Alternative reality

China will soon boast more internet users than any other country. But usage patterns inside China are different from those elsewhere

ONE of the more striking end-of-year statistics pumped out recently by the Chinese government was an update on the number of internet users in the country, which had reached 210m. It is a staggering figure, up by more than 50% on the previous year and more than three times the number for India, the emerging Asian giant with which China is most often compared. Within a few months, according to Morgan Stanley, an investment bank, China will have more internet users than America, the current leader. And because the proportion of the population using the internet is so low, at just 16%, rapid growth is likely to continue for some time.

That such a big, increasingly wealthy and technologically adept country has embraced the internet is no surprise, but it has done so in a very different way from other countries. That is in large part the result of the government's historically repressive approach towards information and entertainment. News is censored, television is controlled by the state, and bookshops and cinemas, shuttered during the Cultural Revolution, are still scarce.

The internet itself is also tightly controlled. Access to many foreign websites (such as Wikipedia) is restricted, and Google's Chinese site filters its results to exclude politically sensitive material. New rules governing online video came into force this week. Electronic retailing is in its infancy, thanks to an unwieldy government-controlled payment system, so most shopping is still done in person. The attempt by eBay, the world's leading online auction site, to enter the Chinese market was a flop. Alibaba, a site often described as the eBay of China, is in fact more an electronic yellow pages, helping buyers find sellers, than an online auction room.

The Chinese way

Yet it is all these limitations, paradoxically, that make the internet so popular in China. In the West online activities have transformed existing businesses and created new ones; in China, by contrast, the internet fills gaps and provides what is unavailable elsewhere, particularly for young people. More than 70% of Chinese internet users are under 30, precisely the opposite of America, and there is enormous pent-up demand for entertainment, amusement and social interaction, says Richard Ji, an analyst at Morgan Stanley. Rich rewards await those entrepreneurial internet companies able to meet that demand and establish themselves in the market: operating margins for leading internet firms are 28% in China, compared with 15% in America. And internet companies' share prices have shot up, with their collective market capitalisation nearly doubling every year since 2003 to reach over $50 billion today.

So what is the internet used for in China? Its most obvious use is to distribute free pirated films, television shows and music. Even though China's censors do an excellent job of

restricting access to content that might cause political problems, they are strangely unable to stem the flow of pirated foreign media. On December 30th an appeals court in Beijing ruled in favour of Baidu, China's leading search engine, which had been accused by the world's big record companies of copyright violation by providing links to pirated music files. Even so, piracy is starting to worry the government, not least because the availability of free foreign content is holding back the development of the domestic media industry. But for the time being, the free-for-all continues.

When it comes to making money online, the biggest market involves the delivery of mobile-internet content to mobile phones. With over half a billion mobile-phone users, China has more subscribers than America, Japan, Germany and Britain combined, and more than half of them use their phones to buy ringtones, jokes and pictures from mobile-internet portals such as KongZhong and Tom Online. Each download costs a few cents, most of which goes to the portal, but the mobile operators then make money as subscribers send jokes and pictures to each other. It all sounds trivial, but a few cents here and there multiplied by hundreds of millions of users soon add up. The ringtone from a hit song, "Mice Love Rice", generated over $10m in sales in 2005, for example.

Another big field is online multiplayer games, which have become so popular that the government has started to worry about their impact on adults' productivity and children's education. Import restrictions and fear of piracy mean that the big foreign console-makers—Sony, Nintendo and Microsoft—have not made much headway in China. Instead, a different model has emerged, based around PC games played online. Generally the game itself is given away, so piracy is not a problem, but players pay a subscription to play, and may also buy in-game add-ons such as accessories for their characters. Big providers such as NetEase and Shanda have millions of customers for games such as "Fantasy Westward Journey", a cartoon game for children, and "World of Legend", for teenagers and adults.

Although there are tight constraints on the provision of hard news, internet sites such as Sina and Sohu provide a steady supply of gossip, features, dabs of propaganda and slightly salacious stories and photos, and are constantly testing the boundaries of what is permissible. Video of America's professional basketball league and English football games is also popular, and can be packaged with streaming advertisements, another emerging business in China.

The most dynamic area, and the hardest for outsiders to understand, is that of online communities, many of which are run by a company named Tencent. Its site offers an instant-messaging service and a MySpace-like social networking site, among other things. In each case the basic services are free, but users pay for add-ons (such as new backgrounds for their home-pages or more storage space). Often, says Mr Ji, the members of these communities are people who, because of the single-child policy, have no siblings and are searching for virtual friendships. For them and for many users in China, the internet is not truly a worldwide web: it is only as wide as China. But China's internet community is evidently a world unto itself.