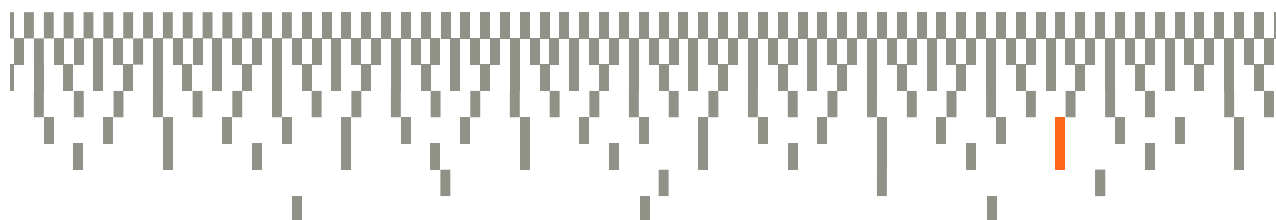




# The Rise of Chinese Apps in the World



## China update

Chinese equity markets demonstrated mixed performance amid a dynamic economic landscape in May. In the first half of the month, A-shares experienced slight fluctuations and a modest upward trend as a resurgence in travel activity during the May Day holiday boosted the consumer sector. Although mid-month credit and inflation data fell slightly below expectations, the overall economy continued to improve, with good export, employment and industrial production indicators.

- The MSCI China and MSCI China All Shares indices edged up by 2.4% and 1.2% respectively, which were largely driven by gains in real estate, agriculture, and coal sectors, whereas the MSCI China A onshore Index was down 0.9%.
- High-frequency data revealed resilient residential travel activity, with the year-on-year growth rate of subway passenger volume in major Chinese cities increasing from 6.1% in April to 8.2% in May.
- In the property sector, there was a modest rebound thanks to supportive policies. Year-on-year declines in new home transactions in 60 cities and second-hand homes in 26 cities narrowed from April's 42.1%/10.2% to May's 38.2%/6.9%.

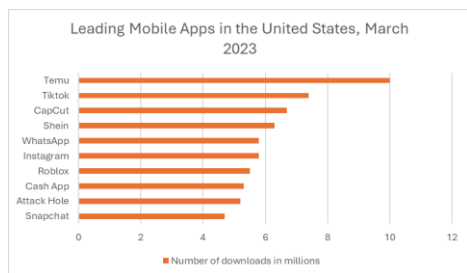
Since late May, major A-share indices faced some downward pressure, while the performance of blue-chip stocks in the broader market remained relatively stable. This is partly due to the adjustments in real estate policies, leading to a rebound in the real estate industry chain.

### Cases in Point

This month, we will explore the rise of Chinese apps through a few case studies of successful apps, discussing Chinese companies' advantages, and addressing the challenges they face in a geopolitically complex landscape.

Chinese tech companies have transformed from imitators to innovators. In the early 2000s, they mainly imported ideas from overseas, such as Weibo, similar to Twitter, and QQ (a messaging app owned by Tencent), inspired by ICQ (an early instant messaging platform). Platforms like Baidu became China's version of Google, while Meituan originally copied Groupon's model. However, since 2015, China has become an exporter of homegrown ideas. Early examples include Mobike, the bicycle-sharing app, and then TikTok. Despite launching Reels, Instagram's short video format, Facebook has consistently lost market share to TikTok.

The trend of Chinese technology companies globalising has only accelerated in recent years and now covers a multitude of sectors, including social media, e-commerce, gaming, and artificial intelligence. The top four downloaded apps in the USA during 2023 were all from Chinese companies!



Source: Statista

Apps like TikTok, Temu, Shein, and increasingly Minimax, have become household names in the US and the rest of the world:

### TikTok – a global phenomenon

TikTok, owned by Chinese tech giant ByteDance, has become a global sensation, with approximately one-third of the American population using the app.



Approximately one-third of the American population is using TikTok.



Temu has expanded from the US to 49 countries, becoming the most downloaded shopping app worldwide..



Shein harnesses its supply chain capabilities to swiftly accommodate even small batch orders.

The app's rise to prominence can be attributed to its unique approach to short-form video content and its ability to captivate users with engaging and entertaining videos. TikTok's innovative AI-based algorithm analyses user preferences and behaviour to deliver personalised content recommendations. TikTok and its Chinese domestic version Douyin reached 1 billion monthly active users in just 2.5 years, much faster than other globally renowned app including Facebook, Instagram and WhatsApp, which on average took 7 to 9 years to reach that status. TikTok's popularity showcases the global appeal of Chinese apps and their ability to shape social media trends.

### Temu – from e-commerce to Super Bowl

Pinduoduo's sister app, Temu, is an e-commerce app that launched in the US at the end of 2022. It made its mark by securing a Super Bowl advertisement for the second year, a coveted spot with a massive global viewership. Temu has a unique value proposition of "Costco + Disney" that combines low prices, the strongest moat for a retail business, with an element of fun. Its innovative group-buying model, which encourages users to team up to obtain discounts on products, has resonated with consumers globally. In just one year, Temu has expanded its presence from the United States to 49 countries, solidifying its position as the most downloaded shopping app worldwide. With over 200 million monthly active users globally, Temu is projected to achieve \$45 billion Gross Merchandise Value in 2024.

### Shein – the largest online fashion empire

Shein, a Chinese e-commerce platform specialising in fast fashion, has grown revenue by 43% to \$32.5 billion in 2023, and in doing so surpassing the combined valuations of renowned brands H&M and Inditex (Zara). Shein's success lies in its ability to understand and cater to the aspirations of the younger generation worldwide. Additionally, the company effectively harnesses its supply chain capabilities to swiftly accommodate even small batch orders. Another key factor in Shein's rise to prominence is its mastery of social media and influencer marketing. The brand has collaborated with influencers and celebrities, leveraging their reach and influence to expand its global presence. Shein's recent collaboration with Khloé Kardashian and the launch of a reality TV show further illustrate its ambition to position itself as a global fashion powerhouse.

### Minimax – language models breaking barriers

Minimax, a leading Chinese large language model (LLM) start-up, has made significant strides in overseas markets with its consumer-facing app, Talkie.

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Talkie boasts 170,000 daily active users, making it the second-largest entertainment LLM-driven app in the US. The rise of Minimax's Talkie app can be attributed to its ability to provide users with engaging and interactive experiences. By leveraging advanced natural language processing capabilities, Talkie offers users the opportunity to engage in realistic conversations with AI-powered virtual characters. Having only been founded in 2021, Minimax is now valued at over \$2.5 billion. The company's ability to target both Chinese and English-speaking users simultaneously has made it one of the largest large language models in the world.

Many other Chinese apps, such as CapCut, CamScanner, Bigo Live, and ShareIt, have gained widespread popularity globally, often without users realising their Chinese origin.

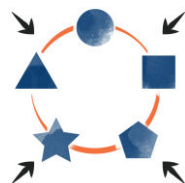
### Advantages of Chinese Companies

Chinese companies possess several advantages that have contributed to their success in the global market. Firstly, they often benefit from a large and homogenous domestic market, allowing them to refine their products and services before venturing abroad. This domestic testing ground provides valuable insights into user preferences and market trends.

Additionally, Chinese companies are known for their agility and ability to rapidly innovate, adapt, and iterate. The highly competitive nature of the Chinese tech landscape encourages companies to stay ahead of the curve and constantly push the boundaries of technological advancements. This agility enables them to respond quickly to changing consumer needs and market dynamics, giving them a competitive edge in the global arena.

Furthermore, Chinese companies have a strong focus on user-centric design and personalised experiences. They understand the importance of creating products and services that resonate with their target audience. By leveraging data analytics and user feedback, Chinese companies can tailor their offerings to meet the specific needs and preferences of their global users, thereby enhancing user satisfaction and loyalty.

Lastly, the cost advantage can't be underestimated. There are approximately 4.4 million developers in the USA with an average salary of \$100K per annum. In comparison, there are more than 7 million developers in China with an average salary of less than \$40K. This allows Chinese companies to either deploy greater resources or achieve the same results at a fraction of the cost compared to Western countries.



**Chinese companies have a strong focus on user-centric design and personalised experiences.**



**The cost advantage means they can achieve the same results at a fraction of the cost of Western companies.**



**Concerns over data security, privacy, censorship, and political influence mean Chinese companies have to foster trust.**

### Overcoming Geopolitical Challenges

However, the journey of global expansion has not been without its challenges, primarily due to geopolitical considerations and regulatory barriers. In recent years, there have been instances where regulatory actions threatened to ban Chinese apps in certain countries due to concerns over data security, privacy, censorship, and political influence.

These challenges highlight the need for Chinese companies to navigate a complex geopolitical landscape and foster trust with global users and regulators.

To mitigate the risks associated with geopolitics, some Chinese start-ups have adopted proactive strategies. One such strategy is establishing offshore headquarters and operations. By positioning themselves as global companies with local operations and compliance with local regulations, Chinese companies can alleviate concerns related to their Chinese origins and build trust with international stakeholders.

Another key mitigation strategy is transparency and accountability. Chinese companies can proactively address concerns related to data privacy, security, and censorship by implementing rigorous data protection measures, engaging in independent audits, and fostering transparency in their operations. By demonstrating a commitment to responsible practices and openness, they can build stronger foundations for global expansion and mitigate regulatory risks.

Collaboration and partnerships with local stakeholders and industry players can also help Chinese companies navigate challenges in foreign markets. By working closely with local communities, businesses, and influencers, Chinese apps can gain insights into local preferences, cultural nuances, and market dynamics. This collaborative approach fosters mutual understanding and promotes a more seamless integration into overseas markets.

### Conclusion

The rise of Chinese apps in the world signifies the immense opportunities presented by globalisation for Chinese companies. Furthermore, we have witnessed the success of Chinese companies tapping into overseas markets and resonating with global consumers through case studies such as TikTok, Temu, Shein, and Minimax.

The ability to innovate, adapt, and provide user-centric experiences has been a driving force behind their success. As Chinese companies continue to innovate and create new business models, their impact on the global tech landscape is set to grow.

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