



THINKSPACE

PERSPECTIVES ON

China as a Tech-Enabled Economy and Global Innovator*

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This article captures key points from a session at GIC Insights 2018, with Alibaba Group Executive Vice Chairman Joseph Tsai and DST Global Founder Yuri Milner, moderated by GIC Chief Investment Officer for Private Equity Choo Yong Cheen. GIC Insights is our annual flagship event that gathers a select group of prominent business leaders to deliberate over long-term issues pertinent to the international business and investment community.

China's focus on building an ecosystem to support entrepreneurship and technology – supported by its investment, abundance of talent, state support, and market environment – has seen it become a global leader of technology and innovation. Indeed, its rise since the “reform and opening up” of 1978 has been nothing short of meteoric, with the effects being particularly pronounced in recent years, as Chinese innovation continues to evolve.

Today, to invest in China, one must be well-versed in technology, and also understand its associated opportunities and risks. China's internet ecosystem and global market share will continue to grow, and this will have far-reaching implications.

ACHIEVING GLOBAL INNOVATOR STATUS

Innovation is today at the core of China's developmental agenda, as both the state and enterprise are aligned in their goal of making the country a global innovation leader.

Indeed, several Chinese companies have already established themselves as innovation pioneers, leading in the space of Artificial Intelligence (AI), e-commerce, and mobile payments.

To take AI as an example, China recognised early on that AI and machines that are able to mimic and learn human intelligence will be game-changers, and has laid out a national developmental agenda to focus on this arena in particular.

Globally, many governments, including China, have tried to replicate the Silicon Valley model and ecosystem, but to achieve that, one must have a mix of both an angel investor ecosystem and individual success stories. In China, successful technology companies such as Alibaba and Tencent have helped the country's push to create a strong ecosystem. They also inspire and spur the creation and evolution of new companies, amidst China's drive to be a leading global innovation and technology hub.

“ THE COMPETITION FOR TALENT WILL BE A DEFINING FACTOR FOR CHINA’S INNOVATION AMBITIONS.”

A GROWTH POTENTIAL UNMATCHED BY OTHERS

While Chinese companies are increasingly global in their mindsets, some markets, such as the US consumer areas, have become harder to capture. However, enterprise opportunities remain, and Chinese firms have traditionally shown a willingness to pursue them. In the past decade alone, China has captured 25% of the global internet ecosystem, and is poised to continue leading the global market in the next decade, alongside the US.

China’s domestic market also continues to offer significant growth potential. E-commerce, for example, has only achieved 20% market penetration today, presenting huge avenues for growth. To capture these opportunities, Alibaba, which currently runs the world’s biggest e-commerce website, has broadened its commerce strategy to expand into physical retail, entertainment, and services, beyond e-commerce, with the goal of penetrating the remaining 80%.

CHALLENGES AHEAD

The competition for talent will be a defining factor for China’s innovation ambitions. While Chinese universities have produced an abundance of talent over the years, China will need to overcome competition from the US, which remains an enormous draw and attraction for talent due to its success as a technology superpower. China will also need to nurture and retain the right talent. Skillsets required to succeed in an AI-centric future go beyond the conventionally touted fields of sciences, math and engineering, and into the realm of capturing the quintessence of human intelligence.

As Chinese companies grow in scale, they will find themselves under greater scrutiny from the state and regulators, especially if their businesses create negative externalities. Despite the scrutiny many large technology companies face from regulators, breaking them up is not the ideal solution, as the current group of companies has, for the most part, grown organically and not by consolidation. Society has also benefitted from these companies due to the natural network effects they have created. Transparency, as well as constant dialogue with regulators to address and allay concerns around potential social or environmental issues, will be necessary. The internet sector has always been highly regulated, and businesses will have to demonstrate that beyond profit-making, they are making positive contributions to the broader society at large.

A last crucial challenge for leading technology firms is to successfully make the transition from a founder-led company to a professionally-managed organisation.

CONCLUSION

In the coming years, China’s internet ecosystem and global presence will continue to grow with far-reaching implications. China continues to play catch-up to the US in a few technological areas, but its progress has been rapid, facilitated by supportive government policy, size and scale advantages, and a pro-innovation environment.