml.

[804] Qiu, Working-Class Network Society, 60.

analyzing the growing threats that traditional phone services were faced with.[805] Not enough data suggests whether VIM was a successful move or not. Nonetheless, upon its acquisition of China Unicom's CDMA business in 2008, China Telecom, with the 3G licenses granted by the state, launched a new mobile and desktop IM app—e-Surfing live—that integrated instant information services with voice and data communication.[806]

China Telecom was not the only one coveting the IM market. In 2006 and 2007, China Mobile and China Unicom also developed their own instant-messaging systems. China Mobile launched its own mobile-to-PC IM service, Fetion. Initially, an IM platform only for China Mobile's cell-phone subscribers who were able to exchange messages between computers and cell phones, Fetion enjoyed a dramatic growth during Tencent's fight with Qihoo 360 and eventually opened up to all mobile users, including those of China Unicom and China Telecom's in November 2010.[807] Similarly, China Unicom launched a mobile-Internet instant-messaging app, Chaoxin, in 2007, which was later shut down in 2009 when its CDMA business was relocated to China Telecom.[808]

At the end of 2006, Tencent and China Mobile started another round of negotiations centering on their collaborations on Mobile QQ. Prior to this negotiation, China Mobile was

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[805] Xiaowu Cao, "Sanda yunying sharu jishi tongxin Tengxun simian chuge" 三大运营杀入即时通信腾讯四面楚歌 [Thee telecom carriers entered the IM market], *21st Century Business Herald* 21 世纪经济报道, December 18, 2003, accessed February 8, 2016, China Knowledge Resource Integrated Database (CNKI).

[806] "E-surfing," *China Telecom*, accessed September 8, 2016, http://en.chinatelecom.com.cn/products/t20090227_48412.html; "Business Review 2009," *China Telecom*, accessed September 8, 2016 http://www.chinatelecom-h.com/en/ir/report/annual2009/online/Eng/bus_rev.html.

[807] "3Q dazhan zhi feixin xiazai sousuo liang shangzhang 600%" 3Q 大战"致飞信下载搜索量上涨 600% [Fetion received 600% more download and search rates by users due to the 3Q War], *Saidi Wang* 赛迪网, November 4, 2010, accessed September 8, 2016, http://tech.ifeng.com/telecom/detail_2010_11/04/3006046_0.shtml; Chaoli Jin, "Feixin xuanbu xiang liantong dianxin yonghu kaifang" 飞信宣布向联通电信用户开放 [Fetion now open to users of China Unicom and China Telecom], *Beijing Shangbao* 北京商报, November 8, 2010, accessed September 8, 2016, http://www.c114.net/topic/2428/a557142.html.

[808] Xiaoyu Gu, "Zhongguo Dianxin jiang guanting yuanshu Zhongguo Liantong chaoxin ji UNIJA yewu" 中国电信将关停原属中国联通超信及 UNIJA 业务 [China Telecom to shut down the Chaoxin app developed by China Unicom], *Jinghua Shibao* 京华时报, June 27, 2009, accessed September 8, 2016, http://tech.qq.com/a/20090627/000017.htm.

said to have terminated its collaborations with all outside major IM service providers, including Tencent, in order to promote its own IM application.[809] The negotiations resulted in a "cooperation memorandum" to jointly develop the two companies' IM platforms and to extend their contracts for another half a year, during which they would together launch Fetion QQ.[810] According to the plan, Fetion QQ would realize the "interconnection between China Mobile's Fetion handset uses and QQ subscribers."[811]

Debate on Weixin/WeChat

The coexistence of QQ, Fetion, and other text or mobile instant-messaging apps remained for a few years until January 2011, as mentioned earlier, when Tencent launched its mobile social application Weixin/WeChat, as an integral site for free text and multimedia messages, video calls, photo sharing, mobile games, e-commerce, and e-life, among others.[812] Telecom carriers' SMS took an immediate hit, as Weixin/WeChat provided convenient text-message service at a much-lower price than SMS. Traditionally, SMS was charged according to the number of messages sent. One message, regardless of length, was $0.01 (RMB 0.1). The cost of Weixin/WeChat, however, was based on the amount of the data traffic through general packet radio service (GPRS). For every 1 MB data streamed via GPRS, users could send thousands of text messages by Weixin/WeChat and only be charged $0.15 (RMB 1.00).[813] Weixin/WeChat, quickly diffused among its existing QQ users, was said to have taken away 20 percent SMS businesses immediately, which totaled half a year's profits for

[809] Yuanwei Xin, "mianlin duanliang daxian Tengxun wunai jiang tui mianfei Shouji QQ 面临"断粮"大限 腾讯无奈将推免费"手机 QQ" [Tencent may have to provide mobile QQ for free], *Jinghua Shibao* 京华时报, December 26, 2006, accessed February 13, 2017, http://news.xinhuanet.com/fortune/2006-12/26/content_5532052.htm.

[810] Tencent, Annual Report, 2006, 7.

[811] Ibid., 13.

[812] "Weixin and WeChat," *Tencent*, accessed September 8, 2016, https://www.tencent.com/en-us/system.html

[813] Cheng, [Weixin versus Text Message], 20.

China Unicom and China Telecom combined in 2011.[814] Taking the hit hard, China Unicom and China Mobile launched their own Weixin-like mobile applications in 2011, WO and Feiliao, respectively. Neither turned out to be a useful counterweight to Tencent's Weixin/WeChat. In July 2013, China Mobile aborted its Feiliao business, while China Unicom chose to work with Tencent in promoting the customized SIM card for packaged deals of Weixin/WeChat services.[815]

The challenge posed by over-the-top content (OTT) providers to traditional telecom carriers did not stand out as a unique phenomenon in China. It was an inescapable trend because the growing Internet industry would want to expand both horizontally and vertically and to enlarge business territory. Essentially, it was a battle between the different units of capital for the limited resources possessed by users. For example, Dong-Hee Shin analyzed the rise of mobile voice over Internet protocol (mVoIP) in Korea, resulting in a decline in voice calls carried by mobile operators.[816] In the European and North American contexts, similarly, the growing popularity of social media, such as Facebook and Twitter, and online-streaming platforms, such as Netflix, Hulu, and YouTube, brought challenges to telecom and cable operators.[817] How the Internet firms and telecom operators negotiated the terms, however, varied depending on the specific context. For Tencent's Weixin/WeChat, its

[814] Chunchao Wang, "Tengxun tui xin kehuduan gangshang feixin" 腾讯推新客户端杠上飞信 分流运营商超600 亿短信收入 [Tencent to launch new service challenging Fetion], *Tongxin Xinxi Bao* 通信信息报, January 26, 2011, A06.

[815] Chen Tian, "China Mobile pushing Fetion," *Global Times*, July 9, 2013, accessed September 8, 2016, http://www.globaltimes.cn/content/794978.shtml; Yan Ma, Xia Liu and Qiling Lin, "Liantong Tengxun lianshou tui Weixin" 联通腾讯联手推微信 [Unicom and Tencent to jointly promote Weixin], *Qiyejia Ribao* 企业家日报, July 22, 2013, 004.

[816] Dong-Hee Shin, "What Makes Consumers Use VoIP over Mobile Phones? Free Riding or Consumerization of New Service," *Telecommunications Policy* 36, N. 4 (2012): 311–23.

[817] Shahrokh Nikou, Harry Bouwman, and Mark de Reuver, "The Potential of Converged Mobile Telecommunications Services: A Conjoint Analysis," *Info* 14, no. 5 (2012): 21–35; Aniruddha Banerjee, James Alleman, and Paul Rappoport, "Video-Viewing Behavior in the Era of Connected Devices," *Communications and Strategies* 92 (2013): 19–42.

triumph in the market came as a negotiated outcome among the telecom carriers, the Internet companies, and the central government's regulatory entities.

First, the rise of Weixin/WeChat fell along the national strategy to converge three networks—telecommunications, broadcasting and TV network, and the Internet. In January 2010 in a State Council meeting, Premier Wen Jiabao pushed for the integration of the three networks.[818] As the reporter from the *People's Posts and Telecommunications News* states, this was not just a matter of reconsolidating national infrastructural networks but, more important, a strategy to further open up domestic communication markets to additional players, who were traditionally kept from service provision or content production, such as upstream manufacturers. Similar to what was documented in the aftermath of U.S. 1996 Telecommunications Act, the policy reflected a shift in the mode of competition.[819] As one analyst puts it, competition among broadcasters, telecommunications, and Internet value-added service providers was expected to be intense.[820]

To further recompose the domestic communication market, on the other hand, the state continued to break up monopolies and to balance the power among controlling and noncontrolling players. In November 2011, another state regulatory body, the National Development and Reform Commission (NDRC), started antitrust investigations against China Telecom and China Unicom of their dominant market power in providing Internet access.[821] According to an NDRC officer from the price supervision and antimonopoly

[818] Hu Hu, "Sanwang ronghe de lishixing tupo" "三网"融合的历史性突破 [A historical breakthrough of the three-network convergence], *Renmin Youdian Bao* 人民邮电报, January 18, 2010, accessed February 3, 2017, http://www.chinaunicom.com.cn/news/ywsm/hyzx/file876.html.

[819] Timothy J. Tardiff, "Changes in Industry Structure and Technological Convergence: Implications for Competition Policy and Regulation in Telecommunications," *International Economics and Economic Policy* 4 (2007): 109–33.

[820] Charice Wang, "China's Network Convergence Raises New Challenges," *Telecom Asia*, August–September 2011.

[821] Huapeng Yu, Jianyuan Shen, and Xiangdong Zhang, "Dianxin ye fengqi fan longduan" 电信业风起反垄断 [A wave of antimonopoly arising in the telecom industry], *Economic Observer* 经济观察报, November 14, 2011, 001.

department, the investigation was to determine if China Telecom and China Unicom used their monopoly power in providing broadband Internet service, as they were accused of charging different fees depending on whether the users were their competitors or not.[822] In December 2011, the two companies appealed to the NDRC, asking for a pause of the probe and promising to lower broadband pricing and to upgrade network speed.[823] Despite that the investigation ended, silently, without a meaningful result, the NDRC kept supervising the carriers' pricing reform and tightened its grip in 2014, when NDRC and MIIT jointly announced a notice to liberalize pricing of the telecommunications services.[824] These gestures served the purpose of the Chinese state: to further open up the domestic telecom industry, to encourage and protect domestic Internet capital, and to rebalance the national political economy by accelerating the "Chinese-style digital capitalism."[825]

Indeed, MIIT played a critical role in the situation. In early 2013, there was a heated debate over whether telecom carriers should charge additional fees on Tencent or users for using Weixin/WeChat, considering how much impact Weixin/WeChat had on their SMS services. According to a statistic announced by the MIIT in March 2013, the growth rates of SMS business and telephone business in the first two months of 2013 were much lower than that of the mobile Internet businesses.[826] Under such circumstances, telecom carriers made

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[822] Joy Shaw, "Landmark China Antitrust Settlement Opposed by Adviser," *Financial Times*, January 5, 2012, accessed February 3, 2017, http://www.ft.com/cms/s/2/9faeda3e-37ce-11e1-9fb0-00144feabdc0.html?ft_site=falcon&desktop=true#axzz4Yz69eefj.

[823] Chen Lu and Yu Zhixiang, "Telecom Carriers Appeal for Halt of Antitrust Probe," *Caixin Online*, December 5, 2011, accessed September 8, 2016. http://english.caixin.com/2011-12-05/100334415.html.

[824] Rangrang Bai and Guangwei Wang, "Jiegou chongzu guizhi zhihou yu zongxiang quanding—Zhongguo Dianxin Liantong fanlongduan anli de ruogan sikao" 结构重组、规制滞后与纵向圈定—中国电信、联通"反垄断"案例的若干思考 [Some thoughts on the anti-monopoly case against China Telecom and Unicom], *China Industrial Economics* 10 (October 2012): 135–47; Zhan Hao and Annie Xue, "China Deregulates Pricing in Telecommunication Sector," *China Law Vision*, May 29, 2014, accessed September 8, 2016, http://www.chinalawvision.com/2014/05/articles/competitionantitrust-law-of-th/china-deregulates-pricing-in-telecommunication-sector/.

[825] Y. Hong, *Networking China*, 11.

[826] Xiao Xu, "Duanxin yewu mianlin weixin chongji" 短信业务面临微信冲击 通讯巨头与运营商博弈日趋激烈 [Text message service took a hit from Weixin], *Gongren Ribao* 工人日报, March 20, 2013, 006.

their voices loud and clear: there should be additional charges to Tencent for maintaining the network infrastructure because Tencent services took so much advantage of it.[827] In February and March 2013, MIIT called for multiple meetings of telecom operators and Tencent to coordinate their requests. MIIT's attitude, however, was ambiguous and inexplicit. On the one hand, MIIT head Miao Wei acknowledged the validity of telecom carriers' concerns, as they had to expend money and effort in managing the network. On the other hand, Miao also noted that this problem should be solved by a competitive market mechanism, the principle of which was to contain telecom giants' monopoly power and to encourage the growth of innovative Internet companies. More of mediation than regulation, MIIT asked China Mobile, China Telecom, and China Unicom not to collude on this matter, and they were instructed to negotiate terms with Tencent separately.[828] MIIT's attitude toward the telecom carriers was consistent with those of the NDRC and the State Council.

Moreover, while MIIT's guideline in "following the market rule" did not do telecom giants much favor, their compromises with Tencent were also the results of the internal competition with each other. Because MIIT specifically pointed out that China Mobile, China Telecom, and China Unicom were not supposed to form an alliance in negotiating with Tencent, they did not do so. Previous telecom history already suggests an enduring rivalry among the three, not to mention their different approaches in responding to the Weixin/WeChat challenge. China Telecom started aligning with Tencent by launching QQ-service on its CDMA mobile devices in as early as 2011.[829] Any China Telecom user can use his or her phone number as the QQ numbers to log onto Mobile QQ, along with other

[827] Yan Ma, "Gongxinbu cheng you keneng dui Weixin shoufei" 工信部称有可能对微信收费 运营商态度各有不同 [MIIT may consider charging Weixin service], *Securities Daily* 证券日报, April 1, 2013, C03.

[828] Ibid.

[829] Lirong Chen, "Zhongdianxin yu Tengxun gaodiao hezuo" 中电信与腾讯高调合作 移动互联网上演变革记 [China Telecom to collaborate with Tencent], *Tongxin Xinxi Bao* 通信信息报, April 20, 2011, B03.

services on the mobile phones certified by China Telecom.[830] In terms of Weixin/WeChat, China Telecom suggested that, instead of conflict, it was an opportunity for further collaboration in its data business. The president of China Unicom also implied that the relationship with Tencent should be an interdependent one rather than a water-fire antagonism.[831] Both China Telecom and China Unicom shortly launched their own versions of contract cell phones with preinstalled Weixin/WeChat. China Mobile, for the moment, was sticking to its own Fetion service.

Tencent's relation with China's major telecom carriers was fluid and dynamic, embedded in the changing power and social-economic conditions that both shaped and were shaped by the telecom operators, Internet corporations, and state agencies. Representing the rising Internet industry, Tencent was both relying on the infrastructural and access advantages possessed by the predominant telecom companies and, at the same time, rivaling them by creating and improving mobile device–based services and captivating users with those services. In this process, the state tried to emphasize a balance of power among the players while signaling a preference for the continued growth of Internet capital.

Conclusion

As Christian Fuchs describes, "the global network capitalism is a nomadic dynamic system in the sense that it and its parts permanently reorganize by changing their boundaries and including or excluding various systems, groups and humans by establishing links, unions and alliances or getting rid of or ignoring those actors who do not serve or contribute to the

[830] Ri Yao, "Dianxin lianhe Tengxun tui tianyi QQ haoma fuwu" 电信联合腾讯推天翼 QQ 号码服务 手机号即 QQ 号 [China Telecom and Tencent jointly promote e-surfing QQ number service], *Tech.qq.com* 腾讯科技, November 1, 2011, accessed September 8, 2016, http://tech.qq.com/a/20111101/000010.htm.

[831] Na Li and Jia Liu, "Tengxun gei Liantong fa Weixin" 腾讯给联通发微信：OTT 之争破冰求共赢 [Tencent and China Unicom to collaborate with Weixin service]," *China Business News* 第一财经日报, July 19, 2013, B04.

overall aim of capital accumulation."[832] China's burgeoning Internet industry operates within this wider dynamic. By reviewing the theoretical framework of the state, examining the legal fights between Chinese Internet companies, and delineating the company's contested relationship with the telecommunications sector, I have revealed the landscape of China's domestic Internet industry, featuring Tencent as a central node. I underline two arguments.

First, the intercapitalist collaboration and rivalry often go hand in hand. On the one side, the scale was massive in acquisitions, mergers, strategic investments, and partnering alliances between Tencent and some domestic and also increasingly foreign players. On the other side was the elevated number of lawsuits with some other Internet companies—pursued by or sued against Tencent. To hold hands or to shake fists was a gamble that represented the two sides of the intensifying capitalist relations within China's Internet industry. The process, furthermore, was very much ongoing rather than finished.

Second, how this process unfolded and who would benefit largely depended on an environing reorganization, in which the state's role was fundamental. From the telecommunications reforms to the three-network convergence, from the commercialization of Internet value-added services to the Internet-plus strategy, Tencent's ability to grow in a stable, profit-making environment was significantly shaped and, to a great extent, protected by the current central government. How much longer the Internet industry would remain at the center of the national political economy and how much room there would be for the continual reproduction of Internet capital, again, remained to be seen.

[832] Fuchs, *Foundations*, 129.

Chapter 5

Becoming a Global Internet Giant

In previous chapters, I showed that Tencent has grown into an Internet giant that substantially controls a variety of online value-added services in China's Internet industry, including IM, social networking, online entertainment, gaming, and e-commerce, among others. While I focused on the company's relations primarily with domestic units of capital and state agencies, in this chapter I turn to a different yet equally important arena—Tencent's relations with transnational units of capital.

Throughout recent decades, the reproduction and circulation of capital, as Harvey points out, pushed outward against boundaries and limits on both regional and national levels.[833] Outsourcing, subcontracting, and cross-border alliances became dominant forms of accumulation for transnational corporations, while corporate ownership and control became more concentrated globally as nearly every country was integrated into capitalist production and finance.[834] Also as put forward by Christian Fuchs, "contemporary capitalism is based on a transnational organizational model: organizations cross national boundaries; the novel aspect is that organizations and social networks are increasingly globally distributed, that actors and substructures are located globally and change dynamically (new nodes can be continuously added and removed) and that the flows of capital, power, money, commodities, people and information are processed globally at high speed."[835] Communication and culture, as part of the capitalist production system, were no exception. Not only had the U.S.-based dominant media conglomerates expanded phenomenally in this transformative process but also had those from other parts of the world, such as Europe, South America, the Middle East,

[833] David Harvey, *The Enigma of Capital* (New York: Oxford University Press, 2010), 119–20.
[834] William I. Robinson, "Beyond the Theory of Imperialism: Global Capitalism and the Transnational State," *Societies without Borders* 2 (2007): 5–26.

[835] Fuchs, *Foundations*, 129.

Southeast Asia, and Africa.[836] Citing Compaine and Gomery's 2000 work, John Downing notes that media concentration had burst beyond domestic boundaries.[837]

Political-economy scholars, in particular, argue that the transnationalization of global communications industry occurred in tandem with the global neoliberal movement, both as a shaping force and an outcome. The U.S.-based transnational media corporations, as the vanguard in the neoliberal deregulation and commercialization trends, took the lead in commercializing and privatizing telecommunications and broadcasting sectors.[838] In his analysis of rising transnational media and their connection to the neoliberal global capitalist economy, McChesney wrote relates:

> The real motor force has been the incessant pursuit for profit that marks capitalism, which has applied pressure for a shift to neoliberal deregulation. In media this means the relaxation or elimination of barriers to commercial exploitation of media and to concentrated media ownership. There is nothing inherent in the technology that required neoliberalism; new digital communication could have been used, for example, to simply enhance public service media had a society elected to do so. With neoliberal values, however, television, which had been a noncommercial preserve in many nations, suddenly became subject to transnational commercial development.[839]

Under the global banner of deregulation and privatization, argues Dal Yong Jin, the current wave of neoliberal reorganization and reconsolidation in global communication industry was achieved primarily through mergers and acquisitions. Additionally, through analyzing the cross-border deals in the communications industry, Jin notes that there was a

[836] Herman and McChesney, *Global Media*, 156.

[837] Downing, "Media Ownership," 156.

[838] Herman and McChesney, *Global Media*, 104.

[839] Robert McChesney, "Global Media, Neoliberalism, and Imperialism," *Monthly Review* 52, no. 19 (2001): 1–19.

relaxation in policies regarding foreign ownership in national communications industries, beginning in mid-1990s and spreading from the United States to Asian and Latin American countries.[840]

The growing information technology and Internet industry demonstrated continuities with this neoliberal transformation. John Foster and Robert McChesney discuss the rise of a global supply chain in information technology industries with the incorporation of a global labor force mostly based in the developing world. The components of Apple's iPhone, for example, were produced in eight different factories based in Japan, South Korea, Germany, and the United States and then assembled in the manufacturing plants in China.[841] While outsourcing and subcontracting remained a crucial form of production for the global ICT commodity chain, the provision of Internet services, content, and applications also featured the growth of transnational digital networks and came to exert an extensive influence on global digital capitalism.[842] In his account of the political-economic shifts in global communications and, particularly, the ICT industries, Dan Schiller suggests that "efforts to corral network systems and services in order to capture more of whatever profits might be made introduced a new chapter in the geopolitics of information—one marked by intensifying struggles over control of the extraterritorial Internet and of the industries that continued to pyramid around it."[843]

The changing power dynamics in the global communications industry, in turn, pivoted on the specific patterns of transnationalization that were evident in the Internet industry. These continued to be robust rather than fixed. What structural features have characterized Internet companies' transnationalization? Are they comparable in highlighting mergers and

[840] Dal Yong Jin, "Neoliberal Restructuring of the Global Communication System: Mergers and Acquisitions," *Media, Culture, and Society* 30, no. 3 (2008): 357–73.

[841] Foster and McChesney, *Endless Crisis*, 139.

[842] D. Schiller, *Digital Depression*, 115.

[843] Ibid., 147.

acquisitions and other forms of private foreign direct investment, such as those pursued by existing global media giants? What is the geographical landscape of transnationalization in digital capitalism? These questions may be answered by detailed scrutiny.

In the meantime, some nation-states, as Harvey notes, any one of which was struggling "to assert its interests and achieve its goals in the world at large," also played a critical role for transnational corporations' expansion in paving their way politically.[844] As revealed in previous chapters, the capitalist communications, though claimed to be running under a free and competitive market, was not separate from government interventions or policy supports. This was evident in many scholarly accounts on the ascent of American movie, advertising, telecommunication, multimedia, and Internet industries and their efforts in political campaigns and policy battles. The U.S.-based Internet companies' global dominance, for example, according to Schiller, owed its impact to the support of the companies' state and corporate actors. The U.S. State and Commerce Departments, again for instance, formed "an effortless unity" with corporate actors in establishing the Internet industry as profit sites domestically and extraterritorially.[845]

While the United States persisted as a leading player in global ICT businesses, the rise of China's digital economy brought up a two-sided question. On one side, grappling with the geopolitics of information technology, what kind of approach and attitude would the U.S. government adopt to Chinese Internet companies' entry into North American market and other regions in the world? Would it be similar to the "effective ban on Huawei entering the U.S. network equipment market" or different?[846] As Tencent and other Chinese Internet companies were extending into a variety of regional markets, what policies did different

[844] David Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2003), 26.

[845] D. Schiller, *Digital Depression*, 161–84.

[846] Arjun Kharpal, "We're Still Keen to Set Up in the US: Huawei," *CNBC*, February 22 2016, accessed March 3, 2017, http://www.cnbc.com/2016/02/22/huawei-well-re-enter-us-market-if-welcomed--mobile-world-congress.html.

nation-states display? In what ways did Tencent's overseas expansion and landscape reflect the interstate relations unveiled around the issue of global information network and governance?

On the other side, as previous chapters have shown, the Chinese state has been more constituting than containing in the growth of domestic Internet companies. Moreover, recent policies have been oriented to support and build a strong domestic innovative industry. What part then, if any, did the Chinese state play in Tencent's global growth? What does the transnational market mean to Tencent, to China's domestic ICT sector, and to the Chinese state? In what ways has Tencent's transnational expansion reflected and been assisted by the overall "going out" strategy of continued Chinese "reform"?

Looking at these questions, I turn in this chapter to the transnational aspect of Tencent. I first chronicle Tencent's transnationalization process, foregrounding the chief forms that it has taken: foreign direct investment, mergers and acquisitions, research and development collaboration, joint ventures, strategic partnerships, and other practices. After presenting an overview of the scope of Tencent's overseas activities, secondly, I give priority attention to Tencent's relation with its largest institutional stakeholder, Naspers. By specifying the deals achieved in connection with Naspers, I aim to clarify what kind of power and control Naspers held on Tencent, and vice versa. Through a centerpiece of its business strategy, Tencent grew into a global game giant via horizontal and vertical integration. (Unpacking this process also adds understanding to the political economy of global game industry.) In the last section, I briefly examine an emerging and ongoing trend in Tencent's overseas expansion strategy: venture capital investments in technology-related sectors. By studying the recent history of Tencent's self-established technology-investment fund, I argue again that the connection between the digital and the financial sectors constituted a key pivot of the political economy of global ICTs.

Overview: A Roadmap to Transnationalization

Because Tencent is a company based in Mainland China, I refer to any business connections and activities outside mainland China as transnational ones. Mentioned in chapter 3, Tencent started incorporating transnational elements into its capital structure at an early stage—two years after the company's birth. At the same time, the company was also active in making overseas investments. According to the company's reports in past years, it had investments, aside from Mainland China and Hong Kong, in North America, Asia, Europe, and other parts of the world. The company rearranged the ways to present overseas investments by regions a few times. For the purpose of clarity, I display Tencent's overseas investments in three separate tables based on the way the company presented its foreign businesses. These changes—in the ways it organized regions—also reflects shifts in Tencent's business focuses throughout years. Also for analytical purposes in this chapter, my discussions below primarily examine and compare Tencent's investments outside China.

Table 5.1. Tencent's Yearly Investments by Regions, 2004–7 (RMB thousand)

Year	Hong Kong	United States	Europe	Other Countries
2004	589,831	542,598	519,874	174,437
2005	282,157	862,921	376,891	83,255
2006	231,386	566,695	301,549	74,561
2007	550,911	735,705	630,795	10,044

Sources: Tencent, Annual Report, 2004–7.

As revealed by the company's financial report since 2004, early years' investments between 2004 and 2007 were primarily in forms of financial instruments, such as "held-to-maturity investments, trading investments, term deposits and cash and cash equivalents."[847] By looking at the volumes and comparing to those in later years, these early years' financial

[847] This is the earliest documented information I was able to trace. No such information was revealed in Tencent's IPO Prospectus. Tencent, Annual Report, 2004, 60.

investments were not as significant as the business deals Tencent made in recent years. In 2008 investments in associates and, particularly, in Southeast Asian countries began to stand out as a major focus.[848]

Table 5.2. Tencent's Yearly Investments by Region, 2008–10 (RMB thousand)

Year	Mainland China	Hong Kong	United States	Europe	Other Asian Countries
2008	2,055	819,670	106,240	400,559	329,398
2009	90,244	564,321	49,949	341,410	644,784
2010	446,608	2,734,762	159,719	3,869,033	886,024

Sources: Tencent, Annual Report, 2008–10.

Table 5.3. Tencent's Yearly Investments by Region, 2011–14 (RMB thousand)

Year	Mainland China	Hong Kong	United States	Europe	Other Regions
2011	4,409,589	3,538,071	206,962	2,658,526	1,145,326
2012	4,817,738	6,381,699	2,938,082	3,973,735	2,435,042
2013	10,726,000	10,535,000	4,185,000	6,235,000	3,478,000
2014	43,106,000	17,804,000	6,066,000	3,327,000	14,849,000

Sources: Tencent, Annual Report, 2011–14.

For the years 2013 and 2014, particularly heavy investments were made in Korea. Of the $561.87 million (RMB 3.478 billion) in investments made in other regions in 2013, $279.32 million (RMB 1.729 billion) was put in Korea. In 2014, of the $2.418 billion (RMB 14.849 billion) investments made in other regions, $1.049 billion (RMB 6.442 billion) went to Korea.

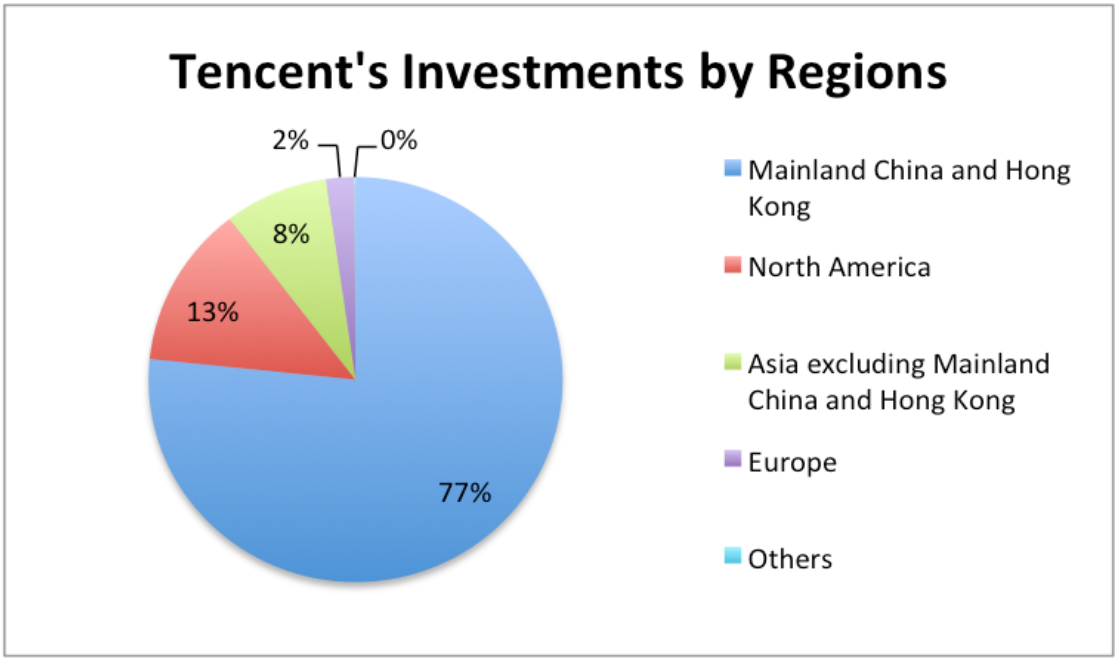
In recent years, investments expanded to both financial and nonfinancial forms, such as associates, redeemable preference shares of associates, joint ventures, and available-for-sale financial assets.[849] In 2015 Tencent reorganized its spreadsheet again by putting

[848] Tencent, Annual Report, 2008, 104.

[849] Ibid., 2015, 133.

Mainland China and Hong Kong together, enlarging the United States into the North American region, and adding another section on other Asian areas excluding Mainland China and Hong Kong.

Figure 5.1. Tencent's Investments by Regions in 2015



Source: Tencent, Annual Report, 2015.[850]

On the revenue side, as of 2015, the revenue stemming from overseas markets amounted to $958 million (RMB 6.612 billion), accounting 6 percent of Tencent's total revenues.

Table 5.4. Tencent's Yearly Revenues outside China

Year	Revenue (RMB Thousand)	Percentage of Total Revenue
2009	5,649	0.05
2010	13,914	0.07

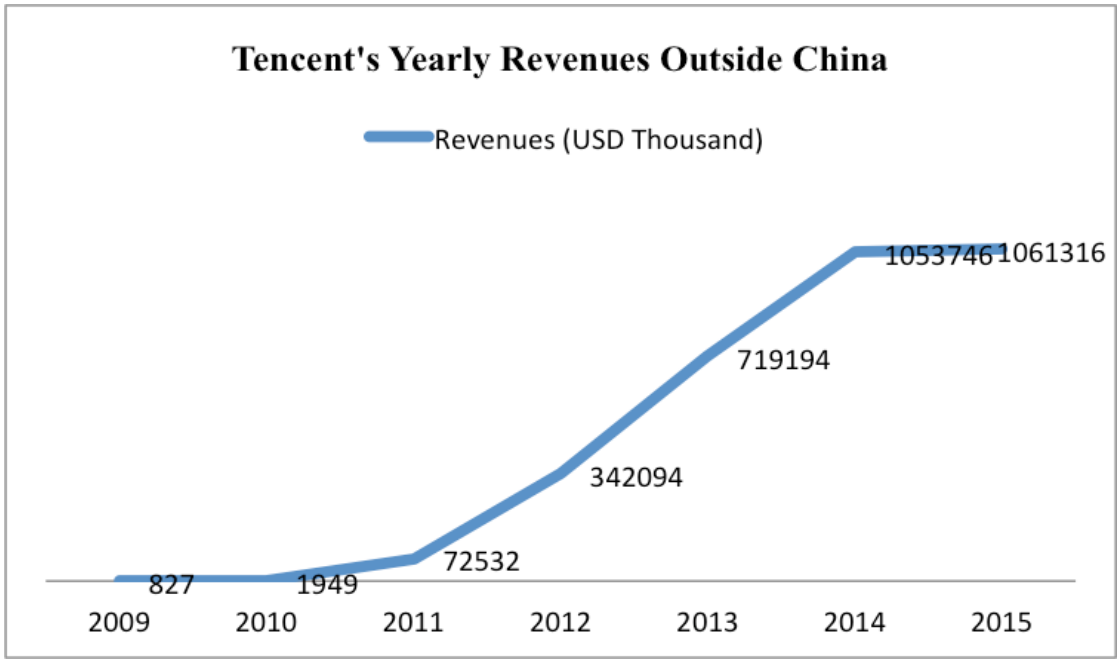
[850] Ibid., 133.

Table 5.4 (continued)

2011	468,556	1.6
2012	2,158,610	4.9
2013	4,459,000	7.4
2014	6,470,000	8.2
2015	6,612,000	6.4

Sources: Tencent, Annual Report, 20009–15.

Figure 5.2. Tencent's Yearly Revenues outside China, 2009–15



Sources: Tencent, Annual Report, 2009–15.

In terms of the specific intercapital relations, there were several key features of Tencent's transnational activities. First, these took a variety of forms: market expansion of its services; investments in or acquisitions of foreign-based media and digital companies by purchasing stakes in them; research and development collaboration in working on data centers and network systems; strategic partnerships with foreign-based companies in jointly developing services; and strategic memoranda with giants from different media industries, among others. In order to have a clearer depiction of Tencent's general overseas expansion, I delineate in Table 5.5 some major events and activities between 2008 and 2013. As they

stood, Tencent's transnational product development and business operations took place through mergers and acquisitions (M&A), outsourcing production, joint venture partnership, market expansion, and research and development (R&D). These are not only a reflection of Tencent's diverse business but also indicators of its ambitions in entering other related industries in the longer run, as I discussed below.

Table 5.5. Tencent's Primary Transnational Activities, 2008–13

Year	Event	Activity
2008	Tencent invested $11 million in **San Francisco-based Outspark**, an online game company. The deal was made together with another two investment partners DCM and Altos Ventures.[851]	Investment
	Tencent reached a memorandum of understanding with **Intel** in building a collaboration lab for a high-performance and low-power consumption server processor platform.[852]	R&D
	Tencent entered India market by allowing **MIH India Global Internet**, a subsidiary of Naspers, to use its services in India. The deal reached between Tencent and MIH India Global Internet also allowed Tencent to acquire no more than 50 percent of MIH India Global Internet shares.[853]	Expansion
2009	Tencent signed strategic partnership with **Z-Obee Holdings Limited**, an investment company listed on Stock Exchange of Singapore, to implement QQ software pack into Z-Obee's mobile handsets.[854]	Partnership
2010	Tencent bought 10.26 percent shares of **Digital Sky Technologies** (DST), a Russian social network, for $300 million.[855]	Investment
	Tencent and **Cisco** signed a memorandum of understanding in jointly developing "unified communications solutions."[856]	R&D
	Tencent and **Novell**, a Utah-based software and service company, jointly launched an Internet Data Center (IDC) to develop cloud-computing platform.[857]	R&D

[851] Scott Duke Harris, "S.F. Firm Gets China Investor," *San Jose Mercury News*, January 10, 2008, LexisNexis Academic.
[852] "Tencent and Intel to Research and Develop Servers," *China IT Daily*, April 28, 2008, LexisNexis Academic.
[853] "Tencent Enters Indian Market," *China IT Daily*, June 18, 2008, LexisNexis Academic.
[854] "Company Briefs," *Business Times Singapore*, June 9, 2009, LexisNexis Academic.
[855] Evgeniya Chaykovskaya, "Russian Social Networks Sell Stake," *Moscow News*, April 13, 2010, LexisNexis Academic.
[856] "Cisco and Tencent Sign MoU for Strategic Relationship," *Daily the Pak Banker*, June 18, 2010, LexisNexis Academic.
[857] "Novell and Tencent Establish Joint Cloud Computing Laboratory in China," *Daily the Pak Banker*, July 23, 2010, LexisNexis Academic.

Table 5.5 (continued)

	Tencent bought **Comsenz**, a Beijing-based social-networking provider $60 million. Comsenz was invested in by Sequoia Capital, Morningside Ventures, and Google Inc.[858]	Acquisition
2011	**Groupon** launched its Chinese website Gaopeng.com with funds from Tencent.[859]	Investment
	Tencent and **Zynga**, the San Francisco–based social game developer, partnered in launching a localized version of Cityville game on Tencent services.[860]	Partnership
	Tencent launched its English service to its microblogging.[861]	Expansion
	Tencent launched partnership with **American Express** to allow Tenpay users to shop on Globalshop and make purchases with retailers outside China.[862]	Expansion
	A newly launched New York–based exchange-traded fund, **Global X Social Media Index ETF,** held 10 percent of its funding from Tencent.[863]	Investment
	Tencent bought the **Los Angeles–based Riot Games** for $400 million, which allowed Tencent to provide access to League of Legends.[864]	Acquisition
2012	Tencent helped to publish the Korean game developer's ***Lineage*** in the Chinese market.[865]	Partnership
	Tencent bought a minority stake in **U.S.-based Epic Games Inc**., a leading 3-D game-engine technology firm.[866]	Investment
	Tencent and **Activision Blizzard** worked together in promoting *Call of Duty Online* in China. The free-to-play game will be provided through Tencent's service platform and will make money by selling items to players.[867]	Partnership
	Tencent launched the WeChat service in **India and Thailand**.[868]	Expansion

[858] "Tencent Purchases Google-Backed Social Networking Firm," *Daily the Pak Banker*, August 25, 2010, LexisNexis Academic; "Company Introduction," *Comsenz*, n.d., accessed June 5, 2015 http://www.comsenz.com/company/intro.
[859] "Groupon Launches Online Bargain Site in China," *AFP*, February 28, 2011, accessed June 28, 2014, LexisNexis Academic.
[860] "Zynga Partners with Tencent in China for Chinese Version of Cityville," *Hollywood Reporter.com*, July 26, 2011, accessed June 28, 2014, LexisNexis Academic.
[861] "China's Tencent Launches English Microblogging Site," *AFP*, October 11, 2011, LexisNexis Academic.
[862] Sijing Sun, "China's Tencent Inks Online Shopping Deal with American Express," *Payment Source*, October 18, 2011, LexisNexis Academic.
[863] Eric L Am, "Social Media ETF a Bet on Asian Markets," *Times Colonist*, November 18, 2011, LexisNexis Academic.
[864] Joyce Hooi, "Silly Games, Serious Money," *Business Times Singapore*, September 16, 2013, LexisNexis Academic.
[865] "Korean Mobile Game Developer Set to Expand in China," *Korean Times*, December 6, 2012, LexisNexis Academic.
[866] "Tencent Makes Strategic Investment in Epic Games," *Hong Kong Government News*, June 19, 2012, LexisNexis Academic.
[867] John Gaudiosi, "Activision Invades China with Brand New 'Call of Duty Online' Game (Video)," *Hollywood Reporter*, July 3, 2012, LexisNexis Academic.
[868] Harsimran Julka, "China's Tencent Aims to Battle U.S. Web Firms like Google, Facebook in India," *Economic Times*, July 27, 2012, LexisNexis Academic; Suchit Leesa-nguansuk, "Tencent Launches WeChat Messaging App in Thailand," *Bangkok Post*, November 27, 2012, LexisNexis Academic.

Table 5.5 (continued)

	Korean game-developer **Gamevil Inc**. launched its mobile game *Unch Hero* on Tencent's QQ Mobile messenger.[869]	Partnership
2013	Tencent made a deal with Hollywood giants **Warner Bros. Pictures, Universal Studios, Miramax Films, and Lionsgate**, which made the U.S. movies available to Chinese audiences for a fee.[870]	Partnership
	Tencent sought partnership with **Indonesia PT Global Mediacom** to launch a WeChat TV commercial as a move to further expand overseas market for WeChat.[871]	Expansion
	Tencent launched WeChat service in **Nokia Asha smartphones**.[872]	Expansion
	WeChat is offered in eighteen languages, including English, Indonesian, Spanish, Portuguese, Thai, Vietnamese, and Russian and has over seventy million registered overseas users.[873]	Expansion
	Tencent partnered with **Disney Media Distribution** to provide Disney, Pixar, and Marvel Studios movies to Chinese audiences through Tencent's web service.[874]	Partnership

Market expansion was primarily through the use of Tencent's IM services and value-added services of QQ, micro-blogging, QZone, and WeChat. Tencent achieved this in several ways. First, it launched its services in multiple foreign languages. For example, in December 2010, Tencent launched the first international version of QQ in English, Japanese, and French.[875] In 2011 Tencent launched the English service for its microblogging site.[876] For WeChat, the service was initially available in two South Asia countries—India and Thailand—in 2012.[877] As of 2013, WeChat was offered in eighteen languages, including

[869] "Korean Mobile Game Developer."
[870] Zhang Zhao, "Action Rolls as Online Portals Sign on with US Movie Giants," *China Daily European Edition*, January 30, 2013, LexisNexis Academic.
[871] "Tencent Further Taps Indonesian Market," *China Daily European Edition*, February 28, 2013, LexisNexis Academic.
[872] "WeChat Now on Nokia Asha Smartphones," *Telecom Frontline*, May 29, 2013, LexisNexis Academic.
[873] "WeChat Striving for Global Expansion," *China Daily Africa Weekly*, August 5, 2013, LexisNexis Academic.
[874] Patrick Brzeski, "Chinese Internet Giant Tencent Licenses Disney Films for Streaming Video Service," *Hollywood Reporter.com*, September 9, 2013, LexisNexis Academic.
[875] "Tencent Announces Launch of Int'l QQ," *Chinadaily.com.cn*, December 12, 2010, accessed March 3, 2017 http://www.chinadaily.com.cn/business/2010-12/16/content_11712170.htm.
[876] "China's Tencent Launches English Microblogging Site," *AFP*, October 11, 2011.
[877] Harsimran Julka, "China's Tencent Aims to Battle U.S. Web Firms like Google, Facebook in India," *Economic Times*, July 27, 2012; Suchit Leesa-nguansuk, "Tencent Launches Wechat Messaging App in Thailand," *Bangkok Post*, November 27, 2012.

English, Indonesian, Spanish, Portuguese, Thai, Vietnamese, and Russian and had over seventy million registered overseas users.[878] In particular, WeChat enjoyed high popularity in South and Southeast Asian countries, such as India, Thailand, and Malaysia.[879] Secondly, Tencent collaborated with local media companies and Internet service providers to both promote publicities and diffuse its products. For example, in Indonesia, Tencent partnered with Indonesia PT Global Mediacom to launch a TV commercial campaign for WeChat in 2013.[880] The company even recruited South African football stars Lionel Messi and Neymar for promotional commercials of WeChat.[881] Such an approach was made loud and clear when Ma Huateng revealed his plan to expand WeChat services and localized it by adapting to Western users: "[The next step] will be to cooperate with local developers, for example with game developers to promote products, and also to adjust to Western user habits."[882] In late 2015, WeChat took another step further when its online payment service started fully opening to overseas purchases so that users can pay with RMB using WeChat while the vendors received local currency for the transactions.[883] As of March, 2017, WeChat has options for its service in 22 different languages.

In addition to the instant-messaging and social-media businesses, many investments, acquisitions, and strategic partnerships were focused on games, with developers primarily based in South Korea and West Coast United States. The first investment of this kind was a

[878] "Wechat Striving for Global Expansion."

[879] "Tencent's WeChat Overseas Users Exceed 70 million," *CRI Online*, July 5, 2013, accessed October 25, 2016, http://en.people.cn/90778/8311962.html.

[880] "Tencent Further Taps Indonesian Market"; Jon Russell, "Tencent Focuses on Indonesia with Local Joint Venture to Promote Its Wechat Mobile App," *Next Web*, February 28, 2013, accessed September 18, 2016, http://thenextweb.com/asia/2013/02/28/tencent-focuses-on-indonesia-with-local-joint-venture-to-promote-its-wechat-mobile-app/.

[881] Steven Millward, "WeChat's Global Expansion Has Been a Disaster," *Tech in Asia*, May 25, 2016, accessed October 25, 2016, https://www.techinasia.com/wechat-global-expansion-fail.

[882] Paul Mozur, "China's Tencent Aims App at Mobile Users in the U.S.," *Wall Street Journal Asia*, March 6, 2013, 17.

[883] "WeChat Payment Fully Open to Overseas Purchase," *Xinhua*, November 20, 2015, accessed October 25, 2016, http://news.xinhuanet.com/english/2015-11/20/c_134838085.htm.

$901 thousand (RMB 6.223 million) deal made with Korean game-developer GoPets, when Tencent bought 0.219 percent of the ordinary shares and 8.108 percent of the preferred shares in GoPets.[884] The intensive efforts put forward in global game industry by Tencent, however, did not fully kick off until 2008, when it first invested $11 million in the San Francisco–based online-game company Outspark, together with two other investment partners, DCM and Altos Ventures.[885] Some major investments include alliances with Zynga, Riot Games, Epic Games, Activison Blizzard, CJ Games, and Supercell, among others. Tencent's rise as a global game giant is discussed in more detail below.

Another aspect of Tencent's global partnerships fell along an interest in R&D. The company signed joint R&D agreements with a few U.S.-based Internet companies, with a significant interest in building network infrastructures. This included a memorandum of understanding with Intel in establishing a collaboration lab for a high-performance and low-power–consumption server processor platform.[886] In 2008 Tencent cooperated with Cisco and Novell in developing network infrastructures and cloud-computing data centers for organizational clients, respectively.[887]

Last but not least, strategic partnerships with foreign media-content providers suggests a strong will of the company to enter the business of content production.[888] The first step Tencent took was to become an exclusive partner with U.S.-based TV, film, and music corporations and provide paid online-streaming services of their contents to Chinese users. Between 2013 and 2016, Tencent subsequently secured exclusive-distribution licenses from Warner Bros Pictures, Universal Studios, Miramax Films, Lionsgate, Pixar and Marvel

[884] Tencent, Annual Report, 2005, 85.

[885] Harris, "S.F. Firm Gets China Investor."

[886] "Tencent and Intel to Research and Develop Servers," *China IT Daily*, April 28, 2008.

[887] "Cisco and Tencent Sign MoU"; "Novell and Tencent Establish."

[888] Scott Cendrowski, "Tencent's Venture Capital: Huge in China, Invisible in America," *Fortune*, July 22, 2015, accessed March 3, 2017, http://fortune.com/2015/07/22/tencents-venture-capital-us/

Studios, Sony Music Entertainment, HBO, Warner Music, Paramount, MGM, Walt Disney and 20th Century Fox, and ESPN's NBA, NCAA Men's Basketball Championship Tournament, and the X Games.[889] These partnerships altogether built up Tencent's online-streaming kingdom as a unique content provider and distributor of the major Hollywood productions.

To draw a quick conclusion, Tencent's overall transnational expansion unfolded gradually since its public offering in 2004 and featured a full-scale strategy that incorporated various forms of intercapital relations, such as M&A, strategic alliances, service expansions, and R&D. With IM and gaming being two primary vectors, Tencent's IM and social media services were predominantly expanded into South and Southeast Asia, while the collaborations and investments in the gaming sector were connected more closely with the capital units from the United States and Korea. Recent moves into content-production markets suggests a further diversification of Tencent's businesses.

In the Naspers Jungle

As discussed in chapter 2, Tencent's largest institutional stakeholder was a South Africa–based media conglomerate, Naspers. In this section, I provide a preliminary political economy of Naspers, with respect to its ownership role in Tencent. The rationale for the analysis is to understand Tencent's connection with Naspers as an aspect of Tencent's transnational expansion.

Naspers was founded in 1915. Starting out as a Dutch-language newspaper company in South Africa, it now has become a transnational multimedia conglomerate with businesses

[889] Zhang Zhao, "Action Rolls as Online Portals Sign On with US Movie Giants," *China Daily European Edition*, January 30, 2013; Patrick Brzeski, "Chinese Internet Giant Tencent Licenses Disney Films for Streaming Video Service," *Hollywood Reporter.com*, September 9, 2013; Tencent, Financial Releases," 2014 and 2015, https://www.tencent.com/en-us/news_timeline.html; Paul Melvin, "Tencent Joins Hands with ESPN in Exclusive Digital Partnership in China," *ESPN Media Zone*, February 2, 2016, accessed September 18, 2016, http://espnmediazone.com/us/press-releases/2016/02/tencent-joins-hands-with-espn-in-exclusive-digital-partnership-in-china/.

primarily in Internet, entertainment, and technology investments across the globe.[890] Naspers was publicly listed on the Johannesburg Stock Exchange (JSE) and on the London Stock Exchange (LSE) for American Depository Shares (ADSs), which would allow international investors to buy and sell Naspers securities either through the JSE or LSE.[891] The company claimed to be one of the leading technology investors in the world, as the company's annual document stated: "Over the decades we have transformed thoroughly. Starting as a single-country newspaper group, we risked becoming an early investor in pay television and mobile telephony in one country. Then we grew into a video-entertainment leader and a major global consumer internet and ecommerce group in over 130 countries. Looking at our business as a whole on an economic interest basis and including our share of associates and joint ventures, almost 60% of our revenues are now derived from internet and ecommerce segments. Below 30% of our revenues are sourced in South Africa."[892]

As of March 2016, Naspers achieved an annual revenue of $12.2 billion, of which $8.2 billion came from Internet businesses, $3.4 billion from video entertainment, and $600 million from media.[893]

Geographically, Naspers had investment relations with forty-four corporations in various parts of the world, as its associate companies or joint ventures. Six of them were located in Asia, fifteen in the Middle East and Africa, four in the Americas—three in Latin-America and one in North America—and eight in Central and Eastern Europe, while another eleven of the group companies were operating globally.[894]

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[890] Tewodrow W. Workneh, "Sub-Saharan Africa," in *Global Media Giants*, ed. Benjamin J. Birkinbine, Rodrigo Gomez, and Janet Wasko (New York: Routledge, 2017), 287–311.

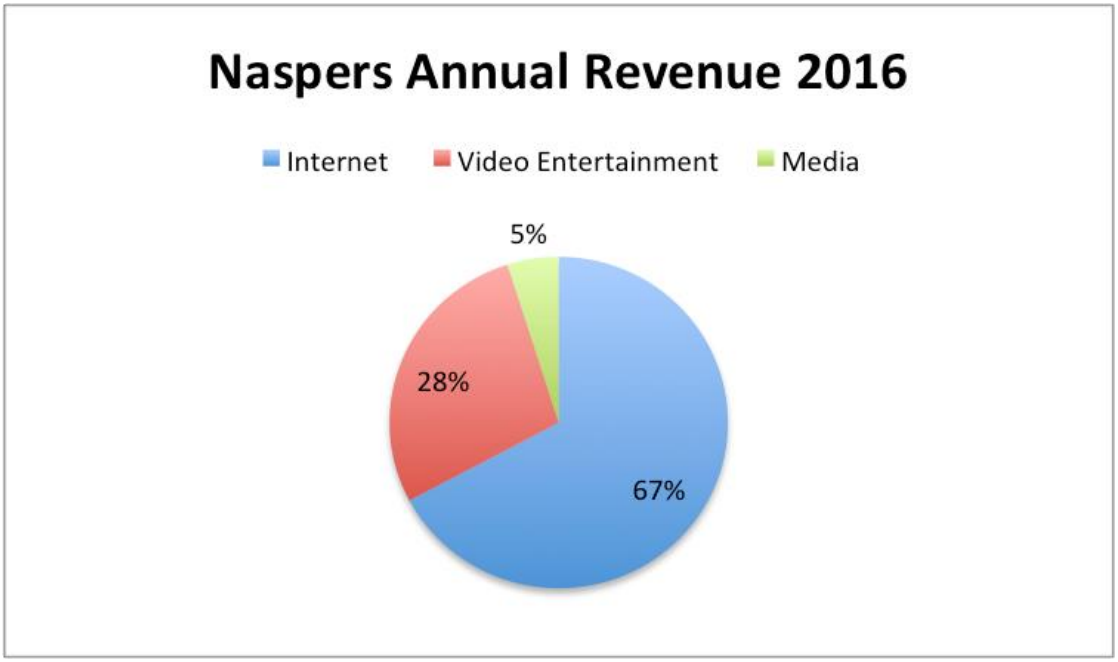
[891] "ADR Information," *Naspers*, n.d., accessed March 3, 2017, http://cdn.naspers.com/page.html?pageID=29; Workneh, "Sub-Saharan Africa."

[892] Naspers, Integrated Annual Report, 2015, 8. accessed September 18, 2016, http://cdn.naspers.com/financial-reporting.html

[893] Ibid.

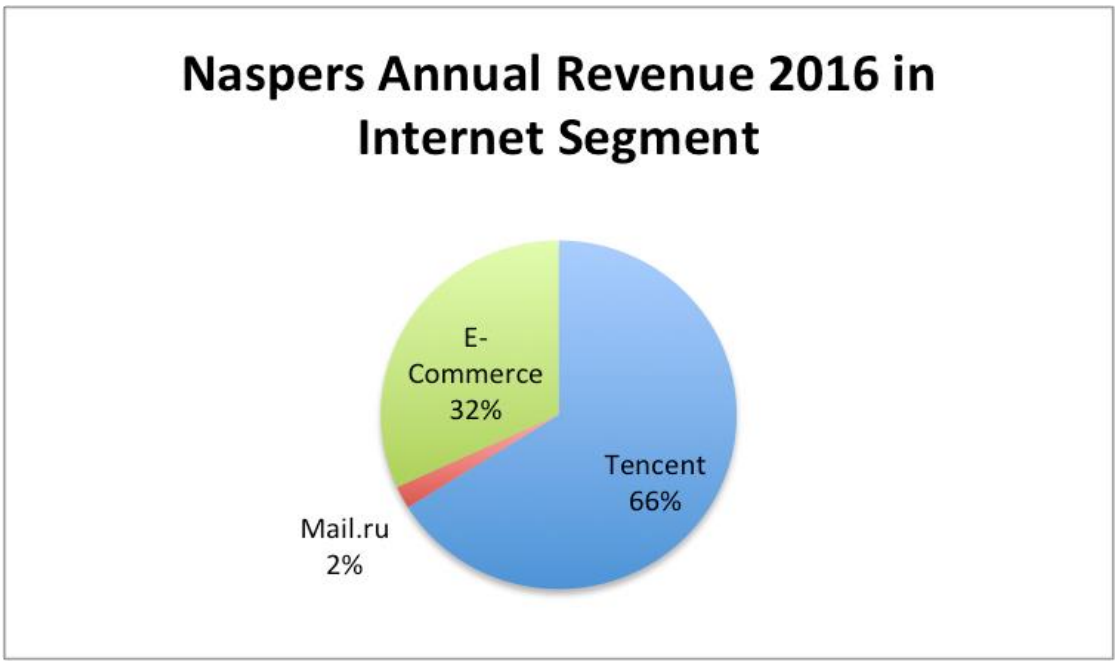
[894] "About Naspers," *Naspers*, accessed September 18, 2016, https://www.naspers.com/about.

Figure 5.3. Naspers Annual Revenue 2016 by Segment



Source: Naspers, Summarized Consolidated Financial Results 2016

Figure 5.4. Naspers Annual Revenue 2016 in Internet Segment

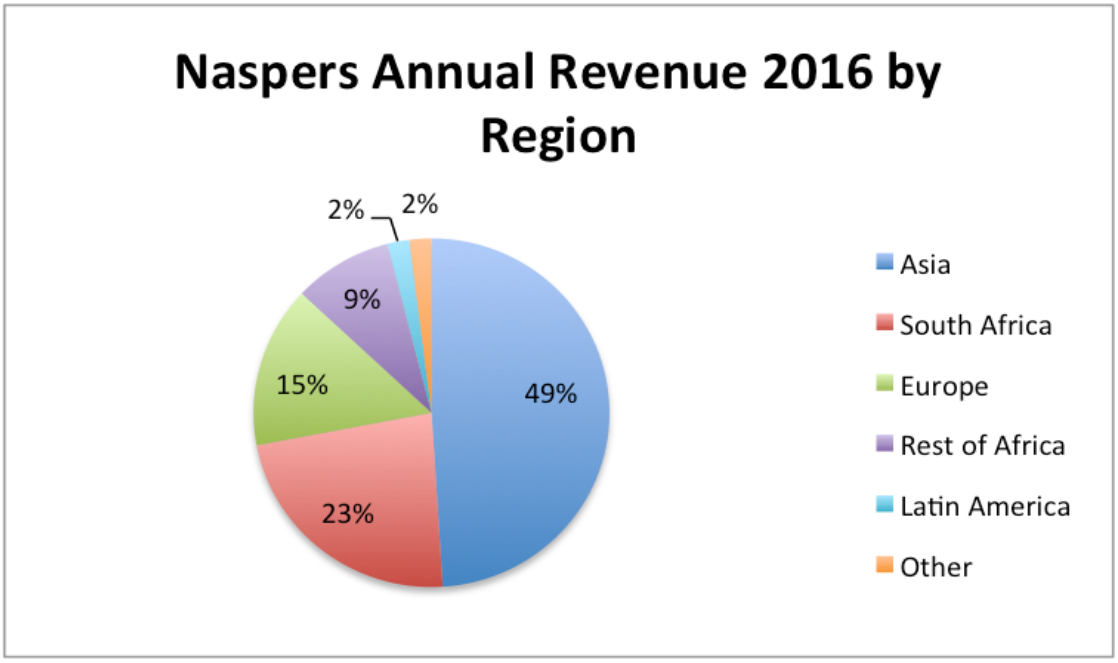


Source: Naspers Summarized Consolidated Financial Results 2016

Figure 5.5. Naspers Businesses by Region

Source: "About Naspers," *Naspers*, accessed September 18, 2016, https://www.naspers.com/about

Figure 5.6. Naspers's Annual Revenue 2016 by Region



Source: Naspers Additional Financials 2016, 6, accessed September 18, 2016, https://www.naspers.com/investors

As of 2016, Tencent was one of the two significant profit generators for the Naspers Group, contributing $5.4 billion to Naspers's spreadsheet, which was 66 percent of its

Internet segment and 44 percent of its overall revenue.[895] The other heavyweight interest was in a leading Russian Internet group, Mail.ru, in which Naspers's wholly owned subsidiary MIH held a 27.6 percent equity interest.[896] Mail.ru runs "the largest Russian portal, the leading Russian language social networks (VKontakte, Odnoklassniki, and My World) and the country's largest online-game business."[897] These investments in Tencent and Mail.ru, as well as some other unlisted companies, reflect a development strategy to focus on the burgeoning markets in BRICSA.[898]

Aside from Tencent, Naspers had invested in China in print media, as well. As early as 2002, Naspers held certain interests in a Chinese-language sports portal, SportsCn, with a 87.66 percent of equity interest as of June 2004.[899] In 2004 when Beijing Media Corporation (BMC), the operator of *Beijing Youth Daily*, launched an initial public offering on the Hong Kong Stock Exchange, Naspers's wholly owned MIH acquired 9.9 percent interest in the noneditorial segment of it.[900] This was due to the "dual-track ownership" system in China's print-media industry, where the business operation and news production were separated and could be owned by different entities.[901] To be sure, this means that the content-production department must be state-owned still, while private investments are allowed in the noneditorial sectors, such as advertising, marketing, and sales and PR departments.[902] In August 2006, Naspers purchased a 20 percent equity interest in a Changsha, Hunan-based

[895] Naspers, Summarized Consolidated Financial Results 2016, 5–10. accessed September 18, 2016, https://www.naspers.com/NaspersPortal/media/Naspers/Pdf/financials/integrated-annual-reports/Naspers-Summarised-consolidated-financial-results.pdf?ext=.pdf.

[896] Mail.ru, Annual Report, 2015, 37. accessed September 18, 2016, https://corp.mail.ru/en/investors/reports/.

[897] Naspers, Integrated Annual Report, 2015, 53.

[898] Naspers, Annual Report, 2006, 8.

[899] Naspers, Annual Report, 2002, 6; Tencent Prospectus, 136.

[900] Ibid., 2006, 37, 92.

[901] Shixin Ivy Zhang, Impact of Globalization on the Local Press in China: A Case Study of the Beijing Youth Daily (Lanham, MD: Lexington, 2014), 40.

[902] Ibid.

leading Chinese sports publisher, Titan Media.[903] Subsequently, the Chinese-language sports magazines *Allsports*, *Golf Digest*, *Outside*, *Slam*, *Soccer Weekly* and *Yoga*—all published by Titan Media—also became part of Naspers's global media family.[904] The stake in Titan Media was increased to a 37.4 percent in 2008.[905] In 2009 Naspers started investing in an Anhui Province–based local evening-news group—Xin'an Media Company Limited—with 37 percent interest in it.[906] But due to a tough and declining print-media market, Naspers gradually decreased and eventually dropped its investment in these corporations in 2011, 2013, and 2014.[907]

As Tencent's major institutional stakeholder, MIH and thus Naspers maintained a certain level of control on Tencent through a set of agreements that conditioned the relationship between the two groups. First, with two directors on Tencent's board—Antonie Andries Roux and Charles St. Leger Searle—from MIH, MIH also retained a right to nominate the chief financial officer of the company.[908] Secondly, Tencent and MIH entered a series of license agreements that granted MIH and its affiliates a sole and exclusive license to use Tencent's proprietary technology and intellectual property in Indonesia, Thailand, Greece, Cyprus, and South Africa. Another supplemental agreement also allowed MIH and the MIH operators to use Tencent's trademarks and other intellectual property when carrying on the Internet-related business for up to fifteen years.[909] But as discussed in chapter 2, no document indicates that Naspers dictated Tencent's autonomous operations.

[903] Naspers, Annual Report, 2007, 42.

[904] Ibid., 7.

[905] Ibid., 2008, 37.

[906] Ibid., 2009, 108.

[907] Ibid., 2011, 66; ibid., 2013, 17; ibid., 2014.

[908] Tencent, Prospectus, 135.

[909] Ibid., 137.

On the other side, with its wide reach in global media industries, Naspers also assisted with Tencent's transnational expansion. A certain portion of Tencent's foreign investment, mostly joint ventures and acquisitions, was made through the Naspers connection.

In June 2008, Tencent entered an agreement with Naspers's India-based wholly owned subsidiary MIH India Global Internet, which allowed Tencent to possess up to nearly 50 percent of the MIH India's shares. In exchange, Tencent granted licenses to MIH India for the use of certain of Tencent's services.[910] Tencent excised its options by subsequently obtaining a minority stake of 6 percent in December 2008 and 4 percent in March 2009.[911] Although Tencent's stakes in MIH India were through an internal transfer from Naspers, MIH India after the transaction was regarded a joint venture between Tencent and Naspers. In October 2013, Naspers and Tencent negotiated terms in restructuring their Indian businesses. MIH India Global's businesses were split into two parts: social network and e-commerce, while Tencent held 80.1 percent and 19.9 percent interest in the two, respectively. The remaining 19.9 percent of social network and 80.1 percent of e-commerce were taken upon the deal by the MIH Group.[912]

In April 2010, Tencent announced a $300 million investment in Digital Sky Technologies Limited (DST),[913] one of the leading Internet companies in the Russian-speaking and Eastern European markets, which was renamed Mail.ru in October 2010.[914] The transaction gave Tencent 11.46 percent economic interest and 0.52 percent voting interest in

[910] Tencent, Annual Report, 2008, 95–96.

[911] "Naspers Invested over $10 M in Ibibo in FY10; Goibibo $1M per Month; Payments Platform?" *Medianama*, September 3, 2010.

[912] "Connected Transactions: Restructuring of the Businesses in India and Thailand, Exercise of the Level Up Option," *Tencent*, October 10, 2013, accessed September 18, 2016, https://www.tencent.com/en-us/news_timeline.html.

[913] "Tencent Invests $300M in DST and Establishes Strategic Partnership," Financial Releases of 2010, *Tencent*, accessed September 18, 2016, https://www.tencent.com/en-us/news_timeline.html.

[914] Mail.ru, Annual Report, 2010, 49.

the Russian Internet company, while Naspers, a longtime investor in Mail.ru through MIH, held 29.1 percent economic interest and 35 percent voting power.[915]

In October 2010, Tencent purchased 49.92 percent equity interest of Sanook.com, an Internet-service company in Thailand, from MIH with $10.501 million (RMB 71.143 million).[916] In October 2013, the Thai operation in cooperation with MIH was also reorganized. As the Thai business was also categorized into social network and e-commerce, Tencent held 99.2 percent of the social-network business, with no interest in the e-commerce business, and MIH held the e-commerce sector but no interest in the other.[917] With respect to the social-network sector, Tencent's focus was primarily on collaborating with the leading Internet service provider in Thailand—Sanook—to integrate its services into WeChat's mobile messaging platform.[918]

On January 19, 2012, Tencent announced an agreement to buy 320,722 shares, for $26.950 million (RMB 169.567 million), of Level Up! International Holdings Limited (Level Up), a Singapore-incorporated online-game and game-magazine publishing company, wholly owned by MIH LatAm Holdings, a subsidiary of Naspers.[919] The acquisition, completed in July 2012, comprised 49 percent of Level Up's issued share capital.[920] In October 2013, Tencent acquired an additional 18 percent of Level Up shares from MIH LatAm, making its stake in Level Up a total of 67 percent.[921] According to Tencent's disclosure, the investment

[915] Ibid., 33, 88.

[916] Tencent, Annual Report, 2010, 134; "Tencent's Fake Guns Mean Real Money for Global Acquisitions," *Bloomberg News*, November 8, 2010, accessed September 18, 2016, http://www.bloomberg.com/news/articles/2010-11-09/tencent-s-fake-weapons-fund-2-billion-war-chest-for-overseas-acquisitions.

[917] "Connected Transactions."

[918] Willis Wee, "The Future of Sanook: Thailand's Largest Web Portal," *Tech in Asia*, April 2, 2013, accessed September 18, 2016, https://www.techinasia.com/sanook-thailand-largest-web-portal-under-tiwa-york-krittee-manoleehagul.

[919] "Connect Transaction: Purchase of Shares of Level Up," Tencent, January 19, 2012, accessed September 18, 2016, https://www.tencent.com/en-us/news_timeline.html.

[920] Tencent, Annual Report, 2011, 189; Tencent, Annual Report, 2012, 60.

[921] "Connected Transactions."

in Level Up, as a dominant game publisher and operator in Brazil and the Philippines, was to consolidate its strategy in developing online games in emerging markets.[922] In March 2014, however, the entire entity of Level Up was acquired by a Thailand-based online-game-and-entertainment company, Asiasoft.[923]

To summarize, Tencent, even as it contributed greatly to Naspers Empire's balance sheet, also benefited from Naspers's worldwide outreach by extending Tencent's own businesses to Eastern Europe, Russia, and South and Southeast Asia. Tencent was becoming a more prominent global Internet company.

Game Industry as a "Game Changer"

A digital gaming sector, emerging as a profitable creative industry worldwide, has drawn increasing attention from communication scholars as a unique site that converged technological advancement, cultural genre, audience interactions, and capitalist rationality. Many scholars explored the "discursive logic, procedures, technological developments, applications, and cultural rationales" of online games both as forms of social control and cultural expression.[924] Ken McAllister, a rhetoric scholar, for instance, uncovered the cultural artifacts of languages, images, gestures, and sounds of video games and the ways in which these aspects translated ideological meanings and political power.[925]

The game industry, by replicating the commodification processes and exploitative labor relations of the capitalist system, has led a few scholars to critically investigate its political-economic meaning. For instance, Aphra Kerr points out that, in his study on the

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[922] Ibid.

[923] Asiasoft, Annual Report, 2014, 139. accessed September 18, 2016, http://as.listedcompany.com/ar.html.

[924] David L Altheide, "Media Logic, Social Control, and Fear," *Communication Theory* 23, no. 3 (2013): 223–38.

[925] Ken S. McAllister, *Game Work: Language, Power, and Computer Game Culture* (Tuscaloosa: University of Alabama Press, 2004).

production cycle of digital-game industry from production to distribution and consumption, "online gaming is a socially constructed artifact that emerges from a complex process of negotiation between various human and non-human actors within the context of a particular historical formation. Online gaming cannot be understood without paying attention to the late capitalist economic systems from which it emerged and the changing political, social and cultural contexts in which its commodities are produced and consumed."[926] Situating digital games within the circuits of technology, culture, and marketing, Canadian scholars Stephen Kline, Nick Dyer-Witheford, and Greig De Peuter argue that the digital-game industry is merely a commodity governed by embodying "the most powerful economic, technological, social, and cultural forces at work" in the current regime of accumulation.[927] Referring to the post-Fordist characteristics of game industry for its "instantaneous, experiential, fluid, flexible, heterogeneous, customized and portable" organization, the authors also highlight a transnational aspect that exemplifies the capitalized global communications and entertainment industries.[928]

Fewer scholars, however, linked the game industry to the ongoing global communication restructuring within the transforming national-transnational dynamics. Standing out as another site of reproduction and expansion in digital capitalism, the game industry has become a connecting point where various units of transnational capital interact—either collaborating or competing. A limited number of pioneering studies take the political-economy approach to study the transnational dynamics in the Canadian and Korean contexts. In an early study on the Canadian game industry, Dyer-Witheford and Zena Sharman reveal the interweaving forces of capital, state, and labor that shaped Canada's

[926] Aphra Keer, The Business and Culture of Digital Games: Gamework/Gameplay (London: SAGE, 2006), 4–7.

[927] Stephen Kline, Nick Dyer-Witheford, and Greig De Peuter, *Digital Play: The Interaction of Technology, Culture, and Marketing* (Montreal, Canada: McGill-Queen's University Press, 2003), 74.

[928] Ibid., 13, 74.

digital-play business.[929] Noting the international dynamics of the industry, however, the authors only slightly touch upon the transnational element in terms of investment, ownership, and control in Canadian game development, leaving the interactions among different units of capital unspecified. Taking a critical political-economy perspective, Dal Yong Jin studied the political economy of the Korean online-game industry as a "key node in the networked environment of virtual capitalism."[930] In addition to the multiple dimensions of economic policies, capital relations, labor conditions, and fan cultures, Jin highlights two capturing factors for the development of the game economy in Korea: the diffusion of broadband services and the neoliberal transnationalization.[931] In the context of a worldwide opening up and deregulation of the telecom and media sectors and the expansion of global game giants—Blizzard Entertainment, Nintendo, Sony, and Electronic Arts (EA)—the Korean online-game market was not only boosted but also penetrated by these companies' extensive investments, becoming "a battleground between foreign-based TNCs [transnational corporations] and Korean-based TNCs."[932] Nonetheless, the booming Korean creative industry suggests that the responses it undertook regarding the neoliberal invasion of the transnational communications network was to capitalize on it, rather than "defy or contradict" it.[933]

The transnationalization of the gaming industry, however, stands unfinished. China, for example, as another emerging and enticing market, evolved to be a rising star in the transnational gaming businesses in relation to foreign investments, licensing and distribution,

[929] Nick Dyer-Witheford and Zena Sharman, "The Political Economy of Canada's Video and Computer Game Industry," *Canadian Journal of Communication* 30 (2005): 187–210.

[930] Dal Yong Jin, *Korea's Online Gaming Empire* (Boston: MIT Press, 2010), 35.

[931] Ibid., 20–23, 35–37.

[932] Ibid., 36.

[933] Siho Nam, "The Cultural Political Economy of the Korean Wave in East Asia: Implications for Cultural Globalization Theories," *Asian Perspective* 37 (2013): 209–31.

management expertise, and technology.[934] Specifically, there were about 366 million online gaming users by the end of 2014. At the same time, a population of 248 million users played mobile games.[935] As the domestic market grew, China-based Internet and game companies were also actively seeking transnational opportunities. Not only were companies like Shanda Interactive Entertainment Limited, NetEase, and Tencent, among others, collaborating with global game developers and publishers, financially interlocked with offshore stock markets, but they were also aggressively engaging in overseas investments, acquisitions, joint ventures, and other forms of business collaborations.[936] As some scholars argue, the online-gaming sector was not just a spin-off of China's Internet industry but also has become a central piece to the broadly defined domestic cultural industry.[937] The understanding of its transnational affiliations, however, remains sparse.

In this section, I primarily articulate the different formats and types of interactions between Tencent and other units of capital in global game industry. I argue that, in order to become a major player in global Internet industry, Tencent used the game sector as an entry point to gain transnational competitiveness. At the same time, building upon its advantage in its user base, capital power, and global reach, Tencent was able to form a cultural synergy of gaming, mobile and online communication, and social networking, as well as a vertically integrated global game empire from engine service through game development to production and distribution.

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[934] Yong Cao and John D. H. Downing, "The Realities of Virtual Play: Video Games and Their Industry in China," *Media, Culture, and Society* 30, no. 4 (2008): 515–29.

[935] "Statistical Report on Internet Development in China," *CNNIC*, January 2015, accessed September 20, 2016, https://cnnic.com.cn/IDR.

[936] Cao and Downing, "Realities of Virtual Play."

[937] D. Schiller, "Poles of Market Growth?" 79; Qiaolei Jiang, "Games with a Continuum: A Case Study on the Development of Online Game Industry in China and Beyond," paper presented at the Annual Meeting of the International Communication Association, Singapore, 2010, 1–35.

Game Importer and Chinese Operator

Tencent states in its Prospectus, "Online games currently are one of the fastest growing online services in China. We develop and source online games for our customers."[938] Collaborating with foreign game developers and publishers, mostly Korea- and U.S.-based, provided a convenient approach for Tencent, especially at the company's early stage of development when it was not competitive enough to offer appealing game contents and services. Tencent started representing foreign-developed games as their Chinese distributor and operator as early as 2003 when it first worked with Korean game company Imazic for the distribution of a massively multiplayer online game (MMOG)—*Sephiroth*. *Sephiroth*, the Chinese name of which is *QQ Kaixuan*, was Tencent's first MMOG for commercial operation.[939] Although a popular one, the game was shut down in 2009 due to the termination of license from Imazic.[940]

Many of Tencent's popular games in varying genres were launched through such a distributing and operating strategy, including Korean game-publisher Neowiz's online music-related rollerblade racing game: *R2Beat*; German game-developer Crytek's first-person–shooter game *Warface*; Korea-based Webzen's *Battery*; Korean company Vertigo Games's *War of the Zombie*; Korean developer Nextplay's popular MMOG *Punch Monster*; San Francisco–based social-game developer Zynga's localized *Cityville* on QZone, among others.[941]

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[938] Tencent, Prospectus, 26.

[939] Ibid., 89.

[940] "QQ zuankuo leyuan" 钻阔乐园, "pandian Tengxun tingzhi yunying de youxi" 盘点腾讯停止运营的游戏 腾讯停运的游戏有哪些 [The games Tencent no longer operating], n.p., July 17, 2016, accessed September 26, 2016, http://www.qqzuankuo.com/article/youxigonglue/2016061701061890.html.

[941] "Tencent and Neowiz to Bring Online Rollerblade Racing Game 'R2Beat' in China," Financial Releases of 2005, *Tencent*, accessed September 26, 2016, https://www.tencent.com/en-us/news_timeline.html; Matt Martin, "Tencent to Manage Crytek's Warface in China," *gamesindustry.biz* (December 13, 2010), accessed September 26, 2016, http://www.gamesindustry.biz/articles/2010-12-13-tencent-to-manage-cryteks-warface-in-china; "Jianzhi TGA Lieyanxingdong xianshang yuxuan mingluo kaisai" 剑指 TGA 《烈焰行动》线上预选鸣锣开赛 [Tencent to launch battery], n.p. (April 18, 2013), accessed September 26, 2016,

These collaborations, according to some analysts, formed a symbiosis between Tencent and foreign game developers. The relationship proved beneficial because in taking advantage of Tencent's massive local user base, the overseas game developers very often found their games to be well accepted in China, and securing exclusive licenses of popular online and mobile games from foreign developers and publishers not only attracted more Chinese players to Tencent's network but also made it convenient to promote Tencent's own games.[942] A seemingly win-win strategy helped to sustain Tencent's dominance in China's gaming market, as well as to tighten Tencent's relation with foreign players, which fostered further collaborations.

Vertical Integration through Investment

A second and more important strategy that Tencent took—when it became larger—was to acquire minority or majority stakes in big players in the global PC, console, and mobile gaming markets.[943] The first move of this kind was in 2006 when Tencent bought 16.9 percent of the equity interest in GoPets Limited, a Korean corporation that developed and published interactive games, such as raising virtual pets.[944] Between 2008 and 2010, Tencent invested in a few online and mobile game developers, though the details of the deals are scanty. Among them, Tencent gained 20.02 percent of equity interest in a "Southeast Asia–based online game company" in 2008 and raised its stake to 30.02 percent as of the end

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http://news.pcgames.com.cn/280/2806538.html; Eric Jou, "Check Out China's 'New' 'Genuine American-Style Zombie Shooting Game,'" n.p. (June 5, 2013), accessed September 26, 2016, http://kotaku.com/check-out-chinas-new-genuine-american-style-zombie-493092880; "Our Story," *Vertigo Games*, accessed September 26, 2016, http://www.vertigogames.co.kr/#/; Teng Shi, "Tengxun daily Han 2D hengban QQ xianjing pingce" 腾讯代理韩 2D 横版《QQ 仙境》评测 [Review on *QQ Xianjing*], *PCGames*, January 6, 2011, accessed September 26, 2016, http://news.pcgames.com.cn/ceping/guonei/1012/2088012_all.html; "Zynga partners with Tencent."

[942] Charles Custer, "Game Developers: Want to Win in China? Partner with Tencent," *Tech in Asia*, February 25, 2014, accessed March 3, 2017, https://www.techinasia.com/the-key-to-foreign-game-success-in-china-partner-with-tencent.

[943] Charles Custer, "How Tencent Is Taking Over Global Gaming," *Tech in Asia*, June 21, 2016, accessed September 26, 2016, https://www.techinasia.com/tencent-gaming-world.

[944] Tencent, Interim Report, 2007, 19; "GoPets, Ltd. Continues Global Expansion, Achieving 300,000 Users Worldwide and Securing Singapore Partnership Deal," *PR Newswire*, April 25, 2006, accessed September 26, 2016, http://www.prnewswire.com/news-releases/gopets-ltd-continues-global-expansion-achieving-300000-users-worldwide-and-securing-singapore-partnership-deal-56543132.html.

of 2009.[945] In 2010 alone, Tencent acquired equity interests in seven Southeast Asia, East Asia, and the U.S.-based online-game development firms with varying stakes from 10 percent to 49 percent.[946]

Whereas these unspecified deals involved small expenditures, Tencent launched some large-scale mergers and acquisitions beginning in 2011. These displayed distinctive characteristics of vertical integration in the gaming industry.

In 2012 and 2013, Tencent purchased enough equity to ultimately own 67 percent of Level Up, the online game and game magazine publisher, mentioned earlier, that primarily operated in the Philippines, India, Brazil, and some other parts of Latin America.[947] The deal was expected to help Tencent "identify further opportunities in" the emerging markets of Brazil and the Philippines.[948] Tencent's game distributing businesses, since 2012, further extended into Activision Blizzard's territory. Activision Blizzard, "the world's most profitable pure-play game publisher and a global leader in interactive entertainment," set foot in China by collaborating with Tencent for its blockbuster franchise *Call of Duty*.[949] In addition to an exclusive license to operate *Call of Duty* in Mainland China, Tencent also subscribed a 6 percent partnership interest in Activision Blizzard with about $429 million (RMB 2.638 billion).[950]

Then Tencent moved upstream in the business by entering the game-engine market, which is to provide the technical and, especially, software support for game visualization in

[945] Tencent, Annual Report, 2008, 118; ibid., 2009, 123.

[946] Ibid., 2010, 132.

[947] Ibid., 2011, 189; ibid., 2012, 176.

[948] "Connected Transaction Purchase of Shares of Level Up," *Tencent*, January 19, 2012, accessed September 26, 2016, https://www.tencent.com/en-us/news_timeline.html.

[949] "About Us," *Activision Blizzard*, accessed September 26, 2016 http://www.activisionblizzard.com/about-us.

[950] "Multi-Year Agreement Joins One of the World's Biggest Interactive Entertainment Franchises with China's Largest Online Games Platform," Financial Releases of 2012, *Tencent*, July 3, 2012, accessed September 26, 2016, https://www.tencent.com/en-us/articles/802871466501124.pdf; Tencent, Annual Report, 2013, 150.

various genres and settings.[951] This was primarily achieved through Tencent's investment in the U.S.-incorporated Epic Games. In July 2012, Tencent acquired 48.4 percent equity shares of Epic Games, which specializes in 3D game-engine technology and had reputable collaborations with Electronic Arts (EA).[952]

Even greater efforts were put in expanding into the game-development sector—a main battlefield in the industry—both in online and mobile businesses. Riot Games, a U.S.-based developer and publisher of the well-known massive online battle arena (MOBA) game *League of Legends*, which boasted over 100 million monthly active players as of September 2016, became a wholly owned subsidiary of Tencent as of the end of 2015.[953] The acquisition was achieved through a series of arrangements initiated since 2008. In November 2008, the two companies entered into a licensing partnership that gave Tencent the exclusive license to distribute Riot Game's under-development title *League of Legends: Clash of Fates*.[954] In February 2011, Tencent strengthened its links to the widely distributed game by acquiring a majority interest of 92.78 percent in Riot Games, prior to which Tencent held a minority of 22.34 percent.[955] Subsequent to the deal, Tencent was set for *League of Legends*'s beta opening in China while Riot Games remained independent in its own operations and management.[956] In 2015 Tencent acquired the remaining shares of Riot Games and became its parent company.[957]

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[951] Lynn T. Harrison, Introduction to 3D Game Engine Design using DirectX 9 and C# (Berkeley, CA: Apress, 2003), 1.

[952] Tencent, Annual Report, 2012, 133.

[953] Ibid., 2015, 191.

[954] "Riot Games and Tencent Ink Deal to Bring League of Legends to China," *Riot Games*, accessed September 26, 2016, http://www.riotgames.com/sites/default/files/uploads/081121_NEWS_lol_tencentchinarelease.pdf.

[955] Tencent, Annual Report, 2010, 190.

[956] "Tencent Holding acquires majority stake in game publisher Riot Games," Financial Releases of 2011, *Tencent*, February 4, 2011, accessed September 26, 2016 https://www.tencent.com/en-us/news_timeline.html.

[957] John Gaudiosi, "This Chinese Tech Giant Owns More Than Riot Games," *Fortune*, December 22, 2015, accessed September 26, 2016, http://fortune.com.

In a different theater, through a range of agreements in 2014, Tencent bought around 28 percent interest in a Korean online and mobile games developer and publisher, Netmarble Games Corporation, whose former name CJ Games Corporation was better known.[958]

In 2015 Tencent further expanded in the U.S. market by acquiring 14.6 percent stake in Glu Mobile, a San Francisco–based mobile game developer.[959] The deal was closed at an 11 percent premium to Glu's closing price at the time, as Tencent paid $126 million for 21 million Glu's shares.[960] As a result of the partnership, Steven Ma, Tencent's senior vice president for interactive entertainment division, joined Glu's board of directors in April 2015. Although Glu Mobile was famous for its mobile games associated with celebrities, such as *Kim Kardashian: Hollywood* and *Gordon Ramsay: DASH*, the collaboration was aimed at bringing Tencent's Weixin/WeChat-based smartphone shooter game—WeFire—to overseas markets, including North and South America, Europe, the Middle East, Africa, Australia, New Zealand, and others.[961]

Integration into mobile-gaming sector was consolidated when a high-profile trade—its buy-in in Supercell, the developer of the hit game *Clash of Clans*—took place in mid-2016.[962] With a record-breaking price of $8.6 billion, Tencent bought the Finland-based company from SoftBank, the Japanese telecommunications and Internet corporation that was an important institutional shareholder of the Chinese e-commerce giant Alibaba with 31.8

[958] Tencent, Annual Report, 2014, 143.

[959] Catherine Shu, "Tencent Will Pay $126M for a 14.6% Stake in Glu Mobile, Maker of Kim Kardashian: Hollywood," *TechCrunch*, April 29, 2015, accessed September 26, 2016, https://techcrunch.com/2015/04/29/tencent-glu/.

[960] George Stahl, "Tencent Buys Stake in Kardashian Game Maker Glu Mobile," *Wall Street Journal*, April 29, 2015, accessed September 26, 2016, http://www.wsj.com/articles/tencent-buys-stake-in-kardashian-game-maker-glu-mobile-1430344216.

[961] Bien Perez, "China's Tencent Partners with Glu Mobile to Bring Popular WeFire Mobile Shooter Game to International Markets," *South China Morning Post*, November 6, 2015, accessed September 26, 2016, http://www.scmp.com/tech/apps-gaming/article/1876205/chinas-tencent-partners-glu-mobile-bring-popular-wefire-mobile.

[962] Jon Russell, "Tencent Confirms Deal to Buy Majority Stake in Supercell from SoftBank for $8.6B," *TechCrunch*, June 21, 2016, accessed September 26, 2016, https://techcrunch.com/2016/06/21/tencent-confirms-deal-to-buy-majority-stake-in-supercell-from-softbank-for-8-6b/.

percent of shares.[963] While Supercell strengthened Tencent's arm in mobile gaming with, particularly, the popular and fast-growing *Clash of Clans*, the strategic partnership also gave Supercell access to "hundreds of millions of new gamers via Tencent's channels" in China.[964]

To conclude, as a unique stadium of global and local cultural interactions, the digital gaming industry has become a potentially strategic market in transnational capitalism. Tencent, through a carefully unfolding and integrating process, was able to position itself as an important force transnationally in the game industry, more than in other submarkets of Internet industry, such as IM or social media. The game sector, in this sense, was prospectively a critical "game changer" in Tencent's reach for global power.

From an Investee to an Investor

Tencent's transnational ambition, however, went beyond expanding its services and products. In recent years, the company accelerated its investments as a venture capitalist (VC). As one *Wall Street Journal* report notes, Tencent "has sought for years to gain a toehold in the U.S." and lately has been "one of the [Silicon] Valley's most aggressive players."[965] In the section, I document Tencent's brief history as a VC investor.

In January 2011, Tencent established its own Tencent Collaboration Fund, with an initial funding of $750 million (RMB 5 billion), to support "innovative companies in Internet industry."[966] The fund operated as a VC investor that engaged—by itself or in partnerships—

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[963] Alibaba, Annual Report, 2015, 149–50. Accessed September 26, 2016 http://www.alibabagroup.com/en/ir/secfilings.

[964] "Tencent to Acquire Majority Stake in Supercell from SoftBank," Financial Release of 2016, *Tencent*, accessed September 26, 2016, https://www.tencent.com/en-us/news_timeline.html.

[965] Evelyn M. Rusli and Paul Mozur, "China Buys Its Way into Silicon Valley," *Wall Street Journal*, November 4, 2013, accessed March 3, 2017, https://www.wsj.com/articles/SB10001424052702303843104579171963801529056.

[966] "Tencent Sets Up a Collaboration Fund—To Further Advance Its Open Development Strategy in the Internet Industry," press release, *Tencent*, January 24, 2011, accessed March 6, 2017, https://www.tencent.com/en-us/articles/80085.html. The exchange rate was calculated using X-rates' monthly average in 2011, accessed March 6, 2017, http://www.x-rates.com/average. The collaboration fund is also referred to as "industry win-win fund," according to "Tencent Industry Win-Win Fund: Investor Details," *Crunchbase*, accessed March 6, 2017,

in seed, early-stage venture, and later-stage venture investments.[967] According to a company report, the businesses were primarily focused on "online gaming, social network sites (SNS), mobile Internet, e-commerce and new media."[968] In June 2011, only half a year after the creation of the fund, Tencent revealed a plan to further invest $1.5 billion (RMB 10 billion).[969] Up to March 2017, three of its successful and high-profile cases include its investments in Huayi Brothers Media Group, a Chinese film production and distribution giant; Kaixin001, a social-media network targeted at urban, white-collar workers' and Didi Chuxing, China's leading ridesharing and "mobile transportation platform."[970]

In a different theater, Tencent's VC was also flowing from China to the United States' technology hub, Silicon Valley. Tencent's U.S. investment arm, based in Palo Alto, California, was led by David Wallerstein, who served as Tencent's chief eXploration officer (CXO) and senior executive vice president. As mentioned in chapter 2, Wallerstein used to work for Naspers and was one of the key figures to make the Naspers's deal with Tencent happen in 2000. He joined Tencent in 2001 and ever since has been in charge of exploring the company's international prospects.[971] According to a *Wall Street Journal*'s report, Wallerstein and his colleagues, described by a local entrepreneur as "well-connected," were regular guests at the offices of venture capitalists and industry events from the technology and investing industries.[972]

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https://www.crunchbase.com/organization/tencent-industry-win-win-fund#/entity; or as "industrial investment fund," "Company Overview of Tencent Collaboration Fund", *Bloomberg*, accessed March 6, 2017, http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=127754428. To avoid confusion, I refer to it as "the fund" or "the collaboration fund.".

[967] "Tencent Industry Win-Win Fund."

[968] "Tencent Sets Up a Collaboration Fund."

[969] "Tencent Holds Partners Conference and Unveils Plan to Build the Most Successful Open Platform," press release, *Tencent*, June 15, 2011, accessed March 6, 2017, https://www.tencent.com/en-us/articles/80078.html.

[970] "Tencent Industry Win-Win Fund: Timeline," *Crunchbase*, n.d., accessed March 6, 2017, https://www.crunchbase.com/organization/tencent-industry-win-win-fund/timeline#/timeline/index.

[971] "Management Team," *Tencent*, accessed March 6, 2017 https://www.tencent.com/en-us/company.html.

[972] Evelyn M. Rusli and Paul Mozur, "China Taps Silicon Valley—Homegrown Web Giants Pump Money into U.S. Startups at Lofty Valuations," *Wall Street Journal*, November 5, 2013, B1.

In 2012 Tencent became partners with VC firms including Andreessen Horowitz and SV Angel and started co-investing in the American start-ups these investors put chips in.[973] According to a *CB Insight* report, Tencent has invested in more than thirty U.S.-based start-ups so far, covering a wide range, from digital games and social media to mobile applications and e-commerce.[974] The highlights of these deals include the investments in Fab and Snapchat. In 2013 Tencent made a $150 million round of VC investment in the New York–based Design Website Fab, which gave Tencent a seat on Fab's board of directors.[975] Also in the same year, Tencent took part as an unrevealed minority participant in a $60 million investment led by Institutional Venture Partners.[976] At the same time, ironically and interestingly, Tencent's biggest competitor in China—Alibaba —also became an investor in Snapchat later in 2015 when it poured $200 million into Snapchat's most recent round of fund-raising.[977]

Tencent's VC investment was, however, not bound to the United States. In 2015 Tencent made a few separate investments in the Canadian mobile messaging app Kik and Indian health-care technology start-up Practo, among others. Valuing the Canadian start-up of mobile messaging application at $1 billion, Tencent made a $50 million investment in Kik Interactive Inc.[978] On the other side of the world, the Indian health care–information provider

[973] "Alibaba vs. Tencent—Comparing the U.S. Investment Activity of the Chinese Internet Giants," *CB Insights*, January 1, 2015, accessed October 25, 2016, https://www.cbinsights.com/blog/alibaba-tencent-investments/.

[974] Ibid.

[975] Spencer E. Ante and Paul Mozur, "New Funding Values Fab at Over $1 Billion," *Wall Street Journal*, June 19, 2013, accessed October 25, 2016, http://www.wsj.com/articles/SB10001424127887323836504578553820174945626.

[976] Kim-Mai Cutler, "Tencent Was Already a Covert Investor in Snapchat's Last Round," *TechCrunch*, November 20, 2013, accessed October 25, 2016. https://techcrunch.com/2013/11/20/tencent-snapchat/.

[977] Scott Cendrowski, "Why Is Alibaba Investing in Snapchat?" *Fortune*, March 12, 2015, accessed October 25, 2016, http://fortune.com/2015/03/12/why-is-alibaba-investing-in-snapchat/.

[978] David George-Cosh and Douglas MacMillan, "Tencent Invests $50 Million in Messaging App Kik," *Wall Street Journal*, August 18, 2015.

Practo received a $90 million funding from Tencent.[979] Together with Tencent were other venture capitalists: "Google Capital, Sofina, Sequoia India, Altimeter Capital, Matrix Partners, Sequoia Capital Global Equities and Russian billionaire Yuri Milner."[980]

It has become apparent that VC investment became a new theater of intercapital rivalry and cooperation among large units of Internet capital and that finance capital remains tightly interlocked with the Internet industry.

Conclusion

To summarize this chapter, Tencent started out as a China-based Internet company with substantial transnational-capital influences. As it grew large, the company ambitiously entered the global Internet industry through various forms of business activities, including mergers and acquisitions, strategic partnerships, service expansions, research and development, and VC investments. Two primary vectors in this process were its instant-messaging and social-media platforms and the gaming businesses. The most recent development of Tencent's transnationalization materialized alongside its rise as a VC investor in technology both in and outside China.

Some key observations grow out of this analysis of Tencent's transnational expansion. One critical idea is that there is a strong interrelation between national and transnational units of capital. On the one hand, many of Tencent's domestic business activities are connected to transnational units of capital. For example, when Tencent invested in Comsenz, an online-community portal backed by Sequoia Capital, Tencent had actually formed some kind of alliance and link with other units of transnational capital even though it looked like a simple deal taking place geographically in China. On the other hand, transnational activities could

[979] Jake Maxwell Watts, "Tencent, Google Capital Invest in Indian Healthcare Startup Practo," *Wall Street Journal,* August 6, 2015, accessed October 25, 2016, http://blogs.wsj.com/digits/2015/08/06/tencent-google-capital-invest-in-indian-healthcare-startup-practo/.

[980] Ibid.

also be an extension of domestic intercapital relations. Many of Tencent's recent transnational VC investments were seen as direct countermeasures against Alibaba on the new battleground of intercapital competition.[981] Either way, the collaborations and competitions were just the means through which to achieve the goal of expanding its own territory.

Second, as signaled by Tencent's moves into VC investment, there is an omnipotent relationship between the Internet industry and global financial sector. Tencent was not alone in such a strategy. In China, the other Internet giants, such as Baidu's Investment Department and Alibaba's Alibaba Capital Partners, were also strong VC players.[982] In the global market, almost all the Internet giants, including Google, Facebook, Intel, Amazon, and Qualcomm, among others, have launched their own VC arms.[983] If we acknowledged that the early stage of Internet industry's development largely depended on the support and participation of professional VC investors, such as International Data Group (IDG) or Sequoia Capital, now we have entered an age in which the Internet industry has become a major VC investor itself—in collaboration with those traditionally dominant VC players—to further enlarge its own territory. Such a transition in the Internet industry, from a recipient of VC inflow to an investor casting cash around, reflects what Dan Schiller calls "the toxic mixture of high-tech finance" under the networked financialization.[984] How has it reached this stage? To what extent and in what ways has such a "toxic mixture of high-tech finance" related to the very

[981] Jack Detsch, "China's Tencent and Alibaba in Silicon Valley Arms Race," *The Diplomat*, March 26, 2015, accessed October 25, 2016, http://thediplomat.com/2015/03/chinas-tencent-and-alibaba-in-silicon-valley-arms-race/.

[982] E. Scott Reckard and Julie Makinen, "Chinese Investments in U.S. Businesses Are Accelerating," *Los Angeles Times*, May 20, 2015, accessed March 5, 2017, http://www.latimes.com/business/la-fi-chinese-us-investment-20150520-story.html; Cendrowski, "Tencent Turns Venture Capitalist"; "China Venturepedia 101," *Startups Greater Asia*, accessed March 5, 2017, http://www.startupsgreaterasia.com/blog-content/2016/7/5/top-venture-investors.

[983] Ron Miller, "Suddenly Every Company Is Becoming a Venture Capitalist," *techcrunch* (November 10, 2015), accessed March 5, 2017, https://techcrunch.com/2015/11/10/suddenly-every-company-is-becoming-a-venture-capitalist/.

[984] D. Schiller, *Digital Depression*, 53.

recent financial crisis? These questions need further investigation. Future inquiries into the processes in which global digital industry and financial sector intertwine will be essential to understanding changes to transnational capitalism.

A related important point is that not only China's Internet industry but also the U.S. Internet industry and the other nation-states' Internet industries are becoming more and more transnationalized and to some extent "Chinalized" in the sense that major Chinese units of capital became key players in these territories. Tencent is one example of this. Interestingly enough, however, unlike Huawei's situation in the United States, Tencent did not meet as many encounters from the U.S. government as it expanded into the country, at least nothing as visible as what Huawei was confronted with. Only one documented legal case can be traced, between Tencent and Uniloc USA, a Texas-based technology-security company that was known for "patent trolling."[985] The U.S. company brought the Asian mobile messaging–application developers, including Japan's Line, Korea's KakaoTalk, and China's WeChat, onto the defendant seats in May 2016, accusing them of violating its patent in System and Method for Initiating a Conference Call."[986] While the litigation campaign remained open at the time of writing, it was not the first time Uniloc USA brought cases against Internet giants, including Microsoft, Google, and Apple.[987] There is no indication that the case was backed by any governmental entity in any sense. Then the question remains: Why was there a discrepancy between the U.S. state's approaches to Chinese telecom giant and to Internet companies?

[985] Charles Custer, "WeChat and Line Just Got Sued (and More Could Be Coming)," *Tech in Asia*, June 19, 2016, accessed October 25, 2016, https://www.techinasia.com/wechat-line-kakaotalk-sued-patent-troll.

[986] Case Document, "Uniloc USA, Inc. et al v. Tencent America, LLC et al," The United States District Court for Eastern District of Texas, May 30, 2016, https://search.rpxcorp.com/litigation_documents/11999662.

[987] Jacob Kleinbahn, "Crazy Patent Troll Suing Devs for Posting Apps to Google Play," *Techno Buffalo*, June 7, 2016, accessed October 25, 2016, http://www.technbuffalo.com/2016/06/07/x-plane-flight-simulator-patent-troll-uniloc/.

Less ambiguous was the Chinese government's attitude toward the domestic and overseas expansions of Tencent, as well as other Chinese Internet companies. Upon his inauguration as China's political leader in 2012, Xi Jinping paid a visit to Guangdong Province, during which he visited Tencent in Shenzhen.[988] Not only was Xi interested in the development of Tencent's instant messages, e-commerce, an Internet information portal, and WeChat products but he also emphasized the strategic importance of China's Internet industry to entering the global market.[989] In the following years as the Chinese government put much emphasis on the country's Internet and communications industries as pillars to reorganize the overall political economy, both President Xi Jinping and Premier Li Keqiang paid much attention to Pony Ma and Tencent.[990] Indeed, the Chinese state's encouraging attitude was not only about Tencent. In 2015 when Xi Jinping took the "technocentric" trip to the United States, Ma Huateng, Alibaba chairman Jack Ma, and JD.com's Liu Qiangdong were among the executives from Chinese tech giants who traveled with Xi to the Seattle meeting with U.S. tech executives.[991] More recently, in the Winter Davos Forum, both Chinese president Xi Jinping and Alibaba's Jack Ma spoke symbolically about the importance of a globally open trade market and, particularly, with the participation of Internet

[988] "Xi in Guangdong," *China Daily*, December 14, 2012, accessed October 25, 2016, http://usa.chinadaily.com.cn/epaper/2012-12/14/content_16018021.htm.

[989] Jing Guo, "Xi Jinping kaocha Tengxun gongsi" 习近平考察腾讯公司 笑问马化腾微博粉丝多少 [Xi Jinping visited Tencent], *Qilu Wanbao 齐鲁晚报*, December 14, 2012, accessed October 25, 2016, http://www.chinanews.com/gn/2012/12-14/4409613.shtml.

[990] "Xi Jinping canguan Tengxun zhantai" 习近平参观腾讯展台 询问"微信春节摇了多少红包" [Xi Jinping visited Tencent's exhibition stand], *Tech.qq.com* 腾讯科技, December 16, 2015, accessed October 25, 2016, http://tech.qq.com/a/20151216/050554.htm; "Ma Yun Ma Huateng deng shuangchuang zhou shang qiang zongli" 马云马化腾等双创周上"抢"总理 [Jack Ma and Pony Ma fought to speak to the prime minister], *Xin Jingbao 新京报*, October 13, 2016, accessed October 25, 2016, http://news.ifeng.com/a/20161013/50094330_0.shtml.

[991] John Paul Farmer, "Techno-Centric Diplomacy Arrives in Washington," *Washington Diplomat*, October 29, 2015, accessed October 25, 2016, http://www.washdiplomat.com/index.php?option=com_content&view=article&id=12571:techno-centric-diplomacy-arrives-in-washington&catid=1537:november-2015&Itemid=563; Jackie Wattles and Charles Riley, "China President Xi Jinping Meets with Big Tech Execs," *CNN*, September 24, 2015, accessed October 25, 2016, http://money.cnn.com/2015/09/23/news/companies/xi-jinping-tech-leaders/.

industry.[992] In view of the changing political economy in both China and United States, uncertainties would prevail in how the two countries engage with each other in the battlefield of information industry and governance. However, that Tencent was becoming a global Internet company is beyond doubt.

[992] Laura Zhou, "US Has Failed to Spread Benefits of Globalisation, Jack Ma Tells Davos," *South China Morning Post* (January 19, 2017), accessed October 25, 2016, http://www.scmp.com/news/china/diplomacy-defence/article/2063305/watch-alibabas-jack-ma-live-world-economic-forum-davos

Conclusion

This dissertation has looked at China's Internet industry as an intersection that revealed the dynamics in two changing poles of growth in global political economy—China and Internet—and how these two have interacted. Taking a critical political-economy approach, I carried out a case study on a leading Chinese Internet company, Tencent, through which issues of ownership and control, organizational and business strategies, capital structure, and the relations between various units of capital and state power were studied.

In this dissertation, I started by laying out the political-economic context—primarily domestically but also globally—within which China's Internet industry has emerged. I did so by tracing the discourse and rhetoric changes in the numerous policies the Chinese government issued at different stages as well as by examining the nation's social-economic performances as the outcomes of these policies. I argued in the first chapter that the development of Internet in China has gone through four different stages, with the latest one still unfolding, which has transformed the Internet from an infrastructure network that facilitated national economy in agrarian and industrial growth to a pillar industry itself that (re)shaped the political-economic epicenter that surrounded Internet-related businesses. In chapter 2, through examining Tencent's ownership and control, I argue that Tencent was a China-based company with a capital structure that was substantially transnationalized. In terms of its business dynamics and expansion strategies, I have discovered, in chapters 3, 4, and 5, that Tencent underwent horizontal integration, vertical integration, and diversification. The five chapters altogether repeatedly show how China's Internet has been integrated and transnationalized through the joint efforts of state entities and units of domestic and transitional capital, with Tencent being one example of such processes.

In the following sections, I start with what was learned (and not learned) about Tencent. Then I briefly discuss what this case study on Tencent says about the political

economy of the Internet industry and about contemporary China. In the last section, I point to some future directions this study leads me to.

Historicizing China's Internet and Tencent

The first contribution this dissertation has made is that it has chronicled four periods of China's Internet development. The first stage was between 1987 and 1993 when various science and technology research entities initiated research on computer networks. After China established the first full Internet operation under TCP/IP protocol in 1994, the nation's Internet building entered a second stage. In 1994 and 1995, an enormous amount of effort and money was put into constructing the information infrastructures to facilitate the industrial growth. Some high-profile projects during this period included the China Education and Research Network (CERNET), ChinaNet, and the Golden Projects. A third stage witnessed an intensive development in the Internet and ICT industry between 1996 and 2010. Particularly during this period, with the further opening up of the domestic market to private capital and, especially, foreign capital, many private companies providing Internet services and contents emerged, among which were some well-known names, including Sohu, NetEase, Sina, Jingdong, Tencent, Alibaba, and Baidu. This stage also paralleled the Internet boom in the United States, where newly established technology companies were springing up for initial public offerings on the stock-exchange markets—particularly, on NASDAQ. The fourth period responded to the 2007–8 global financial crisis and saw the Internet industry elevated to a pillar industry in China's economic development. While this latest stage is still an ongoing process, a new strategy of "Internet Plus" proposed recently is aimed at integrating the Internet into all aspects of the national political economy and in building a networked Chinese society.[993]

[993] Y. Hong, *Networking China*, 144–46.

Two further points can be made in reviewing these four periods of development. First, China's Internet construction and development have been highly state-driven. Contrary to the previous arguments that the Chinese state has been a holdback, it actually has stood on the forefront of developing and commercializing its Internet and ICT industry. Many important policies were made in favor of liberalizing the domestic market where private companies both from China and foreign countries assumed significant positions as major players in the Internet industry. On the government side, state entities at various levels were reorganized repeatedly in ways that facilitated the efficient leadership and coordination on matters of industrialization and informatization. The central state of China, as I argued in a later chapter about its interventions in legal conflicts between Internet companies, has been very much constituting and encouraging to Internet capital, rather than restraining.

Secondly, in view of China's changing political-economic context in the past three decades, the rise of Tencent is a story about the interactions between the state and private capital, rather than a unilateral effort from the company side. Tencent emerged during the third period of China's overall Internet development when policy preferences were given to promote private capital, the participation of foreign investors, and the political-economic significance of ICT industry. Tencent is only one example of the successful private companies in the rise of China's Internet industry.

A Transnational Tencent

A second main argument to which this project has contributed pertains to the role of transnational capital. By reading the policy changes on foreign direct investment (FDI) and venture capital investment (VC), as well as tracing Tencent's ownership and control, I argue in chapter 2 that Tencent is a China-based, transnational Internet company. It has incorporated transnational elements since the early stage of its growth. In the first two years

of Tencent's establishment, it received investment from U.S. capital–backed IDG, Hong Kong–based PCCW, and South Africa–based MIH. Naspers, MIH's parent company and a South Africa–based multinational media conglomerate, is still Tencent's primary institutional stakeholder as of 2015 with up to 33.51 percent of shares.[994] In the sense of capital structure, therefore, Tencent is a creation of transnational finance capital.

Owing partly to its transnational owners and partly to the company's expansion, Tencent's own businesses have also been highly transnationalized. As I have shown in chapter 5, Tencent has successfully expanded into South and Southeast Asia, South America, Europe, and North America in service provision, joint ventures, investments and acquisitions, strategic partnerships, and research and development, and revenues from overseas markets have grown steadily and substantially since 2010. In particular, Tencent, through horizontal and vertical integration, has become a major player in global game industry.

Again, Tencent is only one case of China's burgeoning Internet companies. Such industry champions as Alibaba, Baidu, Jingdong, NetEase, Qihoo363, and Sohu, among others, to different extents have incorporated transnational elements in their business and capital structures. To cite recent examples, both Chinese and American media gave a great deal of attention when Alibaba and JD.com were launching their initial offerings on the New York Stock Exchange and NASDAQ.[995] This idea is also put forward by Hong Shen in her dissertation, as she proposed a shift in research questions from "how the Internet will change China" to "how China will change the global Internet."[996]

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[994] Tencent, Annual Report, 2015, 62.

[995] Telis Demos and Matt Jarzemsky, "Alibaba Takes IPO Sales Pitch on the Road," *Wall Street Journal*, September 7, 2014, accessed October 25, 2016, http://www.wsj.com/articles/alibaba-takes-ipo-sales-pitch-on-the-road-1410130941; Michael J. De La Merced, "Web Retailer JD.com's I.P.O. Shows a Hunger for China," *New York Times*, May 21, 2014, accessed October 25, 2016, http://dealbook.nytimes.com/2014/05/21/jd-com-a-chinese-e-commerce-retailer-raises-nearly-1-8-billion-in-i-p-o/?_r=0

[996] H. Shen, "Across the Great (Fire) Wall," 254–55.

An Integrated Tencent

From the case study of Tencent, I have also shown that China's Internet industry meant more than the production and provision of Internet access, content, and value—it meant added service. Not only has the Internet industry redefined social relations and online and offline lifestyles but, more critically, it also continued reshaping forms of production, distribution, and consumption. It has done so through horizontal and vertical integration, diversification, and transnationalization. This is a third contribution of the project.

Chapter 3 has demonstrated a massive Tencent empire that encompassed various aspects of Internet and broadly defined media and communication services. I argue that Tencent first started with diversifying its businesses within the realm of online and mobile value-added services and gradually made investments in other companies that allowed it to horizontally and vertically integrate in various markets. Since 2010, a more comprehensive and encompassing expansion strategy has matured as Tencent extended control into the broadly defined communication and cultural industry as well as more diversified businesses.

A further point is that these features displayed by Tencent were in no way unique to Chinese Internet industry. Not only can similar traits of expansion be found in previous political-economy studies of Alibaba and Google and other U.S. Internet companies but also these processes and strategies were consistent with what has been seen in media and communication industries over decades. In a more fundamental sense, the Internet industry has the business nature of any other capitalist industry, where the processes of concentration, commodification, and commercialization have been governing the industry. The industry contributes to the growing trends of consumerism, commercialism, and digital capitalism that have dominated both Western societies and the growing consumer society in China.

Even more so, the Internet industry has been in alliances with many other powerful corporate players, such as the banks and financial institutions, as well as those public

institutions that have been increasingly privatized, including education, research, and health care, among others. I have just begun to understand the mechanisms and consequences of these unending processes.

The Internet Industry as a Site to (Re)conceptualize State-Capital Relations

A fourth point is that Tencent also developed as a state-enabled creation. If it is acknowledged that early stage's development of Internet industry relied heavily on the participation of financial capital, then it is equally significant to recognize the role of the state. For example, recalling the discussion of policy restrictions and changes on foreign investments, venture capital, and other issues, it was the Chinese government that gradually shifted and lifted these limitations in the path of China's Internet industry's growth, which allowed these sectors to be more and more integrated with each other. This was salient in Tencent's case, considering its alliance and cooperation with large financial banks and its own participation in venture capitalist investments. So it was in other Chinese Internet companies and the global Internet industry.

Moreover, as my discussion in chapter 4 on the domestic intercapital rivalry shows, state interventions were critical to the resolutions of legal conflicts between Tencent and other Chinese Internet companies. The court system on various levels ruled in support of Tencent's business mode and commercial use of consumer information. In addition, the central state has been actively making room for Internet capital to develop aggressively; the state did so by balancing and checking the power of the telecommunication giants that used to be national champions. Such a protective and encouraging attitude to domestic Internet companies is also consistent with what Dan Schiller has observed in the Chinese government's approach to U.S.-based global Internet giants: "Although China's party-controlled state welcomed unprecedented quantities of foreign direct investment into many

industries, it was also impressively successful in setting terms of entry into the national market for the strategic communications and information sector." While Google, Facebook, Apple, or Amazon has taken over most of the market in the rest of world, their Chinese counterparts, such as Baidu, Alibaba, and Tencent, still dominate the Chinese territory.[997]

The development of Tencent needs to be understood in light of general economic and political contexts within and outside China, which included the regulations and deregulations on Internet industry, China's market transformations and global reintegration, and the expansion of transnational digital capitalism. To restate, the role of the Chinese state was more constituting than constraining to these processes.

What the Future Holds

Two emergent dynamics need to be further clarified, as developed out of my dissertation: the Internet industry in the Global South countries—particularly, the emerging economies, such as Brazil, Russia, India, China and South Africa (BRICS)—and the relations between the ICT industry and global financial sector.

As the findings from my dissertation have shown, the Chinese Internet industry—with Tencent being just one case—has been in active interactions with the digital industries from the emerging BRICS economies. While much ink has been spilled over the rising "the locomotives of the South"—the BRICS countries—as vectors of change in global economy, the unique pattern of interactions between units of capital among the BRICS countries and especially the political-economic features of their digital industries remains understudied.[998] The political economy of the Internet industry in BRICS is significant not only to the understanding of global ICT network but also to the changing global geopolitical relations

[997] D. Schiller, *Digital Depression*, 231.

[998] Vijay Prashad, The Poorer Nations: A Possible History of the Global South (London: Verso, 2012).

around information, which have been traditionally dominated by the United States and its allied developed countries.

How much room is there in the capitalist global communication system for the newly rising Internet capital from BRICS? To what extent are the units of communication capital in these emerging economies competing or collaborating with the existing leading players from the United States and other developed regions? In what ways does BRICS represent an alternative political-economic bloc that challenges the current transnational digital power? How might BRICS transform the global political economy and geopolitical relations with their thriving ICT industries? More than fifteen years after the term "BRIC" was initially coined, over eight years after the first BRIC summit was held, and over three years after the BRICS development bank was proposed, these questions still sit unanswered. More importantly, the questions whether and to what extent BRICS would function as another unit of geopolitical power are acquiring new urgency in a drastically changing international political environment where North America, Europe, and Middle East have been and still are witnessing uncertainties in different senses.

The questions about geopolitics of information acquired further urgency in view of a more recent event in January 2017, when Alibaba's chairman Jack Ma met with the newly elected U.S. president Donald Trump and announced a plan to create one million new jobs in the United States by enabling its small businesses to trade on Alibaba's e-commerce platform. What does this tell us about the United States' government's attitude toward the Chinese Internet industry? What does it mean to both the specific political economy in global digital sector and the general geopolitical dynamics between nations around the issues of information and technology? These are critical matters begging continuing investigation.

In view of these questions, two critical tasks have arisen: to analyze the interconnections among portfolio investors, business sectors, suppliers, customers,

managerial personnel, and human resources of the Internet companies and to map out the massive communication network built within BRICS countries as both an emerging digital market and a rising geopolitical power in information. Contributing to the academic discussion on digital capitalism and global information governance, such a project would add knowledge about the geopolitics of information from the perspective of the Global South countries.

Also explored by this dissertation was an interweaving relationship between the global ICT industry and financial sector, as contemporary neoliberal ramifications, which has gone through a few stages. The early stage featured a heavy reliance from the Internet industry on the participation of financial capital as "seed" to support initial development. When the Internet industry grew strong, the collaboration between the two sectors entered a second stage where the Internet became an integral platform for banking and financing services to be virtualized online. A latest development was that a great number of technology companies have become venture capital investors themselves and participated in investing in the still expanding ICT industry.

The history, development, and regulations of venture capital with respect to its role in the growth of global Internet industry remained unspecified. This includes a set of unanswered questions: Since when and in what ways has venture capital come into being? How have the forms of venture capitalist investments in ICT industry evolved and varied in the United States and globally? Who are the primary stakeholders in venture capital, and how might these people's social economic capital inform their investments? What is the role of state in the development of venture capital investments and transnational digital industry? What, if any, are the regulatory considerations regarding the use of venture capital in ICT sectors, and to what extent have these concerns been articulated? What power has VC exercised over Internet system development?

These questions speak to three interrelated, understudied aspects in the processes of transnational capitalist expansion in technology industry: (1) the development of independent venture capital firms, such as Sequoia Capital, in the context of the rise of Silicon Valley industries; (2) the evolvement of venture capital arms in traditional major investment banks, such as the Venture Capital and Growth Equity team from Goldman Sachs; and (3) the growth of venture capital organizations within the Internet and ICT industry itself, such as IDG Ventures, the venture capital network of International Data Group (IDG). To trace the histories of these three companies, for example, and to analyze the political-economic contexts that have enabled and conditioned their development would demonstrate how the private actors' dominance over the provision system of global communication and information has been further consolidated and accelerated by the participation of venture capital investments.

Foregrounding the ICT sector as an important and ever-burgeoning vehicle for global capitalist expansion orchestrated by the neoliberal states and private capital, the intertwined relations between global financial and ICT sectors not only stand as a vector of contemporary social changes but, more critically, also shed light on the consequences of emerging digital capitalism.

Indeed, the trajectory of the global financial and digital capitalism has historical significances. As Christian Fuchs notes about the relation between information economy and crisis, "capitalism is not only an imperialistic system that appropriates, expropriates and exploits spaces, humans and resources to perpetuate its existence and create and reproduce spheres of capital accumulation but also . . . a crisis-ridden system. Capital accumulation again and again reaches certain limits and enters phases where its own antagonisms explode and create situations of economic crisis."[999] To make sense of where the current structure of

[999] Christian Fuchs, Foundations of Critical Media and Information Studies, 221.

our ICT system leads and what crisis (and/or opportunities) lies ahead is perhaps an ongoing intellectual puzzle, whose solution's starting point can only be rooted in looking back and understanding the history.

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