

China cloud services market Q1 2021

Shanghai (China), Bengaluru (India), Singapore, Reading (UK) and Portland (US) – Monday, 21 June 2021

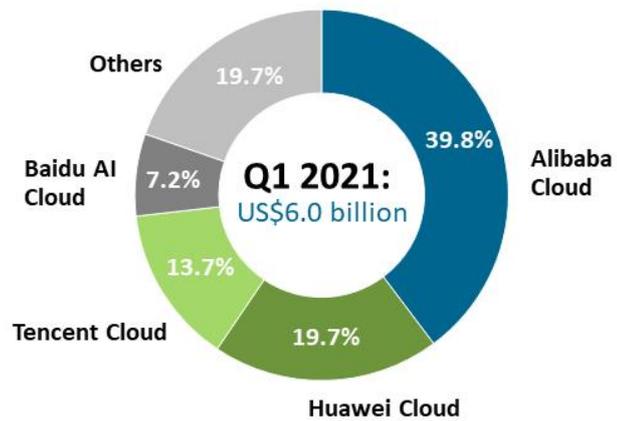
Canalys: China cloud services spend hits US\$6 billion in Q1 2021

Cloud infrastructure services spend in China jumped 55% in Q1 2021, reaching US\$6.0 billion. Total expenditure increased US\$2.1 billion compared with Q1 2020 and over US\$200 million on the previous quarter according to the latest Canalys data. The dollar-for-dollar annual expansion slowed on a sequential basis, highlighting some disruption to the Chinese cloud service providers' businesses. But cloud infrastructure services growth in China continued to outpace the rest of the world, supported by the government making it a top strategic priority. Key factors fueling investment included rapid economic growth and an increased focus on digital transformation following the COVID-19 pandemic. Overall, China was the second largest market after the US, accounting for 14% of global investment, up from 12% in Q1 2020. The top four cloud service providers were Alibaba Cloud, Huawei Cloud, Tencent Cloud and Baidu AI Cloud, which together accounted for over 80% of total expenditure.

"Digital services, including everything from digital payments and content to customer and social engagement and remote learning, are key drivers behind the demand for cloud infrastructure services in China," said Canalys Analyst Blake Murray. One year on from the start of the COVID-19 pandemic, cloud service providers in the country have enabled the acceleration of the government's and other organizations' digital agendas, while compressing multiple years of transformation plans into much shorter timeframes. They were able to build critical relationships with customers early in the pandemic to support rapid digital transformation. Now they are investing heavily to increase their capacity, develop cloud-based databases, storage and compute capabilities to replace on-premises IT infrastructure, enable a broad developer ecosystem for cloud-native development, and extend cloud and AI to all industries.

Q1 2021
 cloud infrastructure
 spend in mainland
 China grew 55% to
 US\$6.0 billion, driven
 by economic growth
 and a focus on digital
 transformation

China cloud infrastructure services spend



Source: Canalys estimates, June 2021

China cloud infrastructure services
 Q1 2021: US\$6.0 billion

Quarterly growth
 US\$ billion



Source: Canalys estimates, June 2021

Alibaba Cloud led the market with a 40% share, though its growth slowed to 38% in the quarter. This is the result of a large customer terminating its contract to adhere to data sovereignty requirements outside of China. It also came under scrutiny by China's State Administration of Market Regulation in other parts of its business, which resulted in an anti-monopoly fine issued in April. Huawei Cloud made the most gains during the quarter, growing 116% to take a 20% market

share. It grew strongly thanks to Internet customers and government projects, as well as key wins in the automotive sector. It is currently building its largest data center facility in Gui'an to provide services in Southwest China. Tencent was third with a 14% share. It expanded in healthcare, retail, education and transportation. It also increased its focus on enterprise opportunities by establishing a SaaS ecosystem program and launching the Enterprise App Connector to simplify management of multiple SaaS products. Baidu AI Cloud was the fourth largest cloud service provider, accounting for 7% of total spend in Q1 2021. It had ongoing success with large financial service customers, and also grew in the government, enterprise, Internet, transportation and healthcare sectors.

“2021 will be a growth year for cloud services in China due to the continued expansion of online services, digitalization of processes and operations, and investment across industries, enterprises and government sectors. This will increase use cases and heighten the value proposition of cloud services,” said Chief Analyst Matthew Ball. Chinese providers will also extend their reach beyond the domestic market and export their cloud services worldwide to accelerate digital transformation in other parts of the Asia Pacific region, and Europe, the Middle East and Africa. But they will have to meet the ongoing challenges presented by local data sovereignty laws and highly customized industry-specific needs. Attracting local developer ecosystems, enabling SMBs to adopt cloud services and working with governments, in addition to building data centers, will be critical to their success.

[Canalys defines cloud infrastructure services](#) as services that provide infrastructure as a service and platform as a service, either on dedicated hosted private infrastructure or shared infrastructure. This excludes software as a service expenditure directly, but includes revenue generated from the infrastructure services being consumed to host and operate them.

For more information, please contact:

Canalys China

Nicole Peng: nicole_peng@canalys.com +86 150 2186 8330

Canalys India

Rushabh Doshi: rushabh_doshi@canalys.com +91 99728 54174

Canalys Singapore

Sharon Hiu: sharon_hiu@canalys.com +65 9777 9015

Yih Khai Wong: yih_khai_wong@canalys.com +65 9712 7835

Canalys UK

Matthew Ball: matthew_ball@canalys.com +44 7887 950 505

Alastair Edwards: alastair_edwards@canalys.com +44 7901 915 991

Canalys USA

Marcy Ryan: marcy_ryan@canalys.com +1 650 862 4299

Alex Smith: alex_smith@canalys.com +1 650 799 4483

Blake Murray: blake_murray@canalys.com +1 650 308 6687

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