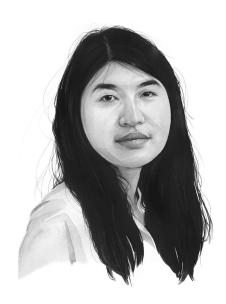Q & A

Lillian Li on Understanding Chinese Tech on Its Own Terms

The tech analyst explains why 'super apps' are not a bug of the Chinese system but a feature of it.

BY JAMES CHATER — MAY 16, 2021

Lillian Li is the writer of Chinese Characteristics, a longform newsletter analyzing Chinese tech's design philosophies, business strategies and product idiosyncrasies. Before returning to China in 2020, Li was a venture capital investor with Salesforce Ventures and Eight Roads Ventures investing across Europe. While in London, Li also co-founded Diversity VC, a non-profit partnership promoting diversity in venture capital. Li is a graduate of the University of Cambridge and the London School of Economics. What follows is a lightly edited Q&A.

Lillian Li.
Illustration by Kate Copeland

Q: What was it about the Chinese tech scene that really enticed you there?

A: There were a few things. Firstly, the pace of progress and the scope of ambition were very visible as someone who visited China probably about once a year; from an on-the-ground perspective, to see the pace of change, even in the mainstream, from people going from using cash to social payments to using everything that's mobile native. Especially as someone who spent time working in tech and thinking about how adoption happens, to see a massive population that can adopt at such a quick pace, with iteration cycles going faster and faster, was just very exciting. For me, as someone who always likes to think about where the future is, it very much felt like the future is in Chinese tech right now.

What are some of the broad ways the big Chinese tech companies have changed life for China's citizens?

I guess when we look across the mega tech companies right now — Tencent, Alibaba, Meituan, ByteDance, Kuaishou, Bilibili, JD.com — the biggest areas of disruption and change for the Chinese consumer have been in ecommerce, communication, online-offline services and entertainment. In those big spheres of consumer life, a lot of disruption has happened. In a more general sense, there is also a sense of legibility and convenience for the average consumer. Before, if you wanted to communicate with your loved ones, to buy clothes, to be entertained, going about that was much more fragmented. Right now, you open an app on a phone and you can get exactly what you want in a very short amount of time. I think we've reached a point at least in many parts of the consumer internet where China is definitely ahead.

But when you're talking about 1.4 billion people, this really is an enormous question. I tend to slice the Chinese economy by city tier — which is still a very crude way of doing it. Relative to a tier-one city like Beijing or Shanghai, I think the inhabitants of lower-tier cities haven't felt as much of the tech giants' presence in the last five years. There have been a couple of notable players in the form of Pinduoduo and Kuaishou, but they've been more the exception than the norm. Most tech giants have been very much focused on the urban, affluent, tier-one city group, and not even the relatively poorer off people in tier-one cities. But I think that will change.

What do we mean when we say Chinese tech is "ahead"? Does it mean the ease with which consumers are able to use these apps, or is it more about the ease with which these apps can grow?

BIO AT A GLANCE	
BIRTHPLACE	Qingdao, China
CURRENT POSITION	Writer and founder of Chinese Characteristics

That's a good question. Maybe I misspoke because something I put forward in my work is not so much that Chinese tech is "ahead," but rather because it started off with very different enablers, it was able to move to a different place that the West has not been able to. I think the West has now seen that and you can therefore characterize that as quote-unquote "ahead." To me, Chinese tech has almost taken the functions of what we expect from consumer technology, and then remade them in different configurations.

So, to say Chinese tech is "ahead" comes down to a few things. First of all, it is more convenient for the consumer to a certain degree. There's potentially more novelty too. With most social networks, there's three axes: utility, social status and entertainment. And I think the Chinese super apps have got this really incredible mix — what I call the 'Golden Triangle.' When we talk about convenience, yes that is more on the utility side, but I think there are these additional elements that are not fully captured in Western consumer apps, which are additional entertainment, additional status. It's all of these attributes that we would probably want from our technology even though we don't want to admit it to ourselves. But in Chinese tech, you do get that in relative abundance.

How have Chinese consumer tech companies adapted to the renewed expectations of consumers?

Tech companies have taught Chinese consumers to be very adaptive and also relatively demanding, in both good and bad ways. People have realized that they have to adapt. If you're not on Alipay, or WeChat Pay, you probably can't do business, and that's something people really had to wrap their heads around. They had to realize that these platforms are not potential choices, they are existential questions.

That's a great thing and a terrible thing for the tech companies, because they realize that this is a group of consumers where, if you give them enough subsidies, they will try out new platforms. They are open to new things, but there is this status anxiety in companies of: I have you now, but how long can I keep you until some shiny new thing comes along and showers you in subsidies?

" **If you're not on Alipay, or WeChat Pay, you probably can't do business, and that's something people really had to wrap their head around. They had to realize that these platforms are not potential choices, they are existential questions.** "

The other aspect is, because things have changed so quickly and in such a short amount of time, people's brains then extrapolate that out and think that's going to continue forever.

Even with me, I find myself getting very annoyed when a package arrives a day late. In the land of Amazon, I would be sending praises to the delivery gods if it comes within three days. If I'm not a premium member, then I'm dead to Amazon. But with Pinduoduo, I can see exactly where my package is at any time, and I could call up my delivery guy. That's a level of control that I have as a consumer that I never really had in the West. And now I think that is normal. That has trained a generation of consumers to be very adaptive and very picky, which I think is really good for new entrants if they come up with a better offering. But it causes a lot of status anxiety for existing tech giants in China who think: how loyal really are my customers to me?

In your writing, you make a distinction between Western tech companies, which provide a service, and Chinese tech companies, which want to "own the user." What do you mean by that? Was that model of "owning the user" something that already existed, or did the tech companies foster that environment themselves?

When I look at the predominant apps in the two ecosystems, the Western and Chinese ecosystems, the Chinese App Store has these super apps and the Western apps tend to do only one, maximum two, functions very well. I don't think that is a bug; I think that is a particular feature. If we take the different premise that there is something very deliberate that the Chinese companies are trying to do by creating super apps, that it's not convoluted and that there is a good strategic logic behind all of this, then we come to the conclusion that they are focused on something else. What is that something else? Why would you want to provide so many seemingly auxiliary things that have no direct ties to your apparent core function?

You have to start with the premise of: what if the thing you're trying to do is not to give a specific use for the consumer, but for the consumer to be in the app for as long as possible. Then, what you really want to do is make sure that you give the consumer everything they want from the app.

One of the first companies I drew this distinction with was Bilibili. In the West, I would spend hours watching YouTube, but when I moved to China, I looked for the quote-unquote closest "Chinese equivalent to YouTube" and that was Bilibili. Bilibili does not monetize solely on advertising. It monetizes through mobile games and premium content, a bit of advertising, but also ecommerce. When you look through the app, yes, it has lots of user-generated videos, some professional videos, but it also has large sections where people publish articles on their thoughts, a bit like Quora. There are also places I can go and buy my latest anime gear, or read comic books. It was a very stark product difference for me.

The underlying logic of this model made much more sense once you realize that what Bilibili was trying to do was not so much be a platform that hosts all of your favorite user-generated video, but instead was trying to be the default portal for Gen-Zers looking to find anything that might be entertaining. That's why you would offer games, videos, and comics. Once you take that framing, a lot more things clicked into place. That's what I want to do when I'm thinking about Chinese tech. I don't like to go into it with the assumption that they're weird and confusing. I go with the assumption that there is something that I don't understand yet and I need to find a framing that lets all of this make sense.

Li spoke at the Global Entrepreneurship Summit (GES) in 2019 about her work co-founding Diversity VC, a nonprofit composed of venture capitalists looking to promote diversity in the United Kingdom's industry.

How does possessing a European perspective influence your framing and understanding of the Chinese tech environment?

Having spent most of my life in a region that both the U.S. and China have overlooked — Europe — at the most basic level, I don't possess an assumption that everything is about me or the tech ecosystem I'm in. Let me put that another way. Most conversation in English about China's technology is implicitly in relation to U.S. tech. It is done in terms of comparison or puzzlement of whether China is behind — and copying everything in sight — or ahead — and going to crush everything in sight.

Let me present a humble counterpoint, maybe it's not about you and it never was. No one in European tech thinks that highly of themselves, and as a result, I'm able to to approach a lot of things in Chinese tech without a default "normal" — China's technology is only weird if you assume the U.S. is the default normal — or need to reach a certain conclusion: "but what does this mean for the U.S.?" I'm more globalist in perspective and, as a result, I think I have a more open mind when I approach new topics. When I'm writing, I'm thinking about my readers in India, Indonesia, South Africa and Colombia. I don't edit myself to write for a select Washington or Silicon Valley set.

> " I don't like to go into it with the assumption that [Chinese tech is] weird and confusing. I go with the assumption that there is something that I don't understand yet and I need to find a framing that lets all of this make sense. "

What gets lost in making lazy comparisons between U.S. and Chinese tech companies?

A lot. I think fundamentally it's an appreciation of the complexity and possibility of product strategy, and how those can be formed through different parts of businesses, rather than a singular part of a business. You end up not seeing innovations; you end up just seeing things as worse or as deficiencies in the system, when really there's a lot of rich learnings to be had. When you're trying to draw metaphors or comparisons, what your brain does is abstract it one level up, and then you don't want to deal with any of the nuances. And there is a lot of good stuff that is lost.

Going back to Bilibili, one of the very distinctive features of Bilibili is that the videos have bullet commentaries; when you're watching the videos, you can see these bullet commentaries are scored across the screen. And, of course, because they're very distinctive, very in your face, they attract a lot of attention. People then fixate on them and ask, is this

how Bilibili has cracked the community model? Yes, it does give you a kind of interactivity or co-collaboration between the viewers and the creators themselves, but you also have to put that in the context of who are these people that came into the community in the first place. Not really appreciating the nuances of culture and the enablers that made a particular phenomenon happen — and just thinking the phenomenon is representative of the whole — is another version of lazy comparison.

Li runs a Substack, *Chinese Characteristics*, on Chinese tech companies.

What about your thoughts on Chinese technology companies as institutions? Is this how the Chinese government is increasingly viewing them?

I think of mega tech companies as institutions. I've said before that, in the West, they've not been recognized as such. Whereas in China, there is more of an understanding that these tech institutions have more multifaceted power. Even if they don't classify them as institutions, I think they understand that there is something that the technology companies are fulfilling which the institutional structures of traditional Chinese governments have not been. The government should have been fulfilling these problems, but they recognize they're probably done better by Chinese tech companies.

An example is the role of legibility introduced by Didi [Chuxing], ; 'legibility' here is a reference to James Scott's *Seeing Like a State*, and indicates how readable something is to a governing apparatus. Before Didi came along, there were a lot of dodgy gray taxis that theoretically should have been regulated by the local regulatory bodies in each city. But then Didi came in, took out this entire industry, and then began replacing it with more legible ones that were much more centralized. From the role of the traditional governance structure, that was a much better institutional substitute. In China, I think you have a much more symbiotic, but still quite conflictual dynamic between the two, the government and big tech companies, because there is a more inherent recognition of what technology companies really are.

Is that how you would characterize Alibaba's recent fine of $2.8 billion after the anti-monopoly investigation? The figure seems to point to that more symbiotic relationship you're talking about — large enough to pinch, but not enough to impact their business…

Yeah, exactly. There's that Chinese phrase, 杀鸡给猴看, you "kill the chicken to show the monkey." You're also doing this to show the other tech companies that this is a credible threat. The government expects actions to be taken on all the tech companies' behalf to make sure there is emphasis on value accretion across society rather than your operation being a purely extractive exercise. They could have fined 10 percent of Alibaba's global revenue; they did not do that. In the grand scheme of things, Alibaba will survive. They've taken a knock, but it's not a big deal; they've not been dismantled.

It does feel like Chinese tech companies have reached an inflection point, perhaps in terms of growth models and the increasing amount of regulation. Where do Chinese tech companies develop from here?

MISCELLANEA	
BOOK REC	*A Call to Arms (呐喊)* by Lu Xun
FAVORITE MUSIC	Yeezus by Kanye West. Kanye's most difficult and underrated album.

I think we have to be a bit more precise here. Firstly, this only really refers to Chinese consumer tech, and maybe Chinese platform marketplaces for consumer tech. I think there's a lot of interesting moves in the cloud and in B2B in Chinese tech right now, but also in hardware. That has also been a tremendous area of innovation in China; we've seen stuff with

electric cars and Xiaomi that is an existing success and I'm sure they will continue to do well. There are also places combining those elements of hardware and with more B2B-focused development. What we see people getting very excited about now is industrial internet, mesh networks, edge computing, cloud — lots of exciting buzzwords — lots of excitement around the final realization of industry 4.0 and the internet of things. I think that's an interesting area for China to move into given it does have comparative advantage in manufacturing relative to the West.

Also, if you look at what has been stipulated as important by the state, the five-year plans are much more focused on deep tech: hardware, semiconductors, cloud computing, AI. All of these are still really new avenues of innovation. When you look across the different ecosystems in the West, you've always seen three waves. The first one was always consumer, then that's superseded by enterprise software and then that is superseded by meta-enterprise. So you go from Amazon, to Salesforce, and then to Twilio; it's an evolution of moving more into the business. You've seen this happen in the U.S., you've seen this happen in Europe, you're seeing this happen in China, and you're seeing the consumer wave happening right now in Southeast Asia.

What impact is Chinese technology having in the developing world?

I think a lot of developing countries — which is a problematic way of framing countries, but a longer discussion for a different time — who have similar starting conditions to China, immature institutions and high illegible private markets, are looking to Chinese tech as a way to think about their own development journey. South East Asia and South America are two regions of the world that have taken great inspiration from the trajectories of Chinese tech giants and have nurtured their own super apps (Sea, Grab and Rappi as a few examples) in recent years. Chinese tech firms present to them a different path and a different way to think about innovation.

James Chater is a journalist based in Taipei. His writing on politics, foreign affairs and culture from Taiwan has appeared in *The Guardian*, *New Statesman*, *The Spectator* and *Los Angeles Review of Books*. He is currently completing his masters in Modern Chinese Studies at Oxford University. Between 2017-2018, he also studied at Harvard as the Michael von Clemm Fellow. @james_chater

Pole Position

BY EYCK FREYMANN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

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