

Q&A

Tech exec: Talk of U.S. ban on ZTE merely strengthens China's domestic market

Tuesday, May 29, 2018 6:56 PM CT

By Priyanka Boghani

- **U.S. ban on companies like ZTE will strengthen China's domestic chip market**
- **Despite a clampdown on online content, user adoption will continue to increase**
- **Hong Kong will increasingly serve as a springboard into China**

China's tech giants, Baidu Inc., Alibaba Group Holding Ltd. and Tencent Holdings Ltd., collectively known as BAT, have been at the forefront of tech innovation in their home market, challenging their global counterparts in a range of areas.

Nevertheless, following recent geopolitical events — such as the U.S. Department of Commerce's \$1.3 billion fine for Chinese telecoms equipment maker ZTE Corp. — as well as an ongoing clampdown on China's online content, the sector does face a range of challenges.

S&P Global Market Intelligence sat down with George Ong, CEO of Hong Kong-based software company Axisoft, with operations in both China and Hong Kong, to discuss the recent U.S. ban on some Chinese tech companies, the country's artificial intelligence potential and the development of China's domestic market.



George Ong, CEO, Axisoft

Source: Axisoft

S&P Global Market Intelligence: Recently, the U.S. said it will lift the ban on ZTE on the condition that the company will pay a fine of \$1.3 billion. Will the back and forth, paired with possible sanctions, have any impact on China's tech development?

George Ong: Yes, I do believe so. Talk of the U.S. ban on companies like ZTE and Huawei Technologies Co. Ltd. will only serve to make China less dependent on the U.S. and in doing so; will strengthen China's domestic chip market. To be fair, I am not surprised by such talks from the U.S. and its focus on China's technology industry. Also, I think doubling down on the country's domestic semiconductor market will eventually bolster China's artificial intelligence development as the chip is integral to all kinds of AI technology as a fundamental material. Right now, the semiconductor industry is where China is challenged. If China turns this around, we can expect more investments allocated to research in AI technology and therefore more AI overall.

You mentioned artificial intelligence. China is putting a lot of resources behind AI. Do you believe China will outshine the U.S. in the AI space?

If you look at the fundamentals of AI technology, it boils down to data access. Under China's strict control of data over a population of over 1.3 billion, access to volumes of data is not a problem for the nation's innovators and authorities. Further, with the onset of facial recognition technology, I can safely say that China is on its way towards not just narrowing the gap with the U.S. on AI development, but outshining them.

Speaking of data controls, China has intensified its clampdown on online content and this has led to increasing pressure on China's tech giants. Do you think privacy and security concerns may hold back their big breakthroughs in the future?

While I believe that more content regulation is on its way, particularly following the recent orders dictating the way

personal information must be handled and protected for China-based financial institutions, there will be no privacy or security concerns as such. The ambitions of China's government are strong and clear, so much so that anything that poses as a hurdle will not be one for long. Further, if you look at the adoption rates of a number of China's tech platforms such as SINA Corp.'s Weibo, they are all very much on the rise. That shows that no matter what the enforcement, user adoption will continue to increase.

Will Hong Kong stand to gain from China's accelerating tech industry?

Absolutely. Many of China's regulations stipulate data storage in China or Hong Kong. This will prove to be a must-needed boost for Hong Kong, currently battling with Singapore to be a tech hub in Asia. Hong Kong will see more technology companies position themselves in the city as they look to springboard into China.

Chinese tech companies are increasingly catching up with their Silicon Valley counterparts. What does the China's tech landscape look like five years from now?

At the very beginning, China was using a copycat model, piggybacking off the innovations that arose from the U.S. Over the next few years, this will change and we will see a reverse of this trend. A live example is Tencent's Wechat International Pte. Ltd. which rolled out its voice and video features much ahead of its foreign competitor WhatsApp Inc. If you look at the revenue models of the BAT companies, a lot of it is still generated from its domestic market. What we will see in the next five years is more innovation from them dedicated to keeping their China-based users engaged and connected. Despite a lot of talk of the global expansion of this tech triumvirate, we will see these companies entrench themselves even further in the domestic market over the next few years.

S&P Global
Market Intelligence