The Next Facebook Won't Be From Silicon Valley

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49 new startups a day. That rate of growth would be impressive even for the VC-rich hills of Palo Alto and Mountain View. But in 2014, this achievement was posted by a lesser-known hub of the tech industry:the Zhongguancun district of Beijing.

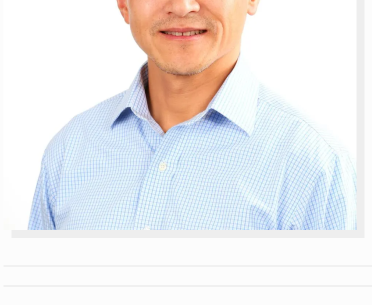
Dubbed the "Silicon Valley of China," Zhongguancun is the cradle of China's new and thriving tech scene. Xiaomi Corp., the country's largest smartphone distributor, was born there, as was internet giant Alibaba, which just completed history's largest IPO. But Beijing isn't the only Chinese city whose tech culture is booming. In Shenzhen, 1,350 miles to the south, internet provider Tencent has quietly grown into China's largest internet company, with a market value of $206 billion.

Critics argue that none of these upstarts will ever gain much of a toehold outside of China. For one, foreigners are wary of giving over personal information to companies with close ties to the Chinese government. For instance: the CEO of Tencent, Pony Ma, is a deputy to the National People's Congress, China's submissive Parliament.

But the greater obstacle, critics argue, is the companies themselves. In a country where Facebook, YouTube, and Google are banned, they've been able to build their businesses on what are essentially uncreative copies of foreign products. Tencent is particularly accused of this: its core instant messaging app, QQ, is based on Israel-based ICQ; its WeChat texting app is similar to Facebook-owned WhatsApp. Can companies with business plans based on imitation ever hope to compete with Silicon Valley innovations?

The answer, I would argue, is a resounding yes. And the biggest threat to American tech dominance will be supposed "copycats" like Tencent, which are actually much more like our homegrown Silicon Valley innovators than they seem.

Government interference may actually be good for Chinese tech. The government's ban on popular American internet companies doesn't just encourage imitation—it also makes China an ideal incubator for ambitious startups. In the U.S., a new company that expanded aggressively would likely be bought up or put out of business by giants like Facebook and Google. But tucked away in relative isolation, Tencent has been able to grow into the world's fifth largest publicly traded internet company without so much as a blip on their radar. With enormous resources at their disposal, it may no longer matter whether big Chinese companies' initial success was based on innovation or imitation—only whether or not they spend their money intelligently.



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Chinese products are more innovative than we Westerners think. Tencent executives have been honest about their preference for "small and swift innovations" over ambitious long-term projects on a par with the Apple Watch or Google Chrome. But it would be wrong to see this as evidence of a lack of creativity. As VC Rui Ma pointed out in a recent post on TNW, Tencent's WeChat app actually includes many clever, original features specifically designed for Chinese users. For instance, Chinese characters are still relatively difficult to type into a cell phone, so WeChat incorporated a function allows users to leave short voice messages instead of sending texts. That might be why WeChat is still so popular among the approximately 274,000 Chinese students studying in the U.S., despite the prevalence within the U.S. of competitors like WhatsApp. All this is a reminder that bigger isn't always better—a "small and swift innovation" can still be an innovation indeed.

Innovations can be bought as well as created. This is where China's incubator-like environment for tech startups can pay off. Companies like Tencent and its competitor Alibaba are so well-capitalized and entrenched in China that they're in a position to invest aggressively in overseas ventures, and to do so often over the long term. Both Alibaba and Tencent have recently established venture arms in the US; Tencent in particular has funded such companies as Snapchat, mobile game studio Altspace VR, and Whisper, the anonymous confession app. That action isn't confined to the U.S., either. Internationally, Tencent has done well in the Southeast Asian market, paying $500 million for a 28% stake in South Korea's CJ Games in order to expand Tencent's mobile gaming business. In this climate, it's really only a matter of time before a Chinese-funded—even if not Chinese-invented—app goes viral.

Chinese tech culture as a whole is thriving. Companies like Amazon, Facebook, and Google don't succeed in a vacuum. Involvement in a tech startup is now considered "sexy" in China, just like it was in the U.S. in the late 90's. Top schools like Peking University are hosting entrepreneurial programs from elite universities like Stanford Business School, while over 1,000 Chinese organizations have invested more than $56 billion in domestic startups. It's true that government regulation in China still makes founding a new business difficult: it takes 38 days in China to start a company, vs. 5.7 days in other countries. But that may start to change as the government looks to start encouraging the startup trend. Public funding for high-tech R&D has skyrocketed in China in recent years, as high-ranking officials start to publicly acknowledge the importance of entrepreneurship. In this climate, the advantages of starting your tech company in Silicon Valley instead of Shenzhen may not be expected to last.

Research for this article was contributed by Victoria Choy and Matt Holzapfel of Hippo Reads.