
Payden & Rygel
POINT *of* **VIEW**

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Our Perspective on Issues Affecting Global Financial Markets

**WECHAT: WHAT THE WORLD CAN LEARN FROM CHINA'S MOST
POPULAR MESSAGING APP**

Discussions about China often sound like lectures on how the up-and-coming economy ought to behave. But, in at least one area, China is far ahead of its developed world peers: mobile payments. What can the West learn?

WeChat: What the World Can Learn from China's Most Popular Messaging App

Discussions about China often sound like lectures on how the up-and-coming economy ought to behave. Commentators opine on appropriate reforms and how the lessons learned from the path tread by more advanced predecessors will help the economic fledgling on the global stage.

But, in at least one area China is way ahead of its developed world peers: mobile payments.

Are you still handing out your telephone number to friends or business contacts? Do you have to mail a check to your landlord or mortgage servicer each month? Is your smartphone home screen cluttered with dozens of apps?

Have no fear. There is a magical place where you can pay your rent and your utility bill, order food, send holiday cards, and send text messages to friends, family, employees, or even customers—all inside a single smartphone app.

Impossible, right? Wrong. Transactions like these are conducted nearly 600 million times a day by users in China, and an app called WeChat makes it possible.

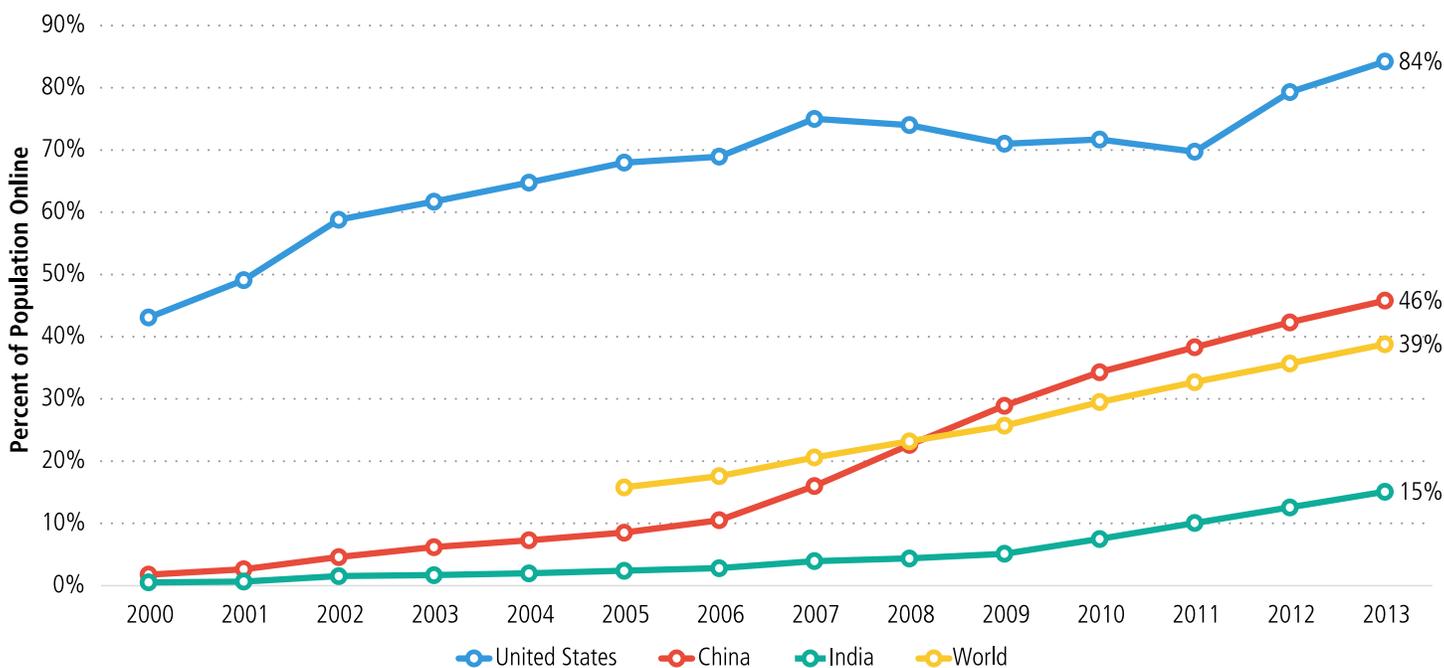
What's WeChat? How does a single chat app dominate the landscape when the US and Europe are plagued by a wide constellation of apps? Why does it matter for the economy that a single app predominates? Below we explore.

I CHAT, YOU CHAT, WE ALL CHAT THROUGH WECHAT

In parts of the world "What's your WeChat name?" is a more important question than "What's your telephone number?" For lack of a better descriptor, it's a story of East versus West.

«FOR THOSE UNFAMILIAR WITH THE SERVICE, THINK OF WECHAT AS THE MOBILE FACEBOOK OF CHINA. DEVELOPED BY THE CHINESE CORPORATE GIANT TENCENT, WECHAT IS A PLATFORM WITH MILLIONS OF APPS»

fig. 1 INTERNET PENETRATION (% OF POPULATION THAT ARE INTERNET USERS)



Source: International Telecommunication Union

For those unfamiliar with the service, think of WeChat as the mobile Facebook of China. Developed by the Chinese corporate giant Tencent, WeChat is a platform with millions of apps. On different applications within WeChat, users can share their location, audio messages (“voicemail” in the West), GIFs as stickers, group messages (e.g., to all employees of an entire firm), or even transfer files like PowerPoint presentations.

Last year for the Chinese New Year of the Horse, one billion “red envelope” messages - user-initiated gifts sent via group chats - were couriered via WeChat. Almost half of all the videos watched online in China are shared via WeChat. In Shanghai, residents use WeChat to make hospital appointments, process passport applications, and pay their utility bills. If they are hungry, app users can order food for delivery—China online food delivery is already a nearly US\$1 trillion market.

Contrast the WeChat phenomenon with the mobile environment in the West, where it is common to have a smartphone cluttered with dozens of different apps. Which app do you open first? Facebook messenger? WhatsApp? The iMessage app? Regardless of your preference, messaging apps in the West are many, and their functionality is surprisingly limited.

FROM MESSAGING TO MONEY

The advantage of a single all-encompassing app with built-in messaging is that it sits at the center of your mobile life. It begins with your identity and it connects with your address book/contact list. It's quick and easy to share information, from a picture to a hyperlink to a news article.

«LET'S GO BACK TO 1995. IN THOSE DAYS, ABOUT 35 MILLION PEOPLE AROUND THE WORLD USED THE INTERNET (0.6% OF THE WORLD'S POPULATION), WITH THE VAST MAJORITY OF USERS RESIDING IN THE US AND EUROPE»

Aside from ease of use and navigation, a single app makes online and offline payments seamless. When one app dominates them all, you need only type in your payment information once, not with every app. With your bank or credit card information entered into WeChat, payments happen seamlessly in the background of the WeChat wallet.

And the ease with which payments are made goes beyond online payments. The dominant messaging app makes in-store, brick-and-mortar payments seamless as well. A WeChat user approaches the register with her basket of items, scans the QR code on their smartphone—et voila!—the tab is paid.²

Meanwhile, in the West, online shopping is still clunky. To purchase an item from Brooks Brothers, for example, a customer first needs to remember his screenname and password for his BrooksBrothers.com account. Next, he must enter his billing address. Then his shipping address if they are different. Finally, he has to enter his payment card details.

As for offline payments via mobile? Forget about it. There's an app for buying your coffee (Starbucks), another app for payments through your iPhone (ApplePay), but cash and credit or debit cards still dominate the in-store purchases. So what is the deal here? Is the West just stodgy, slow-moving, stagnating, or slow to adapt?

Well, not so fast. Another, less glamorous, explanation may be at hand: the zig-zag march of technology and economic development.

THE INTERNET IS MOBILE (AND GLOBAL)

Let's go back to 1995. In those days, about 35 million people around the world used the internet (0.6% of the world's population), with the vast majority of users residing in the US and Europe. If you were living in the United States in 1995, chances are you accessed the internet via a “walled garden” like America Online (AOL), a subscription service that charged an hourly rate for online access.

While email may have been the first “killer app,” instant messaging (IM) rapidly gained popularity on the early internet as well. Engineers at AOL developed a “Buddy List” for their IM app “AIM,” so that a user could first locate and then chat with a list of online friends in real-time (yes, a huge innovation at the time). Friends shared hyperlinks, pictures and even music files. The internet world revolved around messaging.

Other companies quickly followed suit, realizing the popularity of messaging in the “always on” world of broadband and cable internet, instead of dial-up. Microsoft's MSN Messenger became a popular IM service.

But a messaging war ensued. AOL refused to make AIM “interoperable” with Microsoft's Messenger.³ In order to talk to friends across multiple platforms, one had to use multiple messaging services. AOL executives, worried about problems with “file sharing,” stripped AIM of some of its messaging functions. And with the lack of interoperability, messaging on the desktop web floundered.

THE RISE OF THE MOBILE WEB

Back in 1995 only Zach Morris and Gordon Gekko had mobile phones (actually, 80 million people worldwide, or about 1% of the world did), but none of those users were accessing the internet from a mobile device. In the US and Europe, desktop computing dominated.

«BACK IN 1995 ONLY ZACH MORRIS AND GORDON GEKKO HAD MOBILE PHONES (ACTUALLY, 80 MILLION PEOPLE WORLDWIDE, OR ABOUT 1% OF THE WORLD DID), BUT NONE OF THOSE USERS WERE ACCESSING THE INTERNET FROM A MOBILE DEVICE»

That changed by 2014, when 2.8 billion people were using the internet, or 39% of the world’s population (see figure 1), with the largest majority of those users in China. More startling, 5.2 billion people had mobile phones, which is about three-quarters of the world’s population. Most of those phones are still basic “feature phones” but more and more “smartphones” are purchased everyday. Mobile-only internet users have risen dramatically over the past five years, with much of the growth led by Asia (see figure 2).

More mobile usage also means vastly more internet usage overall: adults now spend 5.6 hours per day on the internet, with half of that on mobile devices. The world is rapidly gaining online access, and for much of the world the mobile internet is the first—and the only—access point to the internet. It is the Internet.

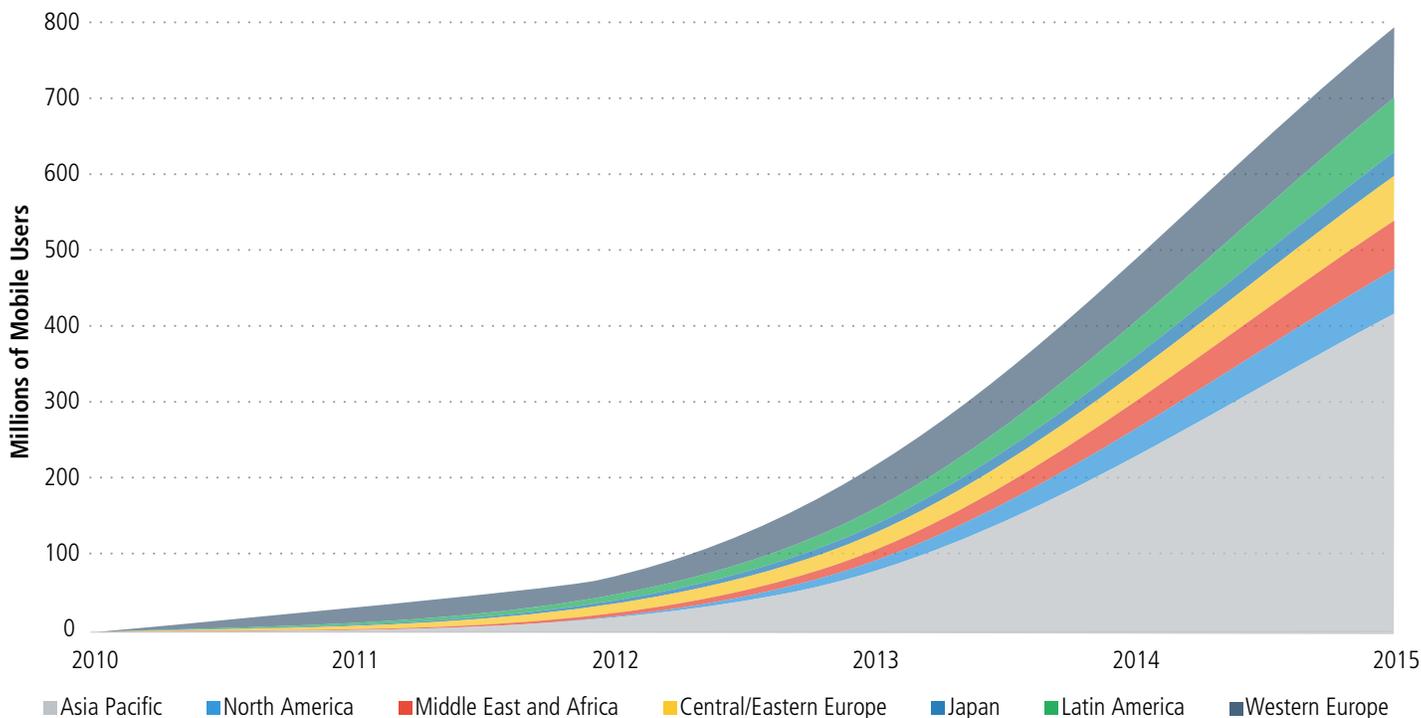
The history of instant messaging on the internet is telling, because what played out on desktops in the West seems to be playing out on mobile all over the world. Once again, the most popular mobile apps are the messaging apps. In fact, six of the top ten most used apps on a global basis are messaging apps. In terms of monthly active users (MAUs), WhatsApp has 800 million, Facebook Messenger has 600 million, WeChat has 549 million, Line has 205 million, Snapchat has 100 million, and KakaoTalk has 48 million.⁴

TWO PATHS

So the West is not necessarily behind, but on a different path. In China, we encounter a middle class whose first computer and first on-ramp to the internet is the one in their pocket. The jump straight to mobile electronic payments was made possible by a popular messaging app. Unshackled by past attempts, mistakes and entrenched institutions, they can embrace the new and surge ahead.

In the West the “wall garden” approach of internet companies has stifled messaging interoperability and made it difficult for a single dominant messaging app to emerge. Thus we are stuck with dozens of

fig. 2 THE TIRELESS RISE OF WIRELESS INTERNET: MOBILE ONLY INTERNET USERS



Source: CISCO Systems

messaging apps and little progress on payments, either online or in-person. Reinforcing this slow approach, the most popular social networking app in the West was built for the desktop, not mobile.

One other impediment is worth noting. Westerners also have short messaging service (SMS), which has been around since well before WhatsApp or WeChat or the iPhone emerged. This is what we know as text messaging. SMS is interoperable across cellphone carriers: it doesn't matter which carrier your friends or family use—AT&T, Verizon, Sprint or TMobile—you can zip them a message with the click of the send button. There is no need to download a new app. Your phone comes fully loaded with an already familiar “text app.”

ONE APP TO RULE THEM ALL?

But that's changing. Mobile app usage is spreading in the West. Among the 18-30 year old crowd, splitting a check or beaming payments from smartphone to smartphone is a reality with services like Venmo. The number of messages sent from global messaging apps (such as WhatsApp) recently surpassed the total SMS messages sent worldwide.⁵

For now, we find China's one-app solution fascinating and worth watching as mobile smartphones speed ahead. It seems that cultures differ as much as cluttered smartphone homescreens do. Maybe then it should not come as a shock that messaging and payment systems also differ? 

SOURCES

- 1 Connie Chan. “When One App Rules Them All: The Case of WeChat and Mobile in China.” Andreessen Horowitz. 6 August 2015.
- 2 Note: Quick Response (QR) codes are two-dimensional barcodes that can be scanned by a smartphone with a camera. The smartphone then displays the images, text, or other digital content stored in the codes.
- 3 As Tim Berners-Lee, the creator of the World Wide Web, notes, “The sites [e.g., Facebook] assemble these bits of data into brilliant databases and reuse the information to provide value-added service—but only within their sites. Once you enter your data into one of these services, you cannot easily use them on another site. Each site is a silo, walled off from the others.” Tim Berners-Lee. “Long Live the Web: A Call for Continued Open Standards and Neutrality.” Scientific American. December 2010.
- 4 Mary Meeker. “2015 Internet Trends.” Kleiner Perkins Caufield Byers. 27 May 2015.
- 5 “What's up? Messaging apps.” The Economist. 25 March 2015.