iSTEAM Communications ISSN:2691-7300 www.iSTEAMC.com

Academic Essay in Economics

Internet Platform Monopoly in China: A Case Study of Tencent

Xiangyi Ben[1,*]

[1] Cretin-Derham Hall High School, Minnesota, USA

[*] Correspondence: 2445428413@qq.com

(Received: 12/24/2020; Accepted: 01/21/2021; Published: 01/28/2021)

DOI: https://doi.org/10.37906/isteamc.2021.4

Abstract: Monopoly in the field of Internet business has caused great controversy, and this study addressed this issue by closely examining a typical "big tech", Tencent, in China's Internet business, using a case study as a major approach to look into the source of the issue. Through the research, I found that, according to Tencent's statistics with its positions in the market, its monopoly is a reality, and further analyzed the problems (stifling smaller competitors, exploiting workers, reducing consumer surplus) caused by such a monopoly and cited corresponding governmental policies (laws, regulations, fine), which are founded to be strong and immediate. Based on the findings, some practical implications are offered for both consumers and policymakers.

Keywords: Internet monopoly; Regulation; Tencent

With the rise of big techs to the scale of monopoly, governments have taken attempts to split those big techs apart but it was merely "unthinkable," according to Lina Khan, an antitrust scholar at Columbia Law School (Economist, 2020). With its growing roles, now it is commonly seen that these big techs cause a number of problems out of its monopolistic position: For example, Facebook and Google are highly criticized for their privacy practices; fake news spread on social media, without a competing power to counteract it; and a number of other problems occurred. Indeed, in the USA and Europe, antitrust laws and acts have been tried to be put in effect many times, but such attempts sometimes fail to address the problem. On the other hand, merger and acquisition helps the big techs such as Facebook become increasingly stronger (e.g., Facebook's buying up of Instagram in 2012 and WhatsApp in 2014, Economist, 2020). Abundant research and news reports have discussed in big techs including Facebook and Google, and big tech monopoly became a hotly debated topic.

Abundant studies have been found on American companies: their monopolies, problems caused by monopolies, and the corresponding public policies toward them. However, the similar studies are less frequently seen in Chinese companies. As China's IT industries grow, a growing number of users have their life strongly influenced by these big techs such as Alibaba, JD, Tencent. It is necessary to use updated data and figures to present a comprehensive review of the monopolies of these big techs. If there are indeed monopolies, policy-making should also be studied. Whether the concerns that big techs in China also damage users' privacy and eliminate competition seem to be less mentioned, so it is essential that these questions get answered. China's government is known for its harsh control over the market, so it is similarly significant to explore the government's role in these series of events (e.g. monopoly, antitrust laws).

This study focuses on a big tech in China: Tencent, which has the biggest share in the market of gaming industry and social media. Big techs including Alibaba and Tencent also fell in lawsuits because of their potential monopolies, and comes with them is abundant news for researchers to integrate and explore. The purpose of the study is twofold: first, it aims to fill the research gap of monopoly study of the big techs in China; second, it aims to have some practical value: with a better understanding of monopoly, the general public can make more rational choices over the consumption of social media. The present study aims to find out whether China's Tencent can be called monopoly, identify the benefits and problems brought to users and the nation by Tencent's monopolistic behavior, and analyze the Chinese government policies to the monopolistic behavior by Tencent.

Monopoly usually refers to the "exclusive control of a commodity or service in a particular market, or a control that makes possible the manipulation of prices." (Merriam-Webster) This case, however, rarely exists in modern eras, and often it is extended to a broader sense: as long as a company (or a few companies) and its product (or a few companies) dominates a sector or industry (instead of exclusive control, which is too narrow to be discussed). In our daily life we can see many cases of monopoly according to this definition: for instance, in online games industry in China, Tencent and NetEase Games are leading providers of PC-client and mobile games to China users. They become so powerful that they can possibly manipulate the prices of the gaming products in this industry. The term "Internet monopoly" is sometimes too general to be unambiguous: it can mean the monopoly of Internet access providers (e.g. AT&T, T-Mobile, etc.) or that of services providers (e.g. Google, Yahoo, etc.). In this paper, Internet monopoly is narrowly defined as the monopoly of Internet services providers, services including searching, online games, online music, etc.

Public policy toward monopoly includes two parts: in some areas, monopolies create inefficiencies and inequities, which should be discouraged (open textbook: principles of economics). On the other hand, some industries need natural monopolies, which means one single firm promotes economies of scale and lower costs. It is easy to identify that the Internet services industry is not a natural monopoly, unlike roads or utilities. Therefore, if competition exists, it is possible to predict that government policies to control would do well to consumers, increasing competition and promoting overall advancement of the industry. Regulatory efforts, therefore, must be made to prevent the monopoly in the Internet services industry discussed in this paper.

The studies on Internet monopoly focuses on several tech giants, such as Google (most frequently studied one), Facebook, and Microsoft. For instance, Google owns "approximately 90% of the market share of internet searches," which makes indeed the actually monopoly of the Internet search market. This advantage allows the company to influence consumers' choices of products and many other companies' marketing strategies. Robert Epstein (2015) said that Google can control "a wide variety of opinions and beliefs … [more] than any company in history has ever had. Google's search algorithm can easily shift the voting preferences of undecided voters by 20 percent or more-up to 80 percent in some demographic groups- with virtually no one knowing they are being manipulated….." Such strong power could also be found in Amazon, Facebook, Apple, and Microsoft, whose monopolistic powers allow them to purchase and acquire more than 500 companies in the past. Although acquisition and merger allow companies to grow stronger, it is likely that they would lead to "lower productivity, lower income, and destroyed economic dynamism." Google representatives, however, claim such allegation unfair: members speaking for Google argue that "People use Google because they choose to, not because they're forced to, or because they can't find alternatives." They further claim that policy against Google equals policy against free market, and would make consumers use worse search engines.

First, before we dig into monopoly, it is important to introduce the background information --- the businesses of Tencent in many areas of the Internet business, serving as background information for the discussion in later sections. Tencent is one of the biggest the Chinese digital media and telecom conglomerate, with its market capital value of $530 billion, which overtook Facebook. Tencent was not big business at the very beginning, before smart phones become popular in China. However, after 2011, Tencent released Wechat and acquired Riot Games (Rutherford, 2017). Wechat has been and is now still the most popular social media and Tencent Games have a large number of players who play games on smartphones. Other than Wechat, one of its most important businesses, Tencent has other social media and messaging apps including QQ and Qzone, which target at a different user group (Rutherford, 2017). In addition to its power in social media, it intends to expand its business to other areas (e.g., TenPay, mobile payment; Weiyun, cloud storage service). Still, the major businesses remain in gaming and social media.

Is this Internet business a monopoly or not? Indeed, Tencent's near-monopoly in social media in China seems to be a fact, according to statistics. For instance, "Tencent owns 3 of the world's 5 biggest social networks," (Bischoff, 2014). The biggest social media service providers Facebook (which people usually deem as monopoly in US and Europe market) has almost no actual users in China, since the government has blocked it for many years. In China's social media market, Tencent reigns supreme instead, taking up three of the top five spots for social platforms with the most monthly active users in the world. In particular, WeChat has about half the users as QQ Messenger (the PC-version messaging tool). QQ has 829 million users, while Qzone has 645 million. China has 1.4 billion population, so such a big number of users indicate Tencent has dominant position. This allows Tencent to have massive bargaining power in many areas and create super barriers to entries of any competitors.

Economic theories indicate that there are benefits brought and problems caused by monopoly. In particular, in Tencent's case, there are certain benefits of monopolies, although they may be outweighed by the problems. First of all, monopoly is good for a company's innovation (Greenlaw & Shapiro, 2011). Due to the monopoly, there's better protection for the company's patents. For example, Tencent monopolizes the market of film and television works and pay copyright fees to film and television companies. Small companies that may infringe copyright are excluded, so copyright and patents are better protected. In the long run, excess profits can promote the further development of monopoly manufacturers or industries that produce new products. Second of all, economies of scale could cause more efficient use of resources (Greenlaw & Shapiro, 2011). Since a monopoly can be large, it can reap the benefits of economies of scale, whose research and development capabilities may also make it cheaper for the monopolist. Moreover, if there is no competition, extra money on advertising is not necessary, which saves the marketing fees. Finally, the advantage is the network externality. As the network develops the cost for each user decreases and the scope of communication is broadened so that each user gets a higher value.

The problems, however, seem to outweigh the benefits. The greatest problem is that monopoly undermines small businesses (Mitchell & Holmberg, 2020; Greenlaw & Shapiro, 2011). In case of Tencent, through purchase and bankruptcy, small businesses would rapidly disappear and find little space to survive, while the new budding businesses would lose hopes: many gaming companies, smaller ones, were bankrupt and died. Tencent, as the dominant power, has so strong influence that the policy that tilts the playing field would be swung. Smaller businesses, therefore, have less chance to survive, facing the monopoly of the big tech. Another problem is its harm to working people (Mitchell & Holmberg, 2020). If the employer power grows too big, then workers are more likely to be exploited. It is a well-known social fact that workers' salaries haven't increased in recent decades simply because businesses are now dominated by a small number of monopolies. Monopoly, in the case of Tencent, means workers in certain areas have less choices for who to work for and thus the loss of power to negotiate the salaries. Many Tencent workers are known to be exploited, which even became a Chinese meme 996 (meaning working from 9am to 9pm, 6 days a week). Another worrisome point is that monopolies would make consumers pay more (Mitchell & Holmberg, 2020; Greenlaw & Shapiro, 2011; Azar, Marinescu, Steinbaum, & Taska, 2018). This is explained by the economic theory of monopoly: monopoly reduces consumer surplus (See Figure 1). In many areas of Internet businesses (e.g. gaming, social media memberships, etc.), China has surprisingly high Internet prices than the rest of the world, and consumers simply have no other choices. They also use the strategy of price discrimination with its monopolistic power: the wealthier consumers are given higher prices to pay, while the poorer ones have to see long ads to enjoy a product.

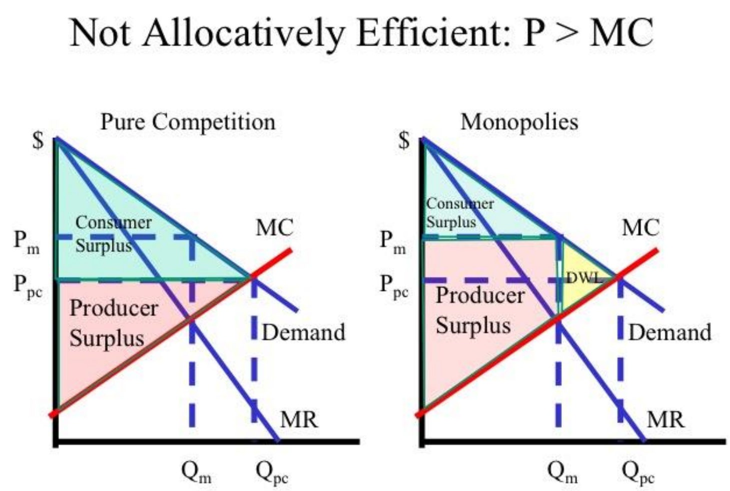

Figure 1. Monopolies reduces consumer surplus

Considering the problems caused by monopolies, governments make policies to respond to such monopolistic behavior. Railroad, oil, and steel industries, as natural monopolies, are of course closely related to the government control, but it is still controversial whether Internet business should be managed directly by the government. For instance, Google is a monopoly in the Internet searches domain and many argues against Google's monopoly for the harm it causes. For instance, Elizabeth Warren says "Today's big tech companies have too much power-too much power over our economy, our society, and our democracy." She points out the disadvantages of big techs dominating Americans' market: "America's big tech companies provide valuable products but also wield enormous power over our digital lives. Nearly half of all e-commerce goes through Amazon. More than 70% of all Internet traffic goes through sites owned or operated by Google or Facebook." These are startling numbers, and emphasizes the need to reduce the power of monopolies. It seems necessary to initiate some policies, but the optimal policy is unknown regarding what to do with the monopoly, and the influence of the policy on the American society and the global world, if any, remains unclear. Unlike USA, China is known for its "big government," so it is likely to expect it to take actions whenever monopolies cause harm.

In China, government's policies (public policy) toward monopolies are strict and immediate. Overall, for monopolistic behavior of Tencent and other Internet companies, Chinese government has taken some harsh reactions against it, like fining or banning certain behaviors. For example, on December 14, 2020, China's market regulator said, "it fined Alibaba Group and a Tencent Holdings-backed company for failing to seek approval before proceeding with some acquisitions." Merger of online streaming platforms are also being reviewed, suggesting the government policies is tightening over the internet sector (Soo, 2020). Specifically, two major Chinese game streaming platforms, DouYu International Holdings and Huya Inc are planning merger and it turns out that it is Tencent leading the deal. If merger happens, Tencent would have controlled 67.5% of voting shares in the merged business, which means its further control over media industry by incorporating the business of game streaming platforms.

Regulatory acts were also implemented: in November 2020, anti-competitive practices (that is, monopoly) in the industry were directly banned in the drafting of regulations, which means companies, particularly the large ones, cannot sign exclusive agreements or use subsidies to outcompete other competitors. The statement of the regulations says, “We hope that operators realize that the anti-monopoly law applies to all entities,” and “platform companies are not outside the anti-monopoly law. Internet platform companies should strictly abide by anti-monopoly laws and regulations and maintain fair market competition.”

Chinese government tends to regard the "top penalty" (extremely high fine rate) as the first step in regulating the industry: Antimonopoly law has been in effect, yet some companies failed to comply with these regulations, and they purchased other corporations without declaration, which was regarded as serious violation of regulations. Chinese officials say that before mergers and acquisitions the operators should be familiar with declaration system but the fact they failed to declare means they disobey the law while understanding the result, which actually caused negative influence, so the penalty would be serious. The government officials of Market Regulation Department indicate that the Internet business shows a trend of increasing integration, so resources are increasingly concentrated on top platforms, and Internet monopoly problems indicate that there are some risks in the loss of competition and hidden dangers in the development of the online economy.

It is likely that China’s control against monopolies is actually learning from what US government does to confine the great power that big techs in the US have. As mentioned in the Literature Review section, lawmakers and regulators are attempting to limit Google’s monopolistic behavior. For example, in November 2002, a massive antitrust lawsuit is filed against Facebook because this big tech has attempted to harm equal competition by acquiring smaller companies like Instagram and WhatsApp; without them Facebook would have achieved a monopolistic position. It purchased Instagram in 2011 using $1 billion and clearly showed its attempt to eliminate possible rivals as well as fair competition.

This study concludes that Tencent has indeed been a monopoly in the Internet business, at least in the field of gaming and social media. The study further points out that although there are benefits of such monopolies (motivation for innovation, efficient use of resources because of economy of scale, network externalities), indeed the drawbacks (stifling smaller competitors, exploiting workers, reducing consumer surplus) outweigh the advantages.

The study also summarizes the policies that the government has taken, which are harsh against any susceptible monopolies (e.g., merger & acquisition); big techs received fines for monopolies and are under control by anti-trust laws. The Chinese policies are of learning imitating their American counterparts, which definitely have more experience in curb monopoly of big techs.

The study has some practical implications: first of all, we consumers should be aware of the monopoly of big techs: their influence, if too large, would finally harm consumers’ benefits; second, government control and regulations are necessary. In particular, laws and regulations would be effective in promoting fair competition. If any big tech broke the law, they would have to receive fines and punishment.

There are of course some limits for such a preliminary study. First, it only reviews one single big tech (Tencent) in China, so it might not be generalizable to other big techs; second, the statistics derived from the study might be not sufficient for a conclusive analysis. More data should be collected.

References:

Allyn, B., Bond, S., & Lucas, R. (Eds.). (2020, October 20). Google abuses its monopoly power over search, justice department says in lawsuit. NPR. Retrieved from https://www.npr.org/2020/10/20/925736276/google-abuses-its-monopoly-power-over-search-justice-department-says-in-lawsuit

America's monopoly problem: Why it matters and what we can do about it. (2020, July). ILSR. Retrieved from https://ilsr.org/fighting-monopoly-power/americas-monopoly-problem-and-why-it-matters/

Antitrust remedies for labor market power. (2018, December 23). SSRN. Retrieved from https://ssrn.com/abstract=3129221

Assessing monopoly. Libraries. Retrieved from https://open.lib.umn.edu/principleseconomics/chapter/10-3-assessing-monopoly/

Break up big tech. Elizabeth Wrren. Retrieved from https://2020.elizabethwarren.com/toolkit/break-up-big-tech

Budde, P. (2012, November 12). The internet monopoly. ITUNews. Retrieved from https://news.itu.int/the-internet-monopoly/

China's alibaba, tencent unit fined under anti-monopoly law. (2020, December 14). The Washington Times. Retrieved from https://www.washingtontimes.com/news/2020/dec/14/chinas-alibaba-tencent-unit-fined-under-anti-monop/

A formidable alliance takes on facebook. (2020, December 12). The Economist. Retrieved from https://www.economist.com/business/2020/12/12/a-formidable-alliance-takes-on-facebook

The FTC is suing facebook to unwind its acquisitions of instagram and whatsApp. (2020, December 9). The Verge. Retrieved from https://www.theverge.com/2020/12/9/22158483/facebook-antitrust-lawsuit-anti-competition-behavior-attorneys-general

Pure competition vs monopoly [Image]. ECON 150: Microeconomics. https://courses.byui.edu/econ_150/econ_150_old_site/images/8-1_Monopolies_17.jpg

Rutherford, S. (2017, November 27). 5 things to know about tencent, the chinese internet giant that's worth more than facebook now. GIZMODO. Retrieved from https://gizmodo.com/5-things-to-know-about-tencent-the-chinese-internet-gi-1820767339

Tencent owns 3 of the world's 5 biggest social networks. (2014, October 3). Techinasia. Retrieved from https://www.techinasia.com/tencent-owns-3-worlds-5-biggest-social-networks