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**RESEARCH ARTICLE**

# Going Public and Going Global: Chinese Internet Companies and Global Finance Networks

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This paper examines an often-overlooked yet significant dimension in the globalisation of Chinese internet companies and their tight relationships with global financial institutions and networks. Since the early 2000s, waves of Chinese internet companies have gone public. What this means is that internet companies in China are increasingly relying on and competing in the global capital market to fund their rampant expansion.

This paper analyses the role of finance institutions and networks in the globalisation of nine Chinese internet companies from three vantage points; firstly, these companies' use of investment banks as underwriters for IPOs; secondly, their carefully designed ownership structures, including offshore holdings and Variable Interest Entities (VIE) structure; and lastly the ascending power of financial institutions in the ownership and management of these internet companies. By examining the role finance networks and institutions played in the globalisation of Chinese internet companies, this paper unveils the capitalist logic and shifting power relations at play in the political economy of the Chinese internet.

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**Keywords:** Chinese internet; globalisation; financialisation; global financial network; investment

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Through an empirical analysis of nine internet companies in China, this paper systematically dissects the role of financial institutions and global financial networks in the globalisation of Chinese internet companies. Many existing studies have focused on the rhetorical (Zhao, 2003), ideological and structural (Zhao, 2003; Lee, 2003) perspectives of China's media globalisation while others have studied how globalisation has impacted on Chinese media culture and practices (McCormick & Liu, 2003) and how transnational media giants launched operations in China (Fung, 2008). While these studies tackle flow and frictions in the media- and ideo-scapes that constitute this complex globalisation process, my intention in this paper is to examine the less studied, yet equally important dimension of the globalisation of Chinese internet companies: the flow of capital and the rising power and increasing dependence on global finance networks, institutions and offshore jurisdictions. The significance of this study

lies in identifying the economic vitality of Chinese internet companies, reflected in their high market valuation on foreign stock exchanges and growing reach of global expansion, attracting the attention of, and causing anxieties for, foreign investors, stock market regulators and politicians.<sup>1</sup> Domestically speaking, internet, information and communication technologies industries are designated by the central government as 'dragon head industry', which shoulders the instrumental duties to revitalise the national economy, to further project worldwide the country's soft power,<sup>2</sup> and to upgrade China's position in the global production value chain.<sup>3</sup> I contend that a systematic and empirical analysis of the role of financial institutions and networks not only contributes to a fuller understanding of the dynamic globalisation process of Chinese internet companies but also sheds light on the historical development trajectories and the *capitalist* characteristics of the Chinese internet industry.

The starting point of this analysis derives from the idea that media are economic institutions that cannot be understood without recognising that they operate in markets (Picard, 2002). Once seen from such perspective, this opens up a new avenue of inquiry that prompts us to address the much-ignored role of communication enterprises as *business* and *financial* institutions. This is especially true for many Chinese internet companies as they actively seek to diversify their businesses as they each make a foray into internet finance, mobile payments, and other financial products, having obtained a large user base from social media and e-commerce services. Alibaba and Tencent, for instance, are also owners of several mobile payment platforms and financial products like Alipay, Yu'e Bao and Wechat Pay. Renren, the once popular social media website in China, changed the definition of their company's business from 'leading real name social networking internet platform' in its 2011 *Prospectus* to 'a leading real name social networking internet platform and a rapidly growing internet *finance* platform in China' in its 2016 annual report to the US Securities and Exchange Commission. As these companies branched out from their core businesses, we ought to broaden our analytical scope from understanding emerging Chinese internet companies as part of the changing landscape of the media industry, to examining them also as capitalist enterprises tightly plugged into the country's overall economy and dynamics of digital capitalism.

Drawing on Arjun Appadurai's theoretical work, this paper views globalisation as a process consisting of flows and disjunctures in multiple spheres: an ethnoscapes, a financescape, a technoscapes, a mediascapes and an ideoscapes (Appadurai, 1996). Focusing on the financescape, this paper explores the globalisation of Chinese internet companies through the lens of global business services, financial networks, financial centres and offshore jurisdictions, to showcase:

1. in what specific ways Chinese internet industries integrate, embed, and engage with the global, especially with financial actors, networks and other transnational media conglomerates.
2. how these developments reconfigure and give rise to new power relations within internet companies and industries.
3. the implications of such development for the ongoing global expansion of Chinese internet companies.

This study examines a sample of nine internet companies in China: Alibaba, Baidu, Cheetah Mobile, Netease, Renren, Sina, Sohu, Tencent, and Weibo. Sina, Sohu and Netease, founded in the early 1990s, represent the longest established private internet portals in China, while Alibaba, Tencent and Baidu are the largest in China. Cheetah Mobile, on the other hand, represents another type of fast-growing internet company with a niche in mobile applications and web content and by revenue is the most globalised company among the nine. Renren and Weibo's businesses are much smaller in scope, specialising in social media services. These

companies are all publicly traded companies on the stock exchange and therefore their company's annual reports are publicly available and accessible for the purposes of this research.

Methodologically speaking, I examined various first and second-hand company documents, such as company prospectuses filed with the US Securities and Exchange Commission and the Hong Kong Stock Exchange. The prospectus is an important document that sheds lights on the early years of a company's 'precorporate histories', which includes company formation and the history of important initial investments and business model exploration. The prospectus thus serves as the penultimate precorporate document, where at various stages in the capitalisation of a firm, the business model, philosophy and source of financial value, going forward, are articulated to prospective partners and investors (Elmer, 2017). I also analyse financial data presented in company annual reports, as well as various financial news reports in major Chinese and foreign news outlets: *People's Daily*, *Bloomberg*, as well as *The Wall Street Journal*. First-hand media releases and announcements made by these publicly traded companies are also examined in the study. The aim of this paper is to go beyond firm level analysis to a meso-level analysis that looks at the specific ways transnational capital has come to grapple with, penetrate, and propel the founding, growth and globalisation of these internet corporations. To do this, the analysis unfolds from three vantage points: firstly, the selection of investment banks as auditors and underwriters for a corporation's initial public offering (IPO); secondly, the creation and controversy of variable interest entities (VIE), a corporation structure employed by these companies; thirdly, the presence of global financial institutions, banks, venture capital funds in the ownership and management of these companies and how they change over time.

### **Globalisation and media in China**

Arjun Appadurai conceives globalisation as a process of complex and contested dynamics that cannot be captured in a binary fashion (such as homogenisation vs. heterogenisation) but in fact is animated and constituted by flows in the five 'scapes': ethnoscape, technoscape, financescape, mediascape and ideoscape (Appadurai, 1996). Different 'scapes' are constructs that characterise multiple sectors of global flows while highlighting their fluidity and irregularity. The ethnoscape describes the movements of persons and the technoscape is the technology that moves across boundaries. The financescape is the disposition of global capital, which moves at a rapid speed that is often hard to follow. The ethnoscape, technoscape and financescape constitute the political economy pillars of globalisation in contrast to the production and dissemination of information (mediascape), images and ideologies (ideoscape). Therefore, globalisation encompasses different dimensions, and is shaped by the constraints that exist in the different scapes. Furthermore, Appadurai's approach to globalisation emphasises disjunctures between different scapes and in different historical, political and cultural contexts, rather than seeing globalisation as a simple, all-powerful force wiping out and assimilating local and national differences. This paper, in particular, focuses on the financescape of the globalisation process of Chinese internet corporations, looking at finance and professional advanced business services (FABS), banks, asset management companies and offshore jurisdictions – all part of the global finance network that according to Coe, Lai and Wójcik's (2014) working definition, plays an instrumental role in forging and deepening Chinese internet companies' connection with the global capital market. This tight nexus formed between global finance network and internet companies is not only an expression of the increasingly globalised development in companies' business expansions, but also are critical manifestations of the increasingly financed character of media and communication, in general.

Since the late 1970s, the Chinese state has gone through radical socio-economic transformations, especially with Deng Xiaoping's market reforms, which combined market relations, substantive linkage with transnational capitalism and with its concomitant consumer culture

(Zhao, 2007). 'Reform and opening up' and 'going out' are two important strategies China embarked upon in its globalisation process. 'Reform and opening up' refers to the 1978 economic reform to adjust the structure of the economy while the 'going out' policy was an effort initiated in 1999 by the government to promote Chinese investments and corporations abroad. Subsequently, China's accession to the World Trade Organization (WTO) in 2001 signalled the country's accelerated efforts to re-integrate into the transnational capitalism system. Within this context, the power of the market has been increasing in relative importance to older political imperatives for Chinese media (Hu, 2003). Chinese media have undergone a two-stage capitalisation process: the period of marketization from 1987 to 2001, where the state decreased financial support and increased competition, and secondly the waves of conglomeration from 1996 to 2001, where the government attempted to restructure media industry through media conglomeration and rampant promulgation of media policies (Hu, 2003). Seen from a transnational and transcultural political economic perspective, the national-centric reorganisation of the Chinese communication system since the early 1980s according to market logic, constitutes an integral part of the global restructuring of communication systems under the neo-liberal logic of capitalist development and the formation of a truly global communication system (Zhao, 2003).

Globalisation has myriad expressions in different media sectors and thus is far from a monolithic process as it unfolds across Chinese media landscapes. The state still retains strict controls over licensing and ownership of news production, broadcasting and basic telecommunication services and operates gatekeeping over who is allowed to enter and participate in these markets. News production is in the firm hands of government authorities whilst control over value-added, non-basic telecommunication services is relatively relaxed and liberated according to WTO's *Basic Telecommunication Agreements* and *General Agreement on Trade in Services*. This media regulation landscape resonates with the fact that although Chinese media governance has seen the transformation to a decentralised mode of governance that incorporates an increasing range of actors other than the state, globalisation is uneven and its effect is felt differently across different media sectors. As Hafez (2007) demonstrates international news reporting is the least globalised sector while film and entertainment is the most globalised. We can observe a similar pattern in China.

With media reform underway in the 1980s, the state's withdrawal of subsidies and the introduction of foreign investment has installed and reinforced profit-seeking logic into media organisations. Before China's accession to the WTO, media development in China underwent significant commercialisation and commodification, as Yuezhi Zhao (2008) states: 'the most important change in the Chinese national communication system has been its commercialisation and its transformation into a platform for capital accumulation' (149). Globalisation and the intensification of competition has unleashed changes across different media sectors, the most unique creation being the 'national champions', which are state-owned enterprises operationalising huge economy of scale through conglomeration, merger and acquisition. The financialisation of national champions, such as Xinhuanet (Xin, 2017) and China Mobile (Wójcik & Camilleri, 2015) exemplifies the pragmatic approach that Chinese government takes to media reform, which is to absorb private capital and western know-how whilst maintaining a firm grip on ownership and political control (Huang, 2007). As Michael Curtin writes: 'the media revolution that has swept across Asia since the 1990s is often characterised as a technologically driven phenomenon. At a deeper level, it has been animated by a multifaceted neoliberal political project and economic globalisation (Curtin, 2017, 1378).' The rapid commercial development of the internet in China can further attest to this argument.

### **Globalisation, financialisation and the Chinese internet**

The internet in China not only develops rapidly under the state's accelerated economic liberalisation and reform process but also provides impetus fuelling the nation's re-integration into the global, both economically and culturally. In fact, many banks and foreign enterprises in China spurred and drove the demand for high speed information exchange and transfer, providing a propelling force for the initial build-up of internet infrastructure (Mueller & Tan, 1997). Culturally speaking, the Chinese internet, argues Guobin Yang (2012), is a fitting metaphor for a China caught between national anxieties and global aspirations as the propagation and popularization of the internet in China gives birth to unique localised culture and experience. With stringent censorship mechanisms in place, boundary crossing and transgressing on the Chinese internet constitute the actual experience of average internet users in China (Yang, 2012). As a result, internet users have grown increasingly adept at using creative expressions (Lugg, 2013; Meng, 2011) and adopting various technical skills such as virtual private networks (VPN) to circumvent official censorship.

Chinese internet companies, on the other hand, are also adept at capitalising on elements of Western culture to advance their own commercial interests. For example, Taobao, an e-commerce site owned by Alibaba, launched a marketing campaign in 2015 just ahead of Valentine's Day Weekend. Together with gay dating app Blued, Taobao held a three-day 'We Do' contest sponsored by a bed linen manufacturer, shortlisting 20 same-sex couples from more than 400 applicants. Based on 75,000 votes, seven same-sex couples were selected winners from the competition and awarded prizes of a weeklong wedding and honeymoon package to get married in California (Tso, 2015). Alibaba's marketing campaign meticulously blended product promotion, consumerism, corporate social responsibility and same sex marriage together, consecrating the West as 'gay heaven' by providing contestants with opportunities for 'boundary crossing' – to be legally recognised as married while such an opportunity is still illegal in China. Aside from the much-studied cultural scape, it is important to remember that globalisation does not just facilitate neoliberalised free trade, it also frees international financial markets (Davis & Walsh, 2017, p. 33). Although less ink has been spilled on the dynamics between internet development and the global financescape in the Chinese context, elsewhere critical media scholars have clearly drawn clearly a linkage between capital and new media technologies. For example, Carlota Perez argues that historically, financial capital has always animated technical changes from an initial financial frenzy to the formation of a possible crash, to a wider dissemination and distribution of the technology to the society (Perez, 2002). Through historical examinations of how media corporations develop in conjunction with larger dynamics of capitalism, Scott Fitzgerald (2012) argues that what is historically significant recently is the extension of a unified and ubiquitous capitalist basis to the field of communications (31). In essence, the idea that the industrialisation of media through the introduction of new media technology and mass production and consumption requires greater financial underpinning is well presented by both critical and mainstream political economy scholars (see for example: Fitzgerald, 2012; Murdock & Golding, 1973; Winseck, 2011; Almiron & Segovia, 2012).

Close harmonies between capital and internet prevail when looking back at the commercial development of the Chinese internet. For example, publicly-listed Chinese internet companies were swamped in the dot com bubble in the 90s. Sina and China.com, (then owned by Xinhua News and AOL) went for stock market listing at the apex of the financial hype. The opening price of China.com rose from \$20 to a high of \$66 on its first day of trading, making the company valued over \$1 billion USD (Sloan, 1999). Sina's stock price also rose nearly 22 per cent. The bursting of the bubble trickled down to Netease and Sohu's flat debut on

NASDAQ while the stock prices of Sina, Netease and Sohu all fell below the \$1 mark in 2001 (Tai, 2006). This episode of valuation up-and-downs of Chinese publicly traded internet companies shows how the global financial market is closely intertwined with internet businesses through overseas listing. More recently, the frenzy of 'internet finance' has been on the rise, with Chinese financial news touting and propelling the deepening of the financialisation of the Chinese economy and culture (Wang, 2017).

In China, lack of investment is a problem that plagued internet development from its early stage (Zhou, 1997; Hong, 2017b), yet it is home to some of the world's largest internet companies. While China's large population is one reason that blesses Chinese internet companies with a large economy of scale, the role of foreign capital investment in fuelling the commercial uptake of internet in China is often overlooked. Nonetheless, critical media scholars have highlighted the converging characteristics between Chinese and US internet companies, where the integration of monopoly-finance capital and the internet represents the dominant tendency of the global capitalist system (Foster & McChesney, 2011). Concentration of market power in the hands of a few giants rings alarm bells both in the US (Foster & McChesney, 2011) and China (Xia & Fuchs, 2016; Jia & Winseck, 2018). Bingqing Xia and Christian Fuchs reveal the power wielded by the BAT (Baidu, Alibaba and Tencent) in sweeping up many start-up companies in China into their pockets in order to accumulate capital based on financial rather than productive accumulation, which further stimulates internet finance bubbles (Xia & Fuchs, 2016). All these studies call for a close examination into how global finance networks and capital simultaneously fuel and limit the development of the commercial internet in China. The following analysis systematically examines the role of investment capital, financial networks and actors in the globalisation of nine dominant Chinese internet companies.

### ***Going out and going public: Overseas listing and underwriters***

Elsewhere and in China, since the late 1990s, the internet has been governed as a for profit commercial sphere (Murphy, 2002). Albeit with sophisticated man-powered and technical control mechanisms in place (Deibert, Palfrey, Rohozinski, & Zittrain, 2011), the internet in China attempts to function as a commercial sphere where popular uses are dominated by privately owned corporations. In fact, tracing the founding history of Chinese internet companies, one can easily find the imprints of Silicon Valley tech expertise and foreign capital jump-starting the growth of these companies. Such is the case for China's most established internet companies founded in the 1990s: Sina, Sohu, and Netease. Sohu's early investors include Intel Corp and Dow Jones (Sohu, 2000). Sohu's CEO Charles Zhang received his PhD at Massachusetts Institute of Technology in Experimental Physics and later he gained crucial financial support for Sohu from two MIT professors, Nicholas Negroponte and Edward Roberts (Gold, 2011). Renren's Joseph Chen (also a MIT alumnus) was the vice president of Sohu when his company ChinaRen was acquired by Sohu in 2000. This global flow of capital and tech knowhow was crucial for the founding of Sohu. Likewise, for leading Chinese search engine Baidu, its CEO Robin Li worked in one of Silicon Valley's search engines InfoSeek as Senior Engineer (Baidu, 2017). Sina's founder Zhidong Wang created Sina out of a merger between Wang's Stone RichSight Company and the Silicon Valley company Sinanet, a company funded by three Taiwanese individuals mainly to serve the Chinese diasporic community (Sheff, 1999). Netease also drew heavily on financial backing from Softbank, News Corp. and Goldman Sachs (Netease, 2000). Beyond that key initial investment, China's accession to the World Trade Organization in 2001 also opened up opportunities for e-commerce companies such as Alibaba.com as the website that was designed to connect foreign buyers with Chinese manufacturers started just months before China joined the WTO.

As these Chinese internet companies flourish and eye shares of global market, they are also thirsty for more capital to finance their growth and consolidate market dominance. This follows McChesney and Schiller's (2003) observation that the rise of global media giants' guiding logic is always to 'get very big very quickly, or get swallowed up by someone else' (9). As **Table 1** chronicles, after establishing their bases domestically, all nine Chinese internet companies sought public listing on the stock exchange. Initial public offering is a key event in the process of corporate financialisation, which at its most basic level aims to provide vast amounts of capital to internet companies (Elmer, 2017). The issuance of shares lets these companies get greater access to global financial markets whilst it prioritises these stakeholders' interests in their operations.

Three waves of overseas listing can be identified from **Table 1**: the late 1990s to early 2000s, 2004–2005, and 2014. Sohu, Netease, and Sina went for overseas public listing first while Tencent and Baidu followed suit in 2004 and 2005. Sina's spinoff microblogging service Weibo, Cheetah Mobile, and Alibaba went for overseas listing in 2014. Most of these companies' stocks are listed on NASDAQ or the New York Stock Exchange. Through overseas listing, Chinese internet companies drew liberally on foreign investment capital, which in turn was hungry for returns drawn from the booming Chinese market (Schiller, 2014). For example, Alibaba's IPO in 2014 was the world's largest at the time, valued at \$25 billion, after its share price surged 38% per cent on the first day of trading. The hike in stock price also produced lucrative returns for Alibaba's shareholders. Alibaba's staggering IPO in 2014 made Softbank's CEO Masayoshi Son, (who owns 34% of Alibaba's share) the richest man in Japan and saw a 16% gain of Softbank's share (Lorenzetti, 2014). In September 2016, Tencent's stock value surpassed China Mobile's, making it one of the most valuable publicly traded corporations in Asia. The surge in Tencent's share also made its shareholder Naspers the biggest company by market capitalisation in Africa. Through public listing Chinese internet companies' performances are tightly intermeshed with their investors' interests.

Nonetheless, listing stock on foreign stock exchanges poses legal challenges to these companies. On the one hand, to choose to list on foreign stock exchanges enables greater access to global capital markets and the ability to raise money for business expansion, whilst

**Table 1:** Public listing of Chinese Internet Companies.

| Company               | Headquarters Location | Year Established | IPO Year | Listed On |
|-----------------------|-----------------------|------------------|----------|-----------|
| <b>Sohu</b>           | Delaware              | 1996             | 2000     | NASDAQ    |
| <b>Netease</b>        | Cayman Islands        | 1997             | 2000     | NASDAQ    |
| <b>Sina</b>           | Cayman Islands        | 1998             | 2000     | NASDAQ    |
| <b>Tencent</b>        | Cayman Islands        | 1998             | 2004     | HKSE      |
| <b>Alibaba</b>        | Cayman Islands        | 1999             | 2014     | NYSE      |
| <b>Baidu</b>          | Cayman Islands        | 2000             | 2005     | NASDAQ    |
| <b>Renren</b>         | Cayman Islands        | 2005             | 2011     | NYSE      |
| <b>Weibo</b>          | Cayman Islands        | 2009             | 2014     | NASDAQ    |
| <b>Cheetah Mobile</b> | Cayman Islands        | 2010             | 2014     | NYSE      |

Source: Company prospectuses.

on the other hand, it means that companies must subject themselves to laws and regulations set forth by foreign jurisdictions. Netease and Alibaba have run into legal troubles with foreign stock exchanges, which triggered a decline in their stock evaluation. Netease faced NASDAQ delisting due to delay in publishing its annual report in 2001. The company applied for a hearing to NASDAQ which was later granted and the company resumed trading on NASDAQ in 2002 (Netease, 2001, 2002). Netease later received a class action law suit from Frank Satty for violating U.S federal securities law in connection with the company's restatement of its audited financial statement for 2000 (Netease, 2001). In 2016, the U.S Securities and Exchange Commission launched an investigation into Alibaba's accounting practices resulting in its shares plummeting nearly 7 per cent (Swisher, 2016).

As Wójcik and Camilleri (2015) state: the ultimate point of an initial public offering is financial, with law and accountancy performing necessary but secondary functions. This means that the engagement of a global financial advanced business service team (FABS) is indispensable in underwriting the IPO process. As **Table 2** shows, all nine companies, with

**Table 2:** IPO Underwriters.

| Company        | Underwriters  |
|----------------|---|
| Baidu          | Goldman Sachs<br>Credit Suisse First Boston LLC   |
| Alibaba        | Credit Suisse First Boston LLC<br>Deutsche Bank<br>Goldman Sachs<br>JPMorgan Chase<br>Morgan Stanley<br>Citigroup |
| Sina           | Morgan Stanley<br>China International Capital Corporation   |
| Cheetah Mobile | Morgan Stanley<br>JPMorgan Chase<br>Credit Suisse First Boston LLC  |
| Tencent        | Goldman Sachs   |
| Netease        | Merrill Lynch<br>Deutsche Bank  |
| Sohu           | Credit Suisse First Boston LLC  |
| Renren         | Morgan Stanley<br>Deutsche Bank<br>Credit Suisse First Boston LLC   |
| Weibo          | Goldman Sachs<br>Credit Suisse First Boston LLC   |

Source: Corporate media releases.



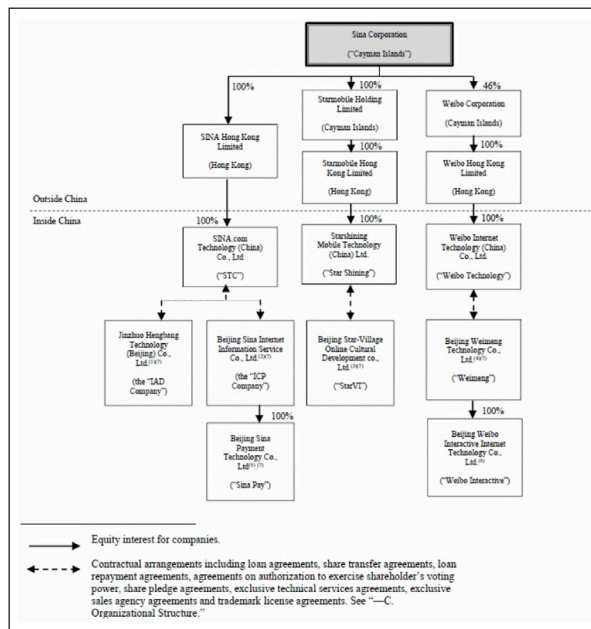
the exception of Sina, employed a team of foreign investment banks as underwriters in their IPOs. Credit Suisse First Boston, Goldman Sachs, and Morgan Stanley were the most popular ones. An underwriter's role in a IPO includes assessing a company's value, advising on the issue price, drafting the prospectus and promoting the sale of shares to potential investors. These investment banks will also buy any shares unsold to investors at a predetermined price (Wójcik & Camilleri, 2015). In the underwriting process, investment bankers work and foster close relationships with the top executives of the companies.

Foreign individuals and capital provided important initial investment for nine Chinese internet companies examined here. The global flow of technical know-how and interpersonal connections the key founding figures fostered when they were working in Silicon Valley or studying overseas were also instrumental in the founding of Sohu, Sina, and Netease. Moreover, the launch of IPO on foreign stock exchanges further enlarges all nine companies' access to the global capital market. The close relationship fostered with foreign investment banks and advanced business services firms in intermediating and underwriting IPOs deepens their connection with global financial networks and paves the way for securing further capital in financing these companies' growth and expansion (e.g. mergers and acquisitions).

### ***Offshore holdings and Variable Interest Entities***

Upon examining the organisational structure of each of the nine Chinese internet companies, one stark commonality stands out – they all employ variable interest entities (VIE) as corporate architecture in the preparation for public listing. As shown in **Table 1**, all nine companies were registered in offshore jurisdictions and tax havens, with the Cayman Islands being the most popular choice among the nine, given their low corporate tax rate and lack of transparency. Therefore, all nine companies are considered foreign firms under Chinese regulations. For example, in Cheetah Mobile's prospectus, it states: 'as a Cayman Islands exempted company, we are deemed a foreign legal person under PRC laws.' However, under the *Administrative Rules for Foreign Investment in Telecommunication Enterprises* issued by the State Council in 2001, foreign investors are prohibited from owning more than 50% of the equity interest in value-added telecommunication services such as Internet content provisions (ICP). The VIE structure thus kills two birds with one stone: it circumvents the imposed foreign ownership restriction whilst it guarantees profits and benefits distribution to foreign investors and leaves the control firmly in hands of the company in China. Sina pioneered such a structure in its IPO in 2000 (Jiang, 2012) (see **Figure 1** for example). A VIE structure is usually composed of an intermediary wholly foreign-owned entity (WFOE), which is a shell company registered in offshore jurisdictions, and multiple operating entities registered in China. Then, through a series of contractual agreements detailing the level of control and cash flow, the WFOE is linked to an operating entity in China. Foreign investors do not directly own shares in the operating entities in China but instead, in WFOE. The design and setup of the VIE structure demonstrates Chinese internet firms' reliance on offshore jurisdictions for relatively unfettered access to the capital market and for bypassing national restrictions of foreign ownership in value-added telecommunication services. All these efforts eradicate frictions for capital accumulation.

The unintended benefit in deploying a VIE structure is getting around other state regulations, such as real name registration requirements. For example, other than the bulletin board system and online gaming operations, foreign owned internet businesses are not required by PRC laws to ask users for their real name and personal information when registering an account. The inconsistency of internet regulation for domestic and foreign businesses has long been a key feature of the Chinese internet (Dai, 2000). Even though these companies can bypass some regulations when registered as a foreign company, this is not the primary reason



**Figure 1:** Sina's Corporation Architecture.

Source: Sina annual report.

for this as all leading internet companies in China are under the close watch of the government as their market success is safeguarded when they abide by the state's laws and regulations.

The complex and murky VIE structure generates legal controversies in stock market regulation and causes concerns for foreign investors. In fact, the first episode of the VIE dispute took place in Sina in 2001, when its board announced the decision to remove one of its board members and Chief Executive Officer Wang Zhidong. After claiming Sina's decision on June 4, 2001 was illegitimate, Wang Zhidong refused to relinquish control of the firm's Internet Content Provider licence. Wang held 70 per cent of the shares in the Beijing-based Sina Internet Information Service Co. Ltd, a solely Chinese-funded business that obtains a licence to operate and provide internet services to Chinese customers (People's Daily, 2001; China Daily, 2001). Again, in December 2013, the US Securities and Exchange Commission demanded that Baidu disclose warnings and risks regarding the VIE structure for its investors (Casey, 2014). In 2015, the U.S-China Economic and Security Review Commission – just before Alibaba's staggering IPO on NASDAQ – released a report warning about the risk posed by China's internet companies on U.S stock exchanges. The Commission questioned the legality and ambiguity of VIE structures in this report. In fact, the VIE structure has been under close scrutiny from different ministries within China as well (Rosier, 2014).

The debates around the legality of the VIE structure deployed by Chinese internet companies suggest a collusion between state and corporate interests. Some private internet giants, like Baidu's CEO Yanhong Li, proposed cancelling restrictions imposed on the VIE structure during the Two Sessions (National People's Congress and Chinese People's Political Consultative Conference) in March 2013 (Caijing Daily, 2013). But the Chinese government's attitude toward tighter regulation of VIE has been purposefully ambiguous. Different ministries and regulatory agencies came up with diverging opinions on VIE structure. For example, in 2009, the General Administration of Press and Publication clearly prohibited the VIE structure in the online gaming sector and the Ministry of Commerce and the China Securities Regulatory Commission have also discouraged

VIEs, especially in the Internet sector. Again in 2013, the Supreme People's Court ruled that contractual agreements between Hong Kong and Mainland companies were clearly intended to circumvent Chinese regulations and were tantamount to concealing illegal intentions with a lawful form. However, these opposing views died out after the then State Council's Vice Premier Wang Qishan stated that 'current debate should respect history, recognises the legality of VIE and regulates accordingly' (Sina, 2011). Without relevant inter-bureaucratic agreements, the Chinese government has not launched any significant efforts to systematically regulate VIE structure. The enforcement of regulations listed in **Table 3** has not been consistent either.

The wide deployment of the VIE structure by all nine companies demonstrates the contradiction-ridden globalisation process: companies taking advantage of legal loopholes to bypass national jurisdictions to maximise their worldwide hunt for capital, under the aegis of the state, which safeguards the interests of these companies by leaving private companies much manoeuvring space. The regulation of VIE structure in China defies the antagonistic portrayal of relations between state and private enterprises. Instead, the government is in fact siding with the interest of big companies. As Yu Hong (2017a) puts it: 'although creating friction, state actions collude with corporate interest on making the Internet an omnipresent vehicle of accumulation and enlisting private and transnational capital as stakeholders (1500).'

### ***Historical Ownership and Management***

**Tables 4** and **5** show the ownership and management of these nine companies overtime. I have traced these companies' ownership change and identified in **Table 4** the most significant changes over time. Several key observations can be made.

First of all, the founders and key management personnel own significant shares for all nine companies, either through individual shareholding or through offshore entities they wholly owned. Alibaba's Ma Yun (Jack Ma), Baidu's Li Yanhong, Cheetah Mobile's Sheng Fu, Netease's Ding Lei and his Shining Globe International, Renren's Joseph Chen and David Chao, Sina's Charles Zhang, Tencent's Ma Huateng and his wholly owned Advance Data Services, and Sohu's Charles Zhang are all cases in point.

Next, secondary to founders and key management personnel, financial institutions, banks and venture capital fund hold significant shares for all nine companies over time. For example, SoftBank owns nearly one third of Alibaba; SB Pan Pacific Corporation owns nearly 40 per cent of Renren, and JP Morgan Chase also holds nearly 6 per cent of Tencent's share. Transnational media and internet companies are also among the largest shareholders, such as Yahoo's 15.4 per cent shareholding in Alibaba and Nasper's 33 per cent shareholding in Tencent. The ownership structure of all these nine Chinese internet companies showcases the companies' reliance on and integration with global media and finance giants for capital, management expertise and networks. Meanwhile, Chinese internet companies also constitute a

**Table 3:** Regulations of VIE.

| <b>Year</b>    | <b>Regulatory Institutions</b>                         | <b>Key Piece of Regulation</b>   |
|----------------|--|--|
| <b>2006/07</b> | Ministry of Information and Industry (MII)             | Circular of the MII on Intensifying the Administration of Foreign Investment in Value-added Telecommunication Services   |
| <b>2009/09</b> | General Administration of Press and Publication (GAPP) | On Implementing the Provisions of the State Council on 'Three Determinations'  |
| <b>2011/08</b> | Ministry of Commerce                                   | Decision of the MOC on Amending the Provisions on the Merger or Acquisition of Domestic Enterprises by Foreign Investors |

**Table 4:** Ownership Structure and Significant Shareholders over time.

| <b>Alibaba</b>                         | <b>2014</b> | <b>2016</b> |             | <b>Netease</b>                                   | <b>2013</b> | <b>2015</b> | <b>2016</b> |
|--|-------------|-------------|-------------|--|-------------|-------------|-------------|
| Ma Yun (Jack Ma)                       | 8.9%        | 7.8%        |             | Lei Ding<br>(Shining Globe<br>International Ltd) | 44.8%       | 44.3%       | 44.4%       |
| Joseph Tsai                            | 3.6%        | 3.2%        |             | Orbis Investment                                 | 12.8%       | 7.8%        |             |
| SoftBank                               | 34.4%       | 32%         |             | Capital Research<br>Global Investors             | 6.5%        |             |             |
| Yahoo                                  | 22.6%       | 15.4%       |             | Lazard Asset<br>Management                       | 5.5%        |             |             |
| <b>Baidu</b>                           | <b>2008</b> | <b>2010</b> | <b>2011</b> | <b>Renren</b>                                    | <b>2011</b> | <b>2016</b> |             |
| Yanhong Li<br>(Handsome<br>Reward Ltd) | 16.2%       | 16.1%       | 16%         | Joseph Chen                                      | 22.9%       | 30.9%       |             |
| Greg Penner                            | 3.4%        | 1.0%        |             | James Jian Liu                                   | 2.7%        | 4.8%        |             |
| Morgan Stanley                         | 5.1%        |             |             | David Chao                                       | 7.6%        | 8.8%        |             |
| Baillie Gifford                        |             | 7.5%        | 7.5%        | SB Pan Pacific<br>Corporation                    | 45.2%       | 39.5%       |             |
| T. Rowe Price<br>Associates            |             |             | 6.9%        | DCM and<br>Affiliates                            | 7.4%        | 8.6%        |             |
| <b>Cheetah Mobile</b>                  | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>Sina</b>                                      | <b>2011</b> | <b>2016</b> | <b>2017</b> |
| Kingsoft<br>Corporation Limited        | 46.9%       | 47.4%       | 47.2%       | Charles Chao (New<br>Wave MMXV Ltd)              | 8.66%       | 2.0%        | 16.6%       |
| Tencent Holdings<br>Limited            | 16.5%       | 16.5%       | 16.5%       | Schroder Investment<br>Management North America  |             |             | 5.6%        |
| Sheng Global<br>Limited                | 5.6%        | 7.7%        | 6%          | Macquarie Group                                  |             |             | 5.5%        |
| Matrix Partners<br>Funds               | 5.7%        |             |             | Platinum Investment                              |             | 6.4%        |             |
| Sheng Fu                               | 8.1%        | 8.2%        | 6.8%        | BlackRock  |             | 8.3%        |             |
| David Ying Zhang                       | 5.7%        | 1.9%        | 1.9%        | Thornburg Investment                             |             | 7.0%        |             |
| Ming Xu                                | 4.0%        | 4.2%        | 3.7%        | T. Rowe Price<br>Associates                      | 7.83%       |             |             |
| Jun Lei                                |             | 1.2%        | 1.2%        | Orbis Investment<br>Management                   | 5.47%       |             |             |
| <b>Sohu</b>                            | <b>2002</b> | <b>2005</b> | <b>2016</b> | <b>Tencent</b>                                   | <b>2004</b> | <b>2010</b> | <b>2016</b> |
| Charles Zhang                          | 25.6%       | 26.6%       | 20.06%      | MIH QQ (BVI)<br>Limited                          | 35.71%      | 34.33%      | 33.25%      |
| Maxtech Enterprises<br>Ltd             | 20.3%       | 30.9%       |             | Advance Data<br>Services                         | 13.74%      | 11.16%      | 8.73%       |
| Intel Corporation                      | 9.4%        |             |             | Best Update<br>International                     | 6.12%       |             |             |

(Contd.)

| <b>Sohu</b>              | <b>2002</b> | <b>2005</b> | <b>2016</b> | <b>Tencent</b>            | <b>2004</b> | <b>2010</b> | <b>2016</b> |
|--------------------------|-------------|-------------|-------------|---------------------------|-------------|-------------|-------------|
| Edward Roberts           | 3.9%        | 3.29%       |             | ABSA Bank Limited         |             | 10.08%      |             |
| George Chang             | 18.3%       | 21.7%       |             | JPMorgan Chase            |             | 5.01%       | 5.97%       |
| Orbis Allan Gray         |             |             | 20.43%      |                           |             |             |             |
| Macquarie Group          |             |             | 10.2%       | <b>Weibo</b>              | <b>2014</b> | <b>2016</b> |             |
| Renaissance Technologies |             |             | 9.41%       | Sina Corporation          | 56.1%       | 49.8%       |             |
| Hillhouse Capital        |             |             | 6.59%       | Ali WB Investment Holding | 31.4%       | 31%         |             |
| Fosun International      |             |             | 4.98%       |                           |             |             |             |

Source: Author's compilation of corporate annual reports.

conduit through which transnational media giants expand operations to the Chinese market, like Yahoo's investment in Alibaba in 2005.

The case of Netease and News Corp is a telling example: News Corp initially entered the Chinese market through a joint venture with *People's Daily* newspaper and Netease. Soon after the joint venture, in 2003, NetEase launched a share buyback programme of all of News Corp's stake and part of the agreement let NetEase use \$2 million worth of advertising on News Corp's Asian television properties (NetEase, 2003). Purchasing NetEase's share was one of News Corp's strategies to tap into the Chinese market and court the Party after it entered into a joint venture with the *People's Daily* newspaper. In 2001, News Corp made some headway into the Chinese telecommunication market by acquiring 12.5% stake in China Netcom, even though the deal was illegal back then (Chinese telecommunications law forbids foreign investors from securing any part of the country's basic telecom network, Lin, 2007). News Corp's purchase of NetEase share demonstrates how a Chinese internet company can serve as a launch pad for a global media interest to tap into and cultivate the Chinese market.

Thirdly, all nine internet companies examined here exhibit patterns of cross-ownership. For example, Sina's spinoff Weibo is owned by Alibaba and Tencent owns 16.5 per cent of Cheetah Mobile. This reaffirms the concentration of power in the hands of a few Chinese internet companies, especially Baidu, Alibaba and Tencent (BAT) (Jia & Winseck, 2018; Xia & Fuchs, 2016). Australian financial group Macquarie Bank owns 16.7 per cent of Sohu and 5.5 per cent of Sina's shares respectively in 2016. In 2011, American asset management firm T. Rowe Price Associate simultaneously held 6.9 per cent of Baidu and 7.8 per cent of Sina's shares. Dan Schiller (2014) notes that Chinese communication and internet companies all exhibit opaque ownership structure, in which institutional investors bulk large, including many private equity and hedge funds as well as various sovereign wealth funds (231). While this is true, founders of each company and key management personnel also jointly rank with institutional investors as the biggest owners, which suggests the cluster and concentration of power in the hands of very concentrated media and financial elites.

Furthermore, to locate the centre of media power, one must look into two areas: managerial control, which is often exerted at operational, day-to-day level and ownership control, a form of 'structural power' given that owners, equity holders, and creditors' positions can give them a role on boards of directors where they can influence corporate policies and allocate resources in ways that affect companies' activities over the long run (Murdock, 1982). For all Chinese internet companies, the shareholding of financial institutions translates into structural power through the composition of the companies' board of directors.

**Table 5:** Individuals with Financial Networks in Company's Board of Directors.

| <b>Company</b>        | <b>Number of Board Members</b> | <b>Individuals with Financial Backgrounds</b>   |
|-----------------------|--------------------------------|---|
| <b>Alibaba</b>        | 11                             | Daniel Yong Zhang (PricewaterhouseCoopers); Masayoshi Son (Softbank); Chee Hwa Tung (JP Morgan, China Development Bank); Walter The Ming Kwauk (KPMG)                               |
| <b>Baidu</b>          | 5                              | Brent Callinicos (chief financial officer of Uber, Google chief accountant and Microsoft)   |
| <b>Cheetah Mobile</b> | 9                              | Yuk Keung Ng (PricewaterhouseCoopers); David Ying Zhang (Matrix Partners); Richard Weidong Ji (Morgan Stanley)  |
| <b>Netease</b>        | 7                              | Denny Lee (KPMG); Michael Leung (Swiss Bank); Michael Tong (Softbank, techpacific.com venture capital)  |
| <b>Tencent</b>        | 8                              | Lau Chi Ping Martin (Goldman Sachs); Iain Ferguson Bruce (KPMG; HK Securities and Investment Institute; CitiBank); Yang Siu Shun (Commercial Bank of China) PricewaterhouseCoopers) |
| <b>Renren</b>         | 7                              | David Chao (DCM venture capital firm); Hui Huang (Goldman Sachs); Stephen Tappin (KPMG); Tianruo Pu   |
| <b>Sina</b>           | 5                              | Charles Chao (PricewaterhouseCoopers); Song-Yi Zhang (Morgan Stanley); Yichen Zhang (CITIC Capital, Merrill Lynch)  |
| <b>Sohu</b>           | 6                              | Charles (Deutsche Bank); Dave Qi; Dave De Yang (Ernst & Young)  |
| <b>Weibo</b>          | 5                              | Charles Chao (PricewaterhouseCoopers); Frank Kui Tang (Goldman Sachs); Daniel Yong Zhang (PricewaterhouseCoopers)   |

Source: Author's compilation of corporate annual reports.

As seen in **Table 5**, all companies' boards have key individuals who either used to work for investment banks or have a financial background. This is also a significant indicator of the financialisation of Chinese internet companies, which means that financially driven or even speculative actors have increasingly penetrated through to corporate ownership and management structures, and financial dependence increased through rocketing leverage (Almiron & Segovia, 2012).

## **Conclusion**

This paper examines the relatively under-studied aspect of the globalisation of nine leading Chinese internet companies from the perspective of Appadurai's 'financescape' and demonstrates the formation of an increasingly tight nexus between global finance institutions and networks and leading Chinese internet companies since the 2000s. Investment banks, venture capital funds, as well as Silicon Valley tech know-how have in large part contributed

to the founding of Sina, Sohu, and Netease. When capital was lacking domestically, the founders of these companies benefited from foreign initial investment through interpersonal ties they cultivated when working or studying overseas. Goldman Sachs, for example, has poured money into Sohu, Netease and Sina in 2000 (Vanderklippe, 2014). Secondly, these nine internet companies all launched their global pursuit of capital through share issuance and stock listings, with the critical help, again, of foreign investment banks, such as Goldman Sachs and Morgan Stanley as underwriters. In the IPO process, they fostered close relationships with global financial institutions and FABS. To further bypass national restrictions of foreign ownership for value-added telecommunication services, all nine companies deployed a VIE structure, which enables them to access a large pool of foreign capital without relinquishing control over company operations. This corroborates a previous study of the globalisation patterns of mainland firms that showed that Latin America, the British Virgin Islands and Cayman Islands accounted for 81.6% of China's non-financial outward foreign direct investment (Yeung & Liu, 2008). Finally, financial institutions and FABS wield structural power in these companies by owning a significant portion of shares issued, as well as through the election of board members.

Concomitant with recent policy changes, there are three main takeaways that can be drawn from the analysis. Firstly, the engagement with and embeddedness within global finance networks means the deepening of the commercialisation and the capitalisation of the internet in China and it reaffirms the important role the internet and ICT carries in China's reintegration within global capitalism through communication, as Hong (2017) and Zhao (2007) argue. 'Monetisation', the hot pursuit of profit and 'overseas listing' has been the talk of the town and is emblematic of the zeitgeist of internet entrepreneurs in China, especially after Premier Li Keqiang put forth the *Mass Innovation and Entrepreneurship* (大众创新, 万众创业) guideline in 2014, which called for more people to start science and technology businesses to 'transform their talent into productivity' (Xinhuanet, 2015). However, the frenzy of different variations of the sharing economy in China, such as sharing bikes and sharing gym pods, have hardly proven their economic viability. Consumer capitalism, as well as mass entrepreneurialism, has been called upon and touted to users of the internet in China to consume and to be the saviour of stagnant national economic development (Meng & Huang, 2017). Officialdom has embarked on commercialisation and consumerism of the internet as technical solutions for economic stagnation and many social ills (the social credit score system, public service offerings, rush-hour congestion problems, the rejuvenation of state-owned businesses), which are inimical to much of the democratic potential of digital communication (Foster & McChesney, 2011). Commercial development and success of the internet in China is in no way, contradictory to political control.

Secondly, by showing the specific ways internet companies in China are wired to global finance networks, this paper challenges the popular perception of the Chinese internet as an insular intranet, which is politically contained and enclosed via means of censorship, blocking and filtering. On the contrary, when we examine the flow of capital, these nine Chinese internet companies, as well as many others, are deeply plugged into global finance networks and expanding outward. Compared with what took place in the early 2000s, where transnational media conglomerates made their moves to tap the Chinese market through joint ventures,<sup>4</sup> the recent development of Chinese internet companies signals a shift in the direction of capital flow as they launch rampant merger and acquisitions activity and investment into foreign internet companies (for example, Cheetah Mobile's 57 million acquisition of News Republic, Alibaba's \$4 billions spending in M&A since 2012 and Tencent's \$8.6 billion acquisition of Supercell games). Similar to other globalising mainland firms, joint ventures and acquisitions are the preferred modes of entry into foreign markets (Yeung & Liu, 2008).

Thirdly, analysis shown here prompts us to rethink the state's role in conjuring up transnational capital when re-integrating into the transnational capitalism system. Yu Hong (2017) noted in her study how state interests have come to merge with those of private business and the state-business alliance shapes policy-making process: 'private cyber giants ... have gained considerable political influence, have parlayed into a cyber-business-friendly legal and regulatory approach' (1499). In the case of these nine Chinese internet companies, the reformed Party state and transnational corporate capital have converging interests, that FABS and off-shore jurisdictions have become the strange bedfellows of the Party and 'capitalist tools in socialist hands' (Wójcik & Camilleri, 2015). The analysis in this paper is limited to these nine companies but for future research, big internet businesses and state-business relations will be important in grasping the power dynamics of the Chinese internet.

A recent shareholder upheaval at Sina illuminates the perils of shifting power relations. Owing 3.1% of Sina, U.S hedge fund Aristeia Capital waged a proxy war at Sina, nominating two individuals for election to the board of directors and urging a potential merger with Weibo to increase returns to shareholders (Sina Corporation, 2017). Although Sina has quickly responded to ward off Aristeia's demand, this example shows that once beholden to share and bond investors, corporations are thus influenced to behave in ways that suit those investors rather than doing what is best for companies themselves and multi-stakeholder economies (Murdock, 1982). Under the command of capital investors, Chinese internet companies have transformed into platforms of capital accumulation on a scale unprecedented before. However, as capital market reforms were brought to the agenda in the building up of China as a cyber superpower, the Cyberspace Administration of China and the China Securities Regulatory Commission in March 2018 jointly issued a guiding opinion on promoting capital markets to fund and finance domestic firms and 'to increase party-state influence over domestic tech companies at a time when private companies are the drivers and foreign investors reap much of the benefit'(Laskai, Triolo, Lu, & Sacks, 2018). How these overseas-listed Chinese internet companies will react to these policy changes remains to be closely examined. But one thing can be sure, with capital running the show, the Chinese internet is not as insular as many would imagine.

## Notes

- <sup>1</sup> In 2014, US Senator Bob Casey called on the Securities and Exchange Commission to protect US investors in Chinese IPOs.
- <sup>2</sup> This is seen in the country's 'internet diplomacy' efforts.
- <sup>3</sup> This is reinforced in the Go Global Policy as it enters the 4.0 era. See more detailed discussion later.
- <sup>4</sup> AOL-Time Warner and China.com in 2000, Viacom MTV and Netease in 2002, Yahoo! and 3721 in 2003 and Yahoo and Alibaba in 2005 are examples of this.

## Competing Interests

The author has no competing interests to declare.

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