Chapter Twelve

Icon or Icarus?

The communists just beat us at capitalism!
—Jon Stewart

IPO 2.0

On September 8, 2014, two days before Jack's fiftieth birthday, Alibaba Group Ltd. kicked off its global roadshow in New York City.

Fifteen years after climbing the rough, cement staircase inside the Lakeside Gardens apartment complex, I walked up the polished marble steps of the Waldorf Astoria hotel in Manhattan. I had come to witness the birth of "BABA."

Live-broadcast satellite trucks and black SUVs lined the block outside the hotel. Inside Jack, Joe, and the rest of the senior management team prepared to make their pitch. I walked alongside a line of investors that snaked all the way from Forty-Ninth Street up through the lobby to the hotel's gilded elevators. Today was all about the New China. The venue was fitting, as the venerable Waldorf Astoria itself was acquired[1] shortly after, for $2 billion, by a Chinese company.

On reaching the upstairs ballroom, the investors were issued with wristbands that determined whether they would hear the Alibaba pitch in the main ballroom or in one of the overflow rooms outside. One investor said it reminded him of an iPhone launch.

All eyes were on Jack. Although Jonathan Lu, as CEO,[2] was the main front man for the presentation, Jack remained—as he does today—the personification of Alibaba. When it was his turn, Jack told the investors the story of his first, unsuccessful fund-raising trip with Joe to the United States fifteen years earlier. Seeking $2 million from venture capitalists, he returned, he said, empty-handed. But now he was back, and asking for a little more.

On that first trip Joe tried, without success, to convince Jack to present something to the investors they had flown to the United States to meet. But this time they came prepared. Each of the investors was handed a weighty, three-hundred-page prospectus. The bright orange cover's cartoonlike graphics at the front made it look more like a children's book than a serious document for grown-ups. But flipping past the artwork, the investors found the sobering text outlining the "Risk Factors"—standard for any public offering. The section ran thirty-seven pages long, detailing "intangible"[3] and "tangible" risks, such as the company's dependence on Alipay, a business it no longer owned. Jack addressed the issue of the Alipay transfer head-on, saying he had been given no choice. The decision, he said, was one of the hardest of his life, but one in retrospect he would make again.

The risk factors also included a discussion of the controversial but enduring VIE investment structure. But the offering had added, on top of the VIE, another layer of complexity for investors: the "Alibaba Partnership." The partnership[4] comprised thirty individuals, mostly[5] members of Alibaba's management team. Six,[6] plus Joe Tsai, were original cofounders of Alibaba. The explicit goal of the partnership is to help Alibaba's senior managers "collaborate and override bureaucracy and hierarchy," to ensure "excellence, innovation, and sustainability." In December 2015, Alibaba appointed four new partnering members, taking the total to thirty-four.[7]

Of course the implicit reason for the partnership is control. Even after becoming a public company, Alibaba wanted to ensure that the founders remained masters of their own destiny.

This had already caused controversy for Alibaba, prompting the Hong Kong Stock Exchange and its regulator[8] to turn down Alibaba's application for an IPO in the territory. Hong Kong was concerned that allowing the structure would signal a weakening of its commitment to the "one shareholder, one vote" system.

Alibaba countered that the partnership could not be compared to the narrow concentration of control of the "dual-class" or "high vote" share structures used by tech company peers in the United States like Google and Facebook. Instead it was proposing a new, more sophisticated form of corporate governance that gave each member of a larger group of managers a vote. But the distinction failed to convince the Hong Kong authorities, and Alibaba opted for an IPO on the New York Stock Exchange instead.

Saying “no” to Alibaba was costly for Hong Kong, depriving the city’s bankers and lawyers of a huge windfall. Joe Tsai didn’t pull his punches: “The question Hong Kong must address is whether it is ready to look forward as the rest of the world passes it by.”

So, Alibaba found itself in New York. Selling 12 percent of the company, it raised $25 billion, the largest IPO in history. Credit Suisse and Morgan Stanley, two of the six banks hired to lead the deal, raked in $49 million each. The haul for an army of lawyers on the deal was more than $15 million.

In New York, the deal caught the attention of Jon Stewart at Comedy Central. First he joked about Alibaba’s business, connecting buyers with sellers: “Craigslist with better graphics, is that what it is?” Then he poked fun at Alibaba’s convoluted ownership structure: Investors in the IPO were buying shares in Alibaba Group Holdings Limited, a company incorporated in the Cayman Islands, controlled by a partnership, which did not actually own the business assets in China. “So I paid for a share for something on an island, and I don’t own it?” Stewart continued, “You’re selling us a time share, is that what it is? A time share in a company. Without giving us a free vacation to sit through your pitch?” Finally, Stewart noted that Alibaba was listing in New York because it couldn’t list in China: “The communists just beat us at capitalism!” Stewart concluded by pretending to phone his broker to get his hands on, in vain, some BABA shares.

But this IPO[9] was not about individual investors; it was all about big institutions, for whom ninety percent of the shares were reserved. Seventeen hundred institutional investors subscribed to the shares, including forty who each put in orders for over $1 billion. In the end the bulk of the shares were allocated to just a few dozen institutions.

Jack Magic, and the appeal of Alibaba’s huge business, worked. Demand[10] for BABA shares outstripped supply by over fourteen times. A healthy first-day pop was inevitable. Demand was so strong that it took the New York Stock Exchange half an hour even to determine the opening trade. The stock was listed at $68 but the initial quotes came in at just under $100. BABA closed the day 25 percent higher than the initial price, valuing the company at over $230 billion, more than Coca-Cola. Among Internet companies, Alibaba was second only to Google, higher even than Amazon and Facebook. In the following weeks, its shares continued to climb, its valuation far surpassing Walmart and Amazon, almost breaking the $300 billion mark in early November. Mirroring his record-breaking $36 million purchase of an apartment in Hong Kong after Alibaba.com's IPO in 2007, less than a year after the 2014 IPO, Jack bought another trophy asset, for $190 million this time, in the shape of a ten-thousand-square-foot, three-story house perched even higher up Hong Kong's Victoria Peak.

However, just as Alibaba.com's IPO in 2007 had sizzled, then fizzled, BABA-boom soon become BABA-bust: Alibaba Group's shares sank by 50 percent before the summer of 2015 was out. In late August, they fell below the $68 IPO price for the first time. By September, Alibaba's valuation had sunk[11] by almost $150 billion from its November 2014 peak, in what Bloomberg described as "the world's biggest destruction of market value."

Newly appointed CEO Daniel Zhang reminded the company's employees, "Our values do not waver with the fluctuations in stock price," and that they were not just fighting a battle, but were "in it for 102 years to win the war." Thanks to the anticipated future IPO of the parent company of Alipay, renamed Ant Financial,[12] Alibaba would also continue its practice of creating regular opportunities for employees to cash out some of their shares. Although Ant Financial's IPO (on a domestic stock exchange) is likely still a year or two away, Alibaba has already started to distribute shares in the financial unit.

After a strong first few months, why did Alibaba's shares fall so fast and so far? The sharpest drop was triggered by a public dispute between Alibaba and a Chinese government agency, a development that came as a shock to the foreign investors who had assumed that Jack was somehow the ultimate insider, immune from such entanglements.

Fighting over Fakes

On January 28, 2015, the State Administration for Industry and Commerce (SAIC), China's business and licensing authority, posted a report[13] on its website that detailed complaints, leveled the previous July, that accused Alibaba of selling fake goods and its employees of taking bribes from vendors in order to boost the rankings of their products. The report also detailed a subsequent SAIC investigation into the sale of counterfeit items on six leading e-commerce sites, including Taobao and Tmall. The SAIC found that of its sample purchases on Taobao only 37 percent were considered authentic, adding, “For a long time, Alibaba hasn’t paid enough attention to the illegal operations on its platforms, and hasn’t effectively addressed the issues.” Worse still, the report asserted that “Alibaba not only faces the biggest credibility crisis since its establishment, it also casts a bad influence for other Internet operators trying to operate legally.”

When the media picked up the story, Alibaba’s shares fell by more than 4 percent.

Alibaba was furious, questioning the SAIC’s methodology and its motivations. Remarkably, both the SAIC’s report and Alibaba’s response to it were on full view to the public. In China, discussions between the government and companies are typically conducted in private, as the opacity of PBOC’s intentions and interactions during the Alipay crisis had already illustrated. But here was one of China’s largest companies directly criticizing the government. More spectacularly, a posting by a Taobao customer service representative on the company’s official social media[14] account even named the individual SAIC official[15] involved: “Director Liu Hongliang! You’re breaking the rules, stop being a crooked referee!” The post continued, “We are willing to accept your God-like existence, but cannot agree with the double standards used in various sampling procedures and your irrational logic.”

Although the post was deleted by Alibaba a few hours later, it was replaced by an official communication that was still remarkable for its frankness: “We are open to fair supervision, and are opposed to no supervision, misconceived supervision, or supervision with malicious aims.” Alibaba also indicated that it had filed a complaint against the SAIC official for misusing procedures and using erroneous methods to get a “non-objective conclusion,” adding, “We believe Director Liu Hongliang’s procedural misconduct during the supervision process, irrational enforcement of the law and obtaining a biased conclusion using the wrong methodology has inflicted irreparable and serious damage to Taobao and Chinese online businesses.”

For Alibaba the timing of the dispute was particularly inopportune, coming one day before[16] the release of its quarterly earnings report. Alibaba reported sales of 40 percent,[17] but investors were unimpressed by its numbers, sending its shares down a further 8.8 percent. Tens of billions of dollars had been wiped off its valuation in just two days. In the earnings call, Joe Tsai, now executive vice chairman, fought back: "At Alibaba we believe in fairness. We support rigorous supervision of our company, but we also feel compelled to speak out when there are inaccurate and unfair attacks being leveled against us."

And the tit-for-tat wasn't over yet. SAIC then disclosed that it had kept private the details of the July 2014 meeting in order not "to impede Alibaba's preparations for its initial public offering." This was particularly unhelpful to the newly public Alibaba because it raised the ugly possibility that management had failed to disclose the dispute to investors ahead of its IPO, something that should have formed part of the (already voluminous) risk factors section of the prospectus. But Alibaba denied the accusation, saying it neither had prior knowledge of a white paper nor had requested SAIC to delay publication of any report, adding that meetings with regulators were a normal occurrence. Unsurprisingly all of this triggered a class-action lawsuit against Alibaba the following week.

Finally, the mudslinging had become too much. SAIC deleted the report from its website. Jack flew to Beijing to meet with the regulator's head, Zhang Mao.[18] There the two men, in public at least, buried the hatchet. Jack promised to "actively cooperate with the government and devote more technology and capital" to rooting out the sale of fake goods. Zhang Mao praised Alibaba for its efforts to safeguard consumer interests and said SAIC would look to develop new tools to oversee the e-commerce sector.

Looking back at the incident, one former senior Alibaba executive told me the company would have been better off not responding to the SAIC announcement in the first place: "Alibaba is still relatively young, but to some they've become such a big monster. Even the government doesn't know how to manage them. In the future, there will be a lot of conflicts. That's natural. Because this government has never had to deal with a company this influential."

For Alibaba, and any private company, the Chinese government itself is a multiheaded hydra of agencies, often competing with one another for influence, licensing fees, or other forms of rent to justify their existence, often lacking sufficient central government support to finance their operations. These agencies exist at both the national level and at multiple levels below. Some are replicated all the way down through the provinces to municipalities and finally to the level of rural counties.

Jack often repeats a line about his relationship with the Chinese government: “Fall in love with the government, don’t marry them—respect them.” With so many departments, if he were truly to marry the government, he’d end up a polygamist. Jack revealed[19] that Alibaba had hosted in 2014 alone over forty-four thousand visits from various government delegations in China.

Yet, short of marrying, even respecting the government can be a challenge. Jack once explained to a friend that he was never really sure of his schedule from one day to the next. If the party secretary of Zhejiang, for example, requested he travel with him as part of a business delegation to Taiwan, then he would have little choice but to make the trip. Owning a Gulfstream G650 jet is quite a privilege, but unlike his tycoon peers in the West, for Jack there is always a lurking sense of not knowing where to tell the pilots to fly it.

Jack receives Xi Jinping, the Communist Party Secretary of Shanghai, at Alibaba in Hangzhou, July 23, 2007. *Alibaba*

Respecting the government also involves cultivating good relations with a wide range of officials, including future leaders of the country who might one day hold huge sway over the company. A typical feature in the lobby of any large company in China, whether state or privately owned, is a wall of photos memorializing meetings between the boss and various government dignitaries. Alibaba is no exception. At the entrance to its VIP visitor suite there is a photo[20] from July 2007 of Jack welcoming Xi Jinping to Alibaba.

Xi today of course is president of China but back then he was Communist Party secretary of Shanghai.[21]

Entrepreneurs in China can never eliminate the risk for their business of arbitrary regulations or actions. Instead they can try to shield their companies by helping the government do its job.

Part of the SAIC's job is to stem the flood of pirated goods.[22] Online or offline, fighting piracy is like a game of Whack-A-Mole: Whack one molehill, and the moles will pop up somewhere else. To turn the page on its dispute with SAIC, Alibaba increased the number of staff dedicated to combating counterfeiting, from 150 to 450 people, including a team of "secret shoppers" to root out fakes. Alibaba operates a "three strikes you're out" system to sanction vendors. Selling the same fake good on three occasions[23] gets a merchant kicked off the platform. To weed out merchants who later resurface with another name—the "whack a mole" problem—Alibaba has adopted some creative countermeasures. Similar to the "proof of life" tactics used by hostage negotiators, the company asks merchants to prove their identities by taking a photo of themselves with their ID card and today's newspaper. They may even ask them to adopt a particular "pose of the day" in the photo as an extra security measure.

At a closed-door dinner in London in October 2015, Jack summed up the problem as follows: "Maybe one percent of the merchants on our platform are bad guys." Yet with nine million merchants on Taobao, that works out at ninety thousand "bad guys." An investor present at the dinner, David Giampaolo, summarized Jack's message that evening: "He is focused on solving the problem. However, few people, especially overseas, appreciate the enormity of the task."

In Beijing on Singles' Day 2015, Jack went further: "Every consumer that buys one counterfeit on our site, we lose five customers. We are also victims of [counterfeits]. We hate this thing. . . . We have been fighting for years, but we are fighting human nature, human instinct." Explaining that piracy had been rampant in China's offline retail sector for the past thirty years, Jack added, "We are fighting online and helping fighting offline. We have two thousand people working on it, we have fifty-seven hundred volunteers working on it. With special task forces, with the technology we have, we are making progress. I think the opportunity is whether we should work together to fight against these thieves. We are running a platform for more than ten million businesses. They [the pirates] are tiny; they are everywhere.” Some of Jack’s rivals are sympathetic to his predicament. One told me: “When you’re managing a platform with nine million merchants on it, you’re running a country.”

A key part of Alibaba’s response is its Internet Security Team, headed by ex-cop Ni Liang. The team operates a “notification and take down” system that merchants can use to flag fake products[24] being sold on Alibaba’s sites. Using techniques such as “price point analysis,” brand owners can identify large quantities of high-margin items such as luxury bags being sold at impossibly low prices. But this method doesn’t work well for high-volume, low-margin items such as soap or shampoo, where it can be hard to sort legitimate products from fakes. So Alibaba is looking to the power of Big Data: Company names, addresses, trading history, and bank accounts can all be useful to establish patterns of distribution and go after infringers. The power to deny them the use of Alipay as a payment tool on other platforms can also be an effective deterrent.

The reality is that, for piracy, e-commerce is both part of the problem and part of the solution. The Internet is more effective at distributing fake goods than offline methods, but also more effective at identifying and combating infringers.

Taobao, dominated by mostly mom-and-pop store owners, is less easy to police than Tmall. So with events like the November 11 Singles’ Day, Alibaba is spending more marketing dollars on Tmall than Taobao. Tmall sets a higher bar[25] for merchants to trade. Also Alibaba generates commission fees on Tmall, meaning that shifting business away from Taobao makes more money for Alibaba as well.

But not all brands are convinced. A few months after the SAIC controversy the American Apparel & Footwear Association (AAFA), which represents more than a thousand brands, was again pushing for Taobao to be added back to the USTR’s list of notorious markets; the association complained about the “rampant proliferation” of fake goods on Taobao and the “slow, sluggish, and confusing systems” that Alibaba has put in place to remove them. Yet despite AAFA’s action, a number of its members, including Macy’s and Nordstrom, continue to work closely with Alibaba on initiatives including Singles’ Day, revealing a lack of consensus about the way forward. In November 2015, Juanita Duggan, the person who as CEO and president had spearheaded the complaint, resigned from her post.

Alibaba faces criticisms from some brand owners in Europe, too. In May 2015, Kering, the French luxury goods holding company of brands including Gucci and Yves Saint Laurent, filed a lawsuit against Alibaba alleging violations of its trademarks and racketeering laws. Part of the complaint included allegations that when customers enter the word *Gucci* in Alibaba's search engine, it returns links to fake products branded "*guchi*" or "*cucchi*." Alibaba is fighting the suit, countering that Kering has "chosen the path of wasteful litigation instead of the path of constructive cooperation." In an interview on Singles' Day 2015 with Bloomberg, Jack was even blunter, revealing his frustration with lawyers: "Don't send lawyers. These lawyers don't understand business; they don't understand e-commerce." The following month, Alibaba stepped up its IP enforcement efforts by appointing Matthew J. Bassiur as head of Global Intellectual Property Enforcement. Bassiur had previously overseen anticounterfeiting operations at the pharmaceutical company Pfizer after several years with Apple Computer. Prior to his corporate career, Bassiur served as a federal prosecutor in the U.S. Department of Justice.

Fake goods weren't the only issue weighing on Alibaba's share price after its IPO. Some investors fretted about fake trades, too. Also known as "brushing," fake trades involve merchants shipping empty boxes to ghost customers to boost their rankings.[26] Local brands—particularly those in highly competitive sectors like apparel, cosmetics, and electronics goods—are the main culprits. Rather than carrying out the fake trades themselves, these merchants typically hire "click farming" companies to generate the fake purchases for them. They can also hire the same click farms to generate fake, positive product reviews to influence real purchasers. By one estimate, four click farms[27] interviewed each claim to control at least five million Taobao buyer accounts. These firms no doubt exaggerate their influence—to boost their appeal to potential customers—but collectively the click farm companies claim that in 2015 they accounted for double digit percentages of the total merchandise volume of Singles' Day purchases in 2015. Alibaba and other e-commerce players are on the lookout for these companies—monitoring traffic and transaction patterns to root out suspicious activity. (Although the click farms claim they can circumvent these attempts, they assent that these methods are not rigorously applied.) As with the battle against fake goods, Alibaba and other e-commerce players are engaged in a cat-and-mouse game. Like piracy, brushing cannot be eliminated entirely, unless the algorithms that rank merchants based on sales volume are abandoned. The e-commerce players can, and do, act to increase the costs of bad actors. Tmall's "anti-brushing" systems monitor behavior to establish if a purchaser is a real person, for example, by ensuring that the session involves clicks on a range of products—suggesting actual browsing of goods on sale—and sufficient time spent on each web page, concluding with a purchase deemed to be a reasonable amount for one person to make. In response, the click farms have increased the sophistication of their service, charging as much as thirty yuan ($4.70) per faked order, compared to the typical range of ten to twenty yuan ($1.56–3.12) per order, depending on the costs involved, such as commissions, payment fees, and generating fake logistics information. Tmall is more prone to brushing than Taobao, as the competition to secure high-ranking sales—and the publicity these can generate—in promotions like Singles' Day is so intense.

Alibaba's e-commerce platforms have become so large that policing the huge volume of goods and transactions is becoming ever more complex. Yet this size is also Alibaba's great strength. Merchants on Alibaba's sites are increasingly willing to spend money to upgrade their stores. Even merchants who prefer to sell goods on other sites still keep a presence on Taobao because it means consumers trust them more.

Competitors in the Wings

Nevertheless Alibaba is facing rising competition in a number of categories like clothing,[28] cosmetics,[29] books,[30] and food.[31] To buttress its position in electronics and electrical appliances, Alibaba has even started to make investments in traditional retailers as part of the new trend, mentioned earlier, called "omni-channel" or "online to offline," abbreviated as "O2O." In August 2015, Alibaba shelled out more than $4.5 billion to buy a stake[32] in Suning, an electronics and white goods retailer. But some analysts questioned the logic of buying into a company with more than 1,600 stores across the country that, like Best Buy in the United States, were at risk of becoming merely expensive showrooms used by customers to try out products that they would later buy online. Alibaba made the investment in Suning in part to counter its biggest competitor in e-commerce, a well-funded company called JD.com,[33] which went public in the United States four months before Alibaba. JD is a threat to Alibaba in part because it represents a competition of ideas. Unlike Alibaba, JD is more closely modeled on Amazon, purchasing and selling its own inventory. In addition, while Alibaba has kept one step removed, JD owns and operates its own logistics network. While Alibaba argues that JD will never rival it in scale due to the costs of owning inventory and shifting physical goods, JD counters that its model ensures a higher quality of product and speed of delivery to its customers.

JD clearly riles Jack. In early 2015 he turned his guns on the founder of JD, Richard Liu. Although he spoke the words to a friend in what he thought was confidence, Jack's criticism of the company was posted on social media: "JD.com will eventually be a tragedy and this is a tragedy I have warned everyone about from day one. . . . So I've told everyone in the company, don't go near JD.com." Soon after the incident, Jack apologized, joking, "The next time I have a conversation, it'll be in a public bath."

The Big Two

Another reason why Jack has trained his guns on JD is that it enjoys the backing[34] of Tencent, Alibaba's main Internet rival. As Alibaba extends into new territory beyond e-commerce, it is increasingly bumping into Tencent, whose valuation in 2015 at times surpassed that of Alibaba. Tencent makes most of its money in online games but is a threat to Alibaba because of the phenomenal success of WeChat,[35] the mobile application it launched in 2011 that has amassed more than 650 million regular users. WeChat is the primary mobile messaging platform in China, benefiting from—and even driving—China's smartphone boom. WeChat has been described[36] as "one app to rule them all." Without WeChat a cell phone in China loses much of its utility. The WeChat app effectively has made the contact book redundant. Most users check the application at least ten times a day. But WeChat is about far more than chat. Chinese consumers use it[37] for a much wider range of services than their peers in the West (who use Apple's iMessage, Facebook's Messenger, or WhatsApp). The power of Tencent's ability to innovate was demonstrated most dramatically in 2014 with WeChat's Lunar New Year "red packet" (*hong bao)* campaign. In just two days, WeChat users sent out more than 20 million virtual envelopes[38] of cash. Jack even compared the psychological impact of WeChat's campaign on Alibaba to Pearl Harbor. Alibaba fought back in 2015 but despite doling out $100 million in cash-and-coupon promotions, it was able to rack up only a quarter of the red packets sent by WeChat users.

WeChat exposed a critical gap in Alibaba's armory that it tried to close with its own mobile social app, Laiwang. Throwing everything it could at promoting Laiwang, Alibaba even required every employee to sign up one hundred users in order to qualify for their annual bonus. But Laiwang launched two years after WeChat. By then it had already lost the battle. Today even Alibaba's senior executives use WeChat, resorting to Laiwang only for official communications with colleagues.

Alibaba is spending billions of dollars on investments, acquisitions, and marketing to shore up its mobile strategy, from investing in its YunOS,[39] to buying stakes in Sina Weibo,[40] the Twitter-like service, and Meizu, a smartphone manufacturer, to acquiring UCWeb, China's leading mobile browser company,[41] and AutoNavi, a leading online mapping company to boost Alibaba's position in location-based services. Alibaba has already shifted a lot of its core business to mobile. Half of all purchases made on Alibaba's websites are made on mobile devices. But Alipay, the leading online payment provider in China, is Alibaba's most important asset in its rivalry with Tencent to tackle the next frontier: the mobile wallet.

Control the wallet, the thinking goes, and you control the battlefield for a vast array of new opportunities beyond e-commerce, with financial services being the most lucrative. Alibaba's runaway success with the Yu'e Bao (meaning "leftover treasure") mutual fund is one example. But online banking is another. Alibaba is actively pushing MYbank. Tencent is responding with WeBank, which has already started to issue consumer loans[42] within fifteen minutes to individuals over their mobile phones, in amounts ranging from twenty thousand to three hundred thousand yuan (from $3,100 to $31,000).

Other fronts are also opening up in the Alibaba versus Tencent conflict, including proxy wars between firms backed by the two companies. In 2014, the contest over Uber-like ride-booking apps became what one analyst described as "the first battle in the world war of the Internet." Alibaba backed a company called Kuaidi Dache[43] while Tencent backed its rival, Didi Dache[44] in a conflict that raged out of control with $300 million poured in to fund tips and marketing subsidies. The battle became so intense that Kuaidi even offered taxi drivers a free case of beer for referring fellow drivers. As the red ink flowed on both sides, a truce was called in early 2015 when the two transportation companies merged in a $6 billion transaction to form Didi Kuaidi, although they retained the two separate operating units. With a $16 billion valuation and $3 billion in new capital, the new entity took on Uber, which had thrown its lot in with Baidu.[45] The "taxi wars" have even taken on international proportions, as Alibaba, Tencent, and Didi Kuadi have all invested in Lyft, Uber's principal U.S.-based competitor.

In 2015, Alibaba and Tencent also decided to combine two other proxies, Groupon-style companies Meituan and Dianping, in a $15 billion merger that some saw as also directed at Baidu and Nuomi, its proxy. Baidu also lacks a meaningful presence in payment, in contrast with the dominance of Alipay and Tenpay.

Alibaba and Tencent are so powerful today that the talk of the "Big Three" (with Baidu) is beginning to shift to talk of a "Big Two." But if the trend of Alibaba and Tencent combining forces to create dominant proxies continues, there is a risk that consumers would be alarmed if subsidies are withdrawn or fees increased for popular services like booking rides or ordering food, prompting intervention by the Chinese government to restrict their market power.

No doubt mindful of the risks, since the SAIC incident, Alibaba appears to be trimming its sails ever closer to the prevailing government winds. In September 2015, Alibaba elevated its Beijing office to become its "second headquarters" along with Hangzhou. The symbolism of a powerful company in southern China announcing a new "coheadquarters" in Beijing is obvious, although the city is much more than just a political center—it is an essential business hub as well.[46] There are also practical reasons for the move. Alibaba describes adding Beijing to Hangzhou as its "twin hub" a strategy to sharpen its edge in northern provinces in the face of increasing competition: By the end of 2015, JD.com had surpassed Tmall by some estimates to become the leading e-commerce player in Beijing.

Upgrading its office in Beijing is important for recruitment, too. Already home to over nine thousand employees, Beijing has a deeper pool of prospective talent for the company to draw on. The capital is home to some of the country's most prestigious universities and about one million students. In the competition for top talent, offering the ability to work in

Beijing reduces the risk of losing candidates who prefer not to move to Hangzhou,[47] which by comparison is a much smaller, provincial city.

Yet on Singles' Day 2015, there were signs, too, that Alibaba is stepping up its efforts to cultivate government support. Hours before the launch of Singles' Day, Alibaba reported that Chinese Premier Li Keqiang's office had contacted Jack "congratulating and encouraging the creation and achievement of the 11/11 event." As the day began inside the Water Cube, the upper-right section of the screen that was recording transactions on Tmall was reserved for a map and a data feed displaying the purchases in countries like Belarus and Kazakhstan, two of sixty-four countries and regions along the "One Belt, One Road" (OBOR[48]), also known as the "Belt and Road" initiative, a centerpiece of President Xi Jinping's foreign and economic policy.

Whatever the risks, Jack professes confidence in Alibaba's future. While the government can play a role in stimulating exports and boosting investment in the economy, he stated, "Consumption is not done by government—it's done by entrepreneurship and the market economy. So, we have a great opportunity. Now it's our turn, not the government's turn."

Alibaba is going all out to grab the opportunity available to the private sector. In recent years, Alibaba's deal making has been so frenzied that one journalist friend in Beijing complained to me that he had little time to cover anyone else and had spent many an evening or weekend writing up the company's latest conquest. Covering Alibaba is complicated because the deals often involve a web of relationships, including those linked to Jack's own private equity fund, Yunfeng Capital.

Yunfeng: Billionaire's Boys Club

Yunfeng is a private equity company in which Jack holds an approximate 40 percent stake and serves as a partner.[49] Yunfeng[50] was launched in 2010 by Jack and cofounder David Yu[51] and others.[52] It is a sort of "billionaire's boys club," something that the fund promotes as a core strength, calling itself the "only private equity fund launched by successful entrepreneurs and industry luminaries." To those who criticize deal making between Alibaba and Yunfeng, Yunfeng is at pains to point out that Jack plays no role in the investment decisions of its various funds. Alibaba emphasizes that Jack will forgo any gains made from his involvement in Yunfeng.

The fact that most of the billionaires involved in Yunfeng have roots in Zhejiang or Shanghai is instructive. Just like the "cluster cities" in Alibaba's home turf, these entrepreneurs have a deep-seated tendency to club together. Now "investment clusters" are emerging in China's New Economy, too, with Alibaba the most prominent of all. The company can make the case that when buying Yunfeng-invested companies[53] Alibaba is investing in companies that Jack already knows, making the fund a form of advance due diligence.

Yet each new deal struck between Alibaba and Yunfeng-related companies introduces further complexity,[54] potentially obscuring the true nature of Alibaba's relationships with the outside business world.

Is this the way Alibaba will maintain its competitive edge and innovative capacity? If transactions between Alibaba and Yunfeng-invested companies are not carefully explained, and the valuations clearly justified, public investors in Alibaba might not be fully aware of the hidden risks involved. This concern, amid some indications of tension between Yunfeng and Alibaba's in-house M&A team, appeared to have prompted Jack to relinquish his role as an executive[55] in Yunfeng, maintaining only a passive interest as an investor[56] in the fund.

During its IPO road show Alibaba emphasized three central growth drivers for the future: cloud computing/Big Data; expansion into rural markets; and globalization/cross-border trade.

Three Core Drivers

Cloud computing is an obvious direction for Alibaba. Investors in Amazon value highly the "virtual" revenue streams of its Amazon Web Services business. Although for Alibaba cloud services represent only 3 percent of revenues today, it is investing over $1 billion to expand them. Alibaba also talks often about the shift from the information technology era to a data technology era, "from IT to DT." Alibaba looks to "DT" to help toward another favorite buzzword for the company: "C2B," or "consumer-to-business." This is the idea that DT, including Big Data, can help Chinese manufacturers improve communication throughout the supply chain to predict demand, potentially eliminating inventory. By exploiting the information flowing across Alibaba's e-commerce, logistics, and finance businesses—for example predicting consumer trends and investment opportunities—the company hopes to leverage the “iron triangle” to even greater effect. Aliyun, Alibaba’s cloud computing business, operates data centers in Beijing, Hangzhou, Qingdao, Shenzhen, Hong Kong, and Silicon Valley as well as a newly established international hub in Singapore. The company plans, according to its president, Simon Hu, “to overtake Amazon in four years, whether in terms of customers, technology, or worldwide scale.”

In rural markets, Alibaba hopes to unlock new tiers of consumers and merchants. China is home to more than 700 million rural residents, but only one-quarter are online. As Internet and mobile penetration increases, Alibaba is opening up kiosk-like service centers in rural areas, committing over $1.6 billion to the effort.

The first pilot county project for Alibaba’s “Rural Taobao” initiative is Tonglu, the same county where Jack’s U.S. adventure began, and the birthplace of the country’s major private courier companies. Alibaba’s own research arm, AliResearch, predicts that rural online shopping will reach 460 billion yuan ($72 billion) by the end of 2016.

Cracking this market is not easy, since it’s complicated by poor logistics and the lower levels of education of rural residents.

Former Alibaba.com CEO David Wei believes that for the group to “go rural” is more critical than for it to “go global.” “If they don’t get into India, Alibaba is still Alibaba. But if they miss the countryside in China, home to six hundred to seven hundred million people, then another Alibaba could emerge.” Alibaba’s rival JD.com has launched its own rural initiative —“Wildfire of a Thousand Counties”—and its core products such as washing machines and refrigerators are among the most craved items by countryside dwellers.

In any case, Alibaba has little choice but to “go rural.” China’s State Council has unveiled a major new initiative to promote e-commerce in the countryside—echoed by Premier Li Keqiang’s “Internet +” vision—and after the SAIC debacle, Alibaba can’t afford to be seen as unsupportive. In July 2015, Jack led a delegation of Alibaba executives to Yan’an in Shaanxi Province. This rural location has tremendous significance in China as it lies near the end of the route of the Long March,[57] and served as a key base from 1936 to 1948 for the Communist Revolution. Jack’s delegation included over thirty senior Alibaba executives including Polo Shao (Shao Xiaofeng), a former criminal investigator who is senior vice president and director for the Office of the Chairman at Alibaba Group and is also believed to serve as secretary of the Communist Party committee of the company.

In discussions with local Communist Party secretary and government officials, the delegation explored ways Alibaba could help promote economic development in the area, from establishing data centers to offering loans to local entrepreneurs to promoting the sale of locally grown apples. But Jack also used the visit to attend a lecture given by local Communist Party officials, after which he said that he just wanted to “come and take a look. The conditions were extremely hard in Yan’an at that time,” and that he was keen to learn how “the Communist Party could stick to revolution romanticism and revolution heroism under such conditions.”

Such speeches are of little help in promoting the third of Alibaba’s core drivers, expanding in overseas markets. Yet in doing so Alibaba is also in step with the Chinese government’s call to “go global,” encouraging Chinese companies to go beyond simply exporting to extending their operations and influence overseas. This is nothing new for Alibaba, a company that started out with an international orientation in 1999. But with the success of Taobao starting a decade ago, Alibaba’s focus turned inward. In 2010, the profile of international markets started to increase again with the launch of AliExpress, connecting sellers in China with consumers overseas. At first Alibaba expected the United States to be AliExpress’s key market. But Alibaba discovered that America was a market with sophisticated players, both online and offline. After the early disappointments, then-Alibaba.com CEO David Wei instructed his team to look at countries with the lowest efficiency in their retail sector.

Jack Magic comes to 10 Downing Street. Jack *(left)* regales a crowd, including British prime minister David Cameron *(second from left*) and the author at a reception at 10 Downing Street in London on October 19, 2015, shortly after Jack was named a member of the UK's Business Advisory Group. *10 Downing Street*

Without AliExpress even opening offices there, but with Russian and Portuguese language capabilities added to the AliExpress website, Russia and Brazil became early success stories. Demand from Alibaba's customers in Brazil at one point exceeded over three hundred thousand packages a day, before a slowing economy and the weakening real hit the company's business there. Demand in Russia, especially for clothing and consumer electronics, was so strong that AliExpress reportedly even broke the Russian postal service, leading to the dismissal of its boss. Today Russia accounts for a fifth of AliExpress's sales.

In 2015, Alibaba appointed former top Goldman Sachs executive J. Michael Evans as its new president, charged with leading international development efforts. These include its growing presence in Western Europe, where Alibaba aims to entice brands to target Chinese consumers through its websites.[58] At an event hosted in October 2015 by British prime minister David Cameron at 10 Downing Street in London, Jack was named as one of Cameron's business advisers.

Alibaba announced it was upgrading its office in the city to become its European headquarters, headed by Amee Chande, a former Walmart executive. Alibaba is also opening a network of "business embassies" in France, Germany, and Italy. Paris is headed by Sébastien Badault, formerly of Amazon and Google; Milan is headed by Rodrigo Cipriani Foresio, who previously worked at Buon Italia, an online food store; and Munich is headed by Terry von Bibra, a former executive with leading German retailer Karstadt. Alibaba's growing presence in Europe brings it closer to the headquarters of many of the brands most coveted by Chinese consumers. Any success stories it can generate—bringing European brands to the fast-growing consumer market in China—will no doubt also be an opportunity to strengthen its hand with its most vociferous critics, like Kering, the parent company of Yves Saint Laurent and Gucci.

The United States is also a key market for Alibaba's overseas efforts, mostly as the focus of its international investments. Alibaba has poured hundreds of millions of dollars into high-profile companies such as Lyft, Snapchat, Zulily, and a range of smaller players.[59] But these investments are more focused on absorbing new technologies or know-how to be deployed in China than they are a concerted effort to break into the U.S. market. The one Alibaba effort that did explicitly target the U.S. market, 11Main.com, was a conspicuous failure.[60] Speculation by some analysts that Alibaba would make a bold move in America, including an acquisition of eBay or Yahoo, has so far proved off the mark. Instead Alibaba's emphasis remains firmly on developing cross-border trade.

Alibaba has been actively ramping up its own presence in the States, setting up a string of four offices along the length of the West Coast: an office just off Market Street in San Francisco, which houses Alibaba's international corporate communications team, headed by former PepsiCo executive Jim Wilkinson;[61] a new Alibaba Group office in San Mateo, California, where Michael Evans is based; an office in Pasadena, California, which serves as the U.S. home of Alibaba Pictures; and a small presence in downtown Seattle, just one block away from the U.S. Bank building, where Jack first logged on to the Internet back in 1995. In 2016 Alibaba is rolling out new offices in New York City, bringer it closer to U.S. brands, retailers, and advertisers, as well as in Washington, D.C., beefing up its lobbying and communications capacity, headed by Eric Pelletier, former GE executive and White House staff member.[62]

Despite its growing physical presence in the country, during a visit to New York and Chicago in the summer of 2015, Jack dismissed talk of any "Alibaba invasion" of America. He said he was often asked, "'When are you coming to invade America? When are you going to compete with Amazon? When are you going to compete with eBay?' Well, I would say, we show great respect for eBay and Amazon, but I think the opportunity and the strategy for us is helping small business in America go to China, sell their products to China."

On that same trip to the United States, Jack also discussed the strain of running a public company. He complained that his life after the IPO was more difficult than before, and that "[i]f I had another life, I would keep my company private." Some in the audience in New York expressed surprise that Jack would voice regrets about listing so soon after Alibaba's blockbuster IPO. But this contrarian stance is vintage Jack.

From Philosopher to Philanthropist

Jack already has a reputation as China's philosopher CEO, and increasingly he is seen as a philanthropist and environmentalist, too. Six months ahead of the 2014 IPO, Jack and Joe together pledged 2 percent of Alibaba Group—from their personal holdings—to create a new Alibaba philanthropic trust.[63] The pledge was made in the form of stock options with an exercise price of $25 (some $43 below the initial offering price), creating overnight what became one of the largest philanthropic organizations in China. Jack also committed to endow the trust with more of his personal fortune in the future.[64]

The trust will focus primarily on China's environment and health care—two issues about which Jack has become increasingly vocal in recent years. China's rapid industrialization and urbanization have wrought havoc on the country's environment and people's health. At a conference for entrepreneurs in 2013,[65] Jack delivered a call to arms, his message distilled in an article later published by the *Harvard Business Review*: "Cancer—a rare word in conversation thirty years ago—is now an everyday topic." Jack often talks of the growing incidence of cancer among his employees, friends, and their families,[66] including in his Q&A session with President Obama. "Without a healthy environment on this earth, no matter how much money you make, no matter how wonderful you are, you will have a bad disaster."

With his activism, and the symbolism of the lake he built on the Wetlands headquarter campus, Jack is demonstrating that "[s]omebody has to do something. . . . Our job is to wake people up."

Jack isn't shy about criticizing the old industrial model: "Chinese people used to feel a sense of pride for being the world's factory. Now everyone realizes what it costs to be that factory. Our water has become undrinkable, our food inedible, our milk poisonous, and worst of all, the air in our cities is so polluted that we often cannot see the sun.” In his article, Jack also took aim at the government’s inaction toward the environmental crisis: “Before, no matter how hard we appealed to the privileged and the powerful for attention on water, air, and food security issues, nobody wanted to listen. The privileged still got their privileged water and privileged food.[67] But everyone breathes the same air. It doesn’t matter how wealthy or powerful you are, if you can’t enjoy the sunshine, you can’t be truly happy.” Like many of the other superrich in China, Jack bought himself a pristine patch of paradise abroad. In 2015, with the help of the Nature Conservancy, an environmental foundation founded by a former Goldman Sachs banker, Jack purchased the $23 million Brandon Park estate in New York State’s Adirondack Mountains; the estate is part of a holding that once belonged to the Rockefeller family. In his interview with Jack at APEC in Manila in November 2015, President Obama hailed Jack for taking an interest in the environment: “I know that in addition to the work that you have been doing with nonprofits recently, you have also been in conversations with Bill Gates about the potential of really turbo-charging investment in research and development around clean energy.” Shortly afterward, on the eve of COP21, the UN conference on climate change in Paris, Jack announced his support for the “Breakthrough Energy Coalition.” Led by Bill Gates, Jack was joined by his investor Masayoshi Son and former sparring partner Meg Whitman, along with Mark Zuckerberg and Jeff Bezos, among the twenty-eight investors pledging to help fund research into new technologies to reduce carbon emissions.

Health and Happiness

Jack’s focus on the environment and people’s health goes beyond a sense of corporate responsibility: Alibaba has business aspirations, too. In 2014 the company invested in CITIC 21CN, a Hong Kong–listed, pharmaceutical data business. As it has since been renamed, Alibaba Health seeks to profit from the inefficiencies of state-owned providers in the sector, including making appointment bookings easier for patients, as well as making it easier for doctors, clinics, and consumers to access information about and to order pharmaceuticals. The focus on health care is one of two long-term investment areas that Jack summarizes as the “2 H’s”: health and happiness.[68]

In addition to making people healthier, he aims to make “young people enjoy their lives, to be optimistic in the future. All the heroes in Chinese movies die. In American movies, all the heroes survive. I ask people, ‘If all the heroes die, who wants to be a hero?’” Why the interest, for an e-commerce company, in entertainment?

True to his roots as a teacher, Jack often talks about taking care of the needs of the younger generation. In an interview with Charlie Rose he shared his view that, in China, “lots of young people lose hope, lose vision, and start to complain.” Alibaba is increasingly active in areas that Jack hopes could provide the answer: sports and entertainment.

In November 2015, Alibaba sponsored the first regular-season U.S. college Pac-12 Conference basketball game in Shanghai, between the University of Washington Huskies and the University of Texas Longhorns, and announced it would host a game between Stanford and Harvard universities a year later. Alibaba has also started to buy sports teams. In June 2014, he made a $200 million investment in the Guangzhou Evergrande soccer team, a deal negotiated, the team’s owner[69] later revealed, while Jack was drunk. Jack justified the investment: “I think not understanding soccer doesn’t matter. . . . I also didn’t understand retail, e-commerce, or the Internet, but that didn’t stop me from doing it anyway.” He said he was not investing in soccer, he was “investing in entertainment.”

Alibaba is one of China’s leading investors in film, television, and online video. The company’s biggest outlay in traditional media so far is its $800 million investment in a Hong Kong–based film and TV studio[70] that it rebranded Alibaba Pictures. In 2014 Alibaba tapped Zhang Qiang, then vice president of the powerful, state-owned distributor China Film Group, to head up its entertainment business in China. Alibaba is also jointly invested[71] with Tencent in Huayi Brothers, a Beijing-based film and TV studio and acquired cinema ticketing company Yulekei. But Alibaba has made its biggest splash in Internet-based media, including investing in and then[72] acquiring Youku Tudou, a company founded by former Sohu executive Victor Koo.[73] More than 430 million people in China regularly watch videos online, mostly on their mobile devices, with some shows reaching larger audiences than the country’s state-owned terrestrial broadcasters. The market used to be rife with pirated content, but today major online video platforms like Youku are pushing hard to become the local equivalent of Netflix, featuring programs such as popular Korean dramas or hit shows from the United States like *2 Broke Girls*. The $4 billion online video market—generated mostly by advertising, but also some subscription revenue—is still a challenging place to make money given the cost of licensing content. Youku Tudou never made a profit. Some investors questioned the impact of the acquisition on Alibaba's cost structure, but Alibaba justifies it to compete with rival platforms from Tencent, Baidu, and others. Also Alibaba had already announced plans to launch its own streaming service, "Tmall Box Office," or "TBO," in conjunction with cable TV player Wasu Media, in which Jack had already invested personally. The idea behind TBO is to be as disruptive a player on TV production in China as Netflix is in the United States. Already close to half a billion people[74] watch videos online on sites controlled by Alibaba, Baidu, Tencent, and others. Yet in another sign of the limits imposed on entrepreneurs when they encroach on its turf, in November 2015, the government imposed new restrictions on the amount of imported content—previously capped at 30 percent—they can offer on their platforms. In an effort to promote more homegrown content, Alibaba is also looking to explore new ways to finance shows, including harnessing crowdfunding through a company it acquired called Yulebao.

With its newly established U.S. base in Pasadena, California, Alibaba Pictures has big ambitions. Jack has said that he wants nothing less than to make Alibaba "the biggest entertainment company in the world." Leading the charge for Alibaba's overseas investments in entertainment is Zhang Wei, appointed in 2015 as president of Alibaba Pictures. An alumna of Harvard Business School, Zhang once hosted a business show on China Central Television (CCTV) and worked as a media executive with CNBC and Star Television before joining Alibaba in 2008. Alibaba Pictures has yet to release its own film but it has already financed movies like *Mission: Impossible—Rogue Nation*. In an interview with *The Hollywood Reporter*, Zhang revealed the initial resistance from studios to working with Alibaba: "The first thing everyone wonders is what an e-commerce company can actually do for them. One of the biggest disconnects the studios face is that they never really know, in a detailed, comprehensive way, who is coming to see their movies. Even the filmmakers would probably like to know this. How old are they? Where are they from? Do they have kids? What are their other interests? What's their living situation? What type of people are they? We talk about demand-driven entertainment. Bringing the Internet deeper into the entertainment business is the best way to solve that puzzle." Zhang added that Alibaba can utilize Alipay, used by many people to buy cinema tickets online, to gain a greater understanding of moviegoers: "The movie audience is much younger in China, as going to the movies is a lifestyle change. The generation before went to karaoke. Now they go to the movies as a primary source of entertainment."

More tangibly, merchandising is an area that ties together e-commerce and entertainment. Zhang explains, "In the U.S., theatrical makes up maybe 30 to 40 percent of revenue. In China, theatrical is the majority by far. There's so much value that has not been developed yet in the merchandising space." Zhang points to the *Mission: Impossible* tie-ins as an example, selecting qualified merchants to manufacture licensed goods: "We came up with about thirty products with Paramount's merchandising team, sending them designs and samples throughout the whole process. We showed many directly to Tom Cruise as well, to make sure he was OK with how they represented the *Mission: Impossible* brand. This is our value: connecting both parties. In the past, how does a backpack maker in Zhejiang Province connect with Paramount and Tom Cruise in such an efficient and reliable way? It was just impossible."

Inevitably, given Jack's big plans in entertainment, Jack has been asked whether Alibaba intends to buy a Hollywood studio. Viacom's Paramount Pictures is one rumored target, which as the studio behind *Forrest Gump* might give Jack just the perch—or bench—that he craves in Hollywood. So far Alibaba has denied its intentions to buy a studio outright: "Well, I don't think they want to sell. It's better we partner. You can never buy everything in the world."

Yet barely a day goes by when Alibaba, or Jack himself, is not listed as a potential buyer of a company, somewhere in the world. In December 2015, Alibaba confirmed it was purchasing the *South China Morning Post* (*SCMP*), the main English daily newspaper in Hong Kong. Some saw the purchase of the 112-year-old publication as a means for Jack to burnish his credentials as a mogul. After all, Amazon founder Jeff Bezos had personally acquired the *Washington Post* two years earlier. Was Jack simply following suit?

Others saw signs of something deeper: that Jack was buying the paper to curry favor with Beijing. Almost two decades after the United Kingdom handed back the territory in 1997, the Chinese government is grappling with a yawning political and social divide[75] in Hong Kong. In 2014 the territory was brought to a standstill by the Occupy Central movement (also known as the Umbrella Revolution), a student-led movement protesting a lack of democracy and other freedoms. Although the crisis ended peacefully, the underlying tensions that fueled it remain ever present. The *SCMP* had reported extensively on the protests. Critics speculated that Jack had offered his services to bring the paper to heel—or even that he had no choice but to comply with a directive from Beijing to do so.

Jack dismissed the conspiracy theories: “I have always encountered speculation from other people. If I had to bother about what other people speculated about, how would I get anything done?” He vowed to respect the editorial independence of the newspaper: “They have an independent platform and they can have their own beliefs.”

For the newspaper, the backing of a well-funded and influential business group on the mainland has obvious attractions. Like many print publications, the subscription-based business model of the *SCMP*, although still profitable, has suffered in the face of free online content. In line with Alibaba’s longtime commitment to offer services for free, Alibaba will remove the newspaper’s subscription paywall, allowing wider distribution and unlocking new business opportunities. In a Q&A with the newspaper, executive vice chairman Joe Tsai explained, “Our vision for *SCMP* is to build a global readership. . . . Even though some say the newspaper industry is a sunset industry, we don’t see it that way. We see it as an opportunity to use our technological expertise, and use our digital assets and know-how to distribute news in a way that has never been done before.” In business terms, the downside for the purchase is relatively limited, and a turnaround could win Jack plaudits.

For Alibaba, the deal is not large in terms of money: They paid just over $200 million for the business. Yet given the intense scrutiny that it invites, the transaction is not without risks. In his Q&A Joe explained that if the *SCMP* can help the world understand China better, this will also be good for Alibaba—a company based in China but listed in the United States: “China is important; China is a rising economy. It is the second-largest economy in the world. People should learn more about China.” Yet in comments that both revealed his frustration and emboldened those critical of the deal, he added, “The coverage about China should be balanced and fair. Today when I see mainstream Western news organizations cover China, they cover it through a very particular lens. It is through the lens that China is a communist state and everything kind of follows from that. A lot of journalists working with these Western media organizations may not agree with the system of governance in China and that taints their view of coverage. We see things differently; we believe things should be presented as they are. Present facts, tell the truth, and that is the principle that we are going to operate on.”

Whatever Jack’s motivations for the acquisition are, by becoming a newspaper proprietor in Hong Kong he is wading into deeper waters. Yet he has never shied away from challenges before. Jack’s fame stems from the story of how a Chinese company somehow got the better of Silicon Valley, an East beats West tale worthy of a Jin Yong novel. His continued success, though, is becoming a story of South versus North—of a company with roots in the entrepreneurial heartland of southern China testing the limits imposed by the country’s political masters in Beijing.

Since Xi Jinping became president of China in 2012, high-profile entrepreneurs have found themselves increasingly subject to scrutiny and sanction from the Chinese government. One high-profile real estate entrepreneur, Vantone Holdings’s Feng Lun, even blogged—then later deleted—the following message: “A private tycoon once said, ‘In the eyes of a government official, we are nothing but cockroaches. If he wants to kill you, he kills you. If he wants to let you live, he lets you live.’” The temporary and still unexplained disappearance in December 2015 of Fosun chairman Guo Guangchang—once feted as a “Warren Buffet of China”—further illustrates those risks.

Jack is already the standard-bearer for China’s consumer and entrepreneurial revolution. Now he is advancing on new fronts, such as finance and the media, that have long been dominated by the state.

Forged in the entrepreneurial crucible of Zhejiang and fueled by his faith in the transformative power of the Internet, Jack is the ultimate pragmatist. By demonstrating the power of technology to assist a government confronted with the rising expectations of its people for a better life—from the environment, education, and health care to continued access to economic opportunity—Jack aims to create the space for him to fulfill even greater ambitions.

One leading Chinese Internet entrepreneur put it to me like this: “Most people think of Alibaba as a story. It’s not just a story, it’s a strategy.”