Chapter Six

Bubble and Birth

Alibaba might as well be known as "1,001 mistakes." But there were three main reasons why we survived. We didn't have any money, we didn't have any technology, and we didn't have a plan.

—Jack Ma

Third time lucky. After his struggles with Hope Translation and China Pages and an uncomfortable period working for the government in Beijing, Jack went on to found Alibaba at the beginning of 1999. But extricating himself from China Pages and then from his government job cost him two years. Meanwhile, other Internet entrepreneurs in China began to gain traction. Without a venture of his own Jack was running the risk of becoming irrelevant.

Just as Jack had lost control of China Pages to his SOE-linked partner, in Beijing Jasmine Zhang had been forced out of Yinghaiwei by her largest shareholder, rumored to be connected with China's Ministry of State Security. Other entrepreneurs, especially those who had set up Internet service providers (ISPs) to roll out dial-up services to consumers, found themselves squeezed out by large SOEs like China Telecom. Yun Tao from Beijing-based ISP Cenpok summed it up:[1] "It is not yet possible to make money in China on the Internet. . . . I have been at it for the last few years and I tell you, I am bleeding now."

While the telecom SOEs were actively protecting their turf from encroachment by the private sector, China's state-owned media companies proved surprisingly incapable of competing with entrepreneurs building out Internet content businesses. A new generation of Internet entrepreneurs was coming to the fore in China, inspired by Yahoo, the most influential company of the dot-com boom gaining speed in the United States.

Listed in 1996, Yahoo at first commanded little attention from investors. They preferred established technology companies, which they could value with traditional measures such as price/earning ratios (P/E ratios). But Yahoo and its generation of dot-com companies were years from becoming profitable. *Fortune* magazine's Joe Nocera later summed up the valuation challenge: "You can't have a P/E ratio when you have no 'E.'" But all of this started to change in the summer of 1998. Yahoo's shares ran up more than 80 percent in just five weeks, taking the company's valuation to $9 billion and making billionaires of its Stanford cofounders, Jerry Yang (Yang Zhiyuan in Chinese) and David Filo. The dot-coms that had sprouted up in Silicon Valley now suddenly were the center of attention for Wall Street, too.

In China, the Taiwan-born Jerry Yang became a hero. The public was fascinated to learn how an immigrant to the United States had become a billionaire before the age of thirty.

Suddenly there was a flurry of interest in Yahoo's "portal" business model, its directories and search engine connecting users to the rapidly expanding universe of online content. Chinese portals, or *men hu* (literally "gateway") began to appear. A triumvirate soon emerged as the country's "portal pioneers": Wang Zhidong, Charles Zhang, and William Ding. Unlike Jack, they had all excelled at their studies and had strong technical backgrounds. The firms they founded were Sina, Sohu, and NetEase.

Portal Pioneers

Wang Zhidong, the founder of Sina, was already well known, famous for having created several popular Chinese language software applications—BD Win, Chinese Star, and RichWin—that helped people in China use the Microsoft Windows operating system. Born in 1967 to poor but well-educated parents in south China's Guangdong Province, Wang excelled in math and science. He secured a place at Peking University, where he studied radio electronics. In 1997, Wang was the first of the three portal pioneers to raise significant outside investment—nearly $7 million—for his firm, Stone Rich Sight, based on his proven track record as a software developer. In the summer 1998 he launched a dedicated website featuring soccer results in time for the FIFA World Cup held that year in France. This generated a lot of traffic, and the company shifted its focus from software to the Internet, later merging with another company to become Sina.

Charles Zhang (Zhang Chaoyang), the founder of Sohu, was born in Xi'an. One month younger than Jack, he won entry to Tsinghua University to study physics before heading on to the Massachusetts Institute of Technology (MIT). After attaining a Ph.D. in physics, Charles stayed on as a postdoc, working to foster U.S.-China relations through MIT's Industrial Liaison Program. Inspired by the success of Netscape and Yahoo, Charles decided to launch his own Internet company. His original plan was to launch it in the United States, but as a recent Chinese immigrant he felt excluded from the mainstream, including being unable to attract the interest of the media—something unlike the two other media-shy portal founders—he was particularly attached to. "I constantly thought I was an outsider. For example, here [in China] I receive interview invitations, but in the States I would probably never have been able to be on their news shows. So I came back."

Charles returned to Beijing in 1996. He set up his company with the encouragement and financial support of two MIT professors, including Ed Roberts, who at the time of Sohu's IPO four years later held a 5 percent stake. Charles was the sole returning student, known as "sea turtle" (*haigui*) of the three pioneers. His greater exposure to the U.S. technology scene gave Charles a head start. In February 1998 he was the first of the three to launch a Chinese-language search engine and a website directly inspired by Yahoo, even down to the name he chose for his venture: Sohoo.com, later changing the name to Sohu.com.

William Ding (Ding Lei) was born in Ningbo, seven years after Jack. He studied computer science in a technology university in Chengdu. After returning home to Ningbo to work for the local branch of China Telecom, William moved to Guangzhou in southern China to work for the U.S. database company Sybase, then for a local technology firm. In 1997 he launched his own venture, which rolled out the first free, bilingual email service in China. William's venture soon became profitable with the income generated by licensing the email software to other companies. In the summer of 1998 William switched his business from software development to the Internet and launched his website NetEase.com. Initially popular in southern China, NetEase quickly signed up email users all over the country, 1.4 million by the end of 1999.

While Wang Zhidong, Charles, and William were surfing the waves of China's exciting new dot-com sea, Jack was languishing on the dusty dot-gov shore. His job title was general manager of Infoshare Technology, a company set up by the China International Electronic Commerce Center (CIECC),[2] itself a unit of a department of MOFTEC. At CIECC Jack led the development of MOFTEC's official website, www.moftec.gov.cn, which launched in March 1998. Calling some of his China Pages colleagues to join him in Beijing, Jack then developed another website for MOFTEC, www.chinamarket.com.cn, which launched on July 1, 1998.

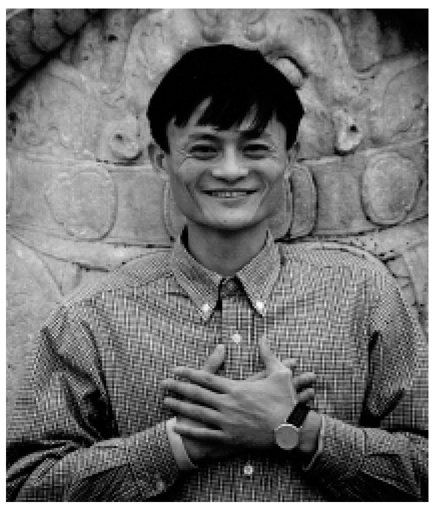
The China Market site, which listed more than eight thousand commodities divided into six categories, invited visitors to post supply and demand information and enter into "confidential business negotiations in encrypted Business ChatRooms." The new site attracted the praise of government officials, including MOFTEC minister Shi Guangsheng, who called it a "solid step by China to move into the age of e-commerce." The official Chinese government news agency, Xinhua, commended the site for its "information reliability and orderly operation," with all visitors vetted by the government to ensure that they were valid businesses.

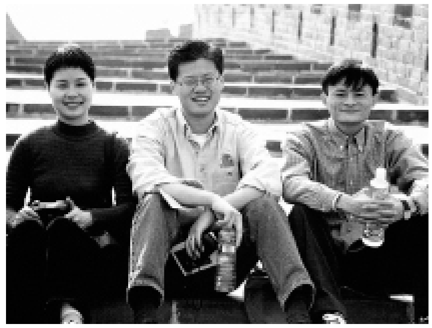
The reality, though, was that all the offline bureaucracy involved in registering on the website made it unappealing to businesses, especially because the website could not facilitate any orders or payments. In other words it was just a bigger and government-backed version of China Pages. Jack fervently believed in the unfolding age of e-commerce, but he also knew that the future belonged to entrepreneurs, later recalling that "it was too tiring doing e-commerce in the government. . . . E-commerce should start with private enterprises." Working for CIECC, Jack was buried by the many layers of government officials above him, including Xing Wei, his fierce boss at CIECC.[3]

Jack became increasingly frustrated as he watched the triumvirate of portal pioneers gain momentum: "Here I was, I had been practicing for five years in the Internet field," Jack recalled. "Everything was changing very quickly. If I stayed in Beijing I couldn't do something really big; I couldn't realize my dreams as a public servant."

But his government perch ended up giving Jack another lucky break: his first encounter with Jerry Yang, the cofounder of Yahoo. In the coming years, the fates of Jack Ma and Jerry Yang would become ever more closely intertwined.

As the general manager of Infoshare, and a fluent English speaker, Jack was asked to receive Jerry Yang and his colleagues, who in late 1997 came to Beijing to look for opportunities for Yahoo in China. Jack's experience as a self-appointed tour guide in Hangzhou came in handy now in Beijing since Jerry was traveling with his younger brother Ken, and was keen to see some of the sights. Jack introduced him to his wife, Cathy, and they took Jerry, Jerry's brother, and Yahoo vice president Heather Killen to visit Beihai Park, opposite the Forbidden City, and the Great Wall. Here they took a photo that would play an important role in helping separate Jack from the pack, illustrating Jack's early meeting with the global king of the Internet at the time.





Jack as Jerry's tour guide at the Great Wall. *Heather Killen*

Jack; his boss, Xing Wei; Jerry Yang; and Heather Killen in front of a photograph of then President Jiang Zemin. *Heather Killen*

On the visit Jack also took Jerry and Heather to meet the vice minister of MOFTEC. Jack's charm offensive paid off. In October 1998, Infoshare was appointed the exclusive sales agent for Yahoo in China.

But Jack was already actively planning to slip free of the constraints of government. Back at the Great Wall, Jack organized an off-site meeting with some of his Infoshare colleagues, an outing since feted by the company as the unofficial launch of Alibaba. But Jack was worried about the consequences for him and his planned new venture of walking out of his government job. A friend advised Jack to feign illness, a common ruse in China to escape from such predicaments. Jack did in fact come down with appendicitis a few months later, but by then he was already back in Hangzhou and his new venture was well under way.

Jack and some of the cofounders of Alibaba at the Great Wall of China in late 1998. The company would be launched a few months later. *Alibaba*

What's in a Name

Jack decided to call his new venture Alibaba, a curious name for a Chinese company.

Jack has been asked many times why he chose an Arabic name for his company rather than something derived from his passion for Chinese martial arts or folklore. Jack was attracted, he said, by the "open sesame" imagery, since he hoped to achieve an opening for the small- and medium-size enterprises he was targeting. He was also looking for a name that traveled well, and Alibaba is a name that is easy to pronounce in many languages. He liked the name since it came at the beginning of the alphabet: "Whatever you talk about, Alibaba is always on top."

In China, a song titled "Alibaba Is a Happy Young Man" was popular at the time, but Jack says the idea came to him[4] for the website on a trip to San Francisco: "I was having lunch, and a waitress came. I asked her: 'Do you know about Alibaba?' She said, 'Yes!' 'What is Alibaba?' And she said, 'Open Sesame.' So I went down to the street and asked about ten to twenty people. They all [knew] about Alibaba, Forty Thieves, and Open Sesame. I think, this is a good name."

But there was a problem. The domain name alibaba.com was registered to a Canadian man who was asking for $4,000 to transfer it over, a transaction that involved some risk if he didn't hold up his side of the bargain. So Jack launched[5] the Alibaba site using alibabaonline.com and alibaba-online.com instead. Alibaba cofounder Lucy Peng recalled how the early team members had joked they were working for "AOL," short for "Alibaba Online."

Jack soon after decided to buy the alibaba.com domain name.[6] Alibaba executive vice chairman Joe Tsai later recounted to me that Jack was nervous about wiring funds to the Canadian owner before he could be assured of gaining control (a problem that the escrow function of Alipay would later solve): "He didn't have that kind of money, so was scrounging around. But Jack is a very savvy businessman, he has that innate ability to say, 'All right, I'm gonna trust this guy.' A lot of entrepreneurs don't trust other people." Jack went ahead with the wire transfer to the Canadian, who (true to national stereotypes) proved honest, and Jack gained control of alibaba.com.

The widespread recognition of the Alibaba name has saved Jack a lot of money in marketing expenses and a ready supply of imagery such as the forty thieves, and 1,001 nights, and other elements he still often incorporates into his speeches.

Lakeside Gardens

Alibaba was launched in Hangzhou by Jack's friends, supporters, and colleagues, including some who joined him from China Pages[7] and Infoshare.

Jack convened a meeting on February 21, 1999, at his Lakeside Gardens (Hupan Huayuan) apartment in Hangzhou. Confident in his future success, he arranged for the meeting to be filmed. With the team seated around him in a semicircle, some wearing coats to fend off the damp cold inside the chilly apartment, Jack asked his converts to ponder the question: "In the next five to ten years, what will Alibaba become?" Answering his own question, he said that "our competitors are not in China, but in Silicon Valley. . . . We should position Alibaba as an international website."

The reality was that Jack, late to the portal game now dominated by Sina, Sohu, and NetEase, had to find his own niche in the China Internet market. The portals were trying to capture the growing number of individual users coming online, but Jack was going to stick with what he knew best: small businesses. In contrast to the business-to-business sites in the United States that were focused on large companies, Jack decided to focus on the "shrimp." He found inspiration from his favorite movie, *Forrest Gump,* in which Gump makes a fortune from fishing shrimp after a storm: "American B2B [business-to-business] sites are whales. But 85 percent of the fish in the sea are shrimp-sized. I don't know anyone who makes money from whales, but I've seen many making money from shrimp."

Jack with other cofounders and supporters of Alibaba in the Lakeside Gardens apartment in Hangzhou, October 30, 1999. *Alibaba*

When Jack created Alibaba in early 1999 China had only two million Internet users. But this would double in six months, then double again, reaching nine million by the end of the year. By the summer of 2000 there were 17 million online.

Personal computers still cost a hefty $1,500, but prices began to fall as new market entrants like Dell set up shop in competition with homegrown companies Founder, Great Wall, and Legend (later rebranded as Lenovo). Sales of new PCs, still going mostly to businesses or government users, hit five million in 1999.

The government's policy of "informatization" was making the Internet more affordable. Getting a connection from the local phone company still took months and could cost as much as $600. But in March 1999 the government scrapped the installation fee for second phone lines and made it cheaper to surf[8] online, too, cutting the average price from $70 per month in 1997 to only $9 by the end of 1999.

Millions of young, educated people were coming online at their colleges or workplaces, others at the thousands of Internet cafés that were mushrooming across the country. Yahoo's business model in the United States was to make money from the growing market for online advertising. The three China portals in turn planned to grab a piece of a fast-growing online advertising cake,[9] which grew to $12 million in 1999 from only $3 million the year before. But even in the States Yahoo was losing money, and in China the bulk of Internet users had little disposable income to excite advertisers. The potential revenues for the portals were way below their expenditures. Yet in the upside-down logic of the unfolding dot-com boom, losses were not only acceptable but worn as a badge of honor: the bigger the loss, the grander a firm's ambition. Venture capital (VC) firms were there to bridge the gap.

Before Alibaba was even out of the starting gate, Sina, Sohu, and NetEase had started to win the backing of VCs, competing aggressively for new users and investment.

Sina[10] was formed by the December 1998 merger of Wang Zhidong's firm SRS with the U.S. company Sinanet, founded by three Taiwan-born students[11] at Stanford University. Daniel Mao, an early investor in SRS at the Walden International Investment Group, helped broker the merger. Sina.com was launched in April 1999 and the following month raised $25 million in VC from investors, including Goldman Sachs, Walden, and Japan's SoftBank.

Sohu raised $10 million in 1998 and more funding[12] the following year on the back of soaring traffic on its Chinese-language search engine. Founder Charles Zhang was relishing his newfound celebrity status in China, and he brought on Stanford-educated returnee Victor Koo (who later left to found Youku, China's answer to YouTube) to beef up Sohu's management. He also tried, unsuccessfully, to hire Jack as his COO.

NetEase was the last of the three portals to raise VC funding for the simple reason that founder William Ding didn't really need to: He could count on a steady flow of licensing revenues from the webmail software he had personally developed. William Ding had by far the highest equity stake of any portal founder—58.5 percent—when his company went public in 2000.

Watching from the sidelines, Jack realized he would have to hustle if he was to ever catch the attention of VCs or catch up with the portal pioneers who were speeding off into the distance. For Alibaba to thrive he would have to foster a relentless work ethic, ensuring a clean break from the bureaucratic culture that he and some of his colleagues had just left behind in Beijing. Jack exhorted the group assembled in his apartment to "learn the hard working spirit of Silicon Valley . . . If we go to work at 8 A.M. and get off work at 5 P.M., this is not a high-tech company, and Alibaba will never be successful."

Jack likes to put Silicon Valley companies on a pedestal, but he also likes to rally his team by saying Alibaba could knock them off it: "Americans are strong at hardware and systems but in software and information management, Chinese brains are just as good as American. . . . I believe that one of us can be worth ten of them."

Alibaba was formed at a time when the inflating dot-com valuations made even his loyal converts nervous about whether the bubble would soon burst. Speaking to them in his apartment Jack sought to reassure them: "Has the Internet reached its peak? Have we done enough? Is it too late for us to follow? . . . Don't worry. I don't think the dream of the Internet will burst. We will have to pay a very painful price in the next three to five years. It is the only way we can succeed in the future." To rally the troops, Jack set a goal of achieving an IPO within three years. "Once we become a listed company, what each and every one of us will gain . . . is not this apartment, but fifty apartments like this. We are just charging forward. Team spirit is very, very important. When we charge forward, even if we lose, we still have the team. We still have each other to support. What on earth are you afraid of?"

Although Jack and Cathy together were the lead shareholders, Alibaba was cofounded by a total of eighteen people, six of whom were women. None came from privileged backgrounds, prestigious universities,[13] or famous companies. This was a team of "regular people," bound together by Jack's energy and his unconventional management methods. To build team spirit, Jack drew on his love of Jin Yong's novels and gave each of his Alibaba team members nicknames. His own nickname was Feng Qingyang. In Jin Yong's book *Swordsman,*[14] Feng is a reclusive sword and kung fu master, preparing young apprentices to be heroes. As a former teacher, Jack identified with Feng and his "unpredictable yet nurturing"[15] character.

Joe Tsai Comes to Hangzhou

In May 1999, Jack met Joe Tsai,[16] a Taiwanese-born investor then living in Hong Kong. Joe would become Jack's right-hand man, a role he still performs more than seventeen years later. The association between the two would become one of the most profitable and enduring partnerships in Chinese business.

Jack takes pride in being "one hundred percent Made in China." Yet, starting with Joe Tsai, a number of "Born in Taiwan" individuals would make major contributions to Alibaba's success, just as they have to many technology companies in Silicon Valley.

I first met Joe at the beginning of Alibaba's journey in 1999, shortly after he'd joined. In the spring of 2015, I traveled back to Hangzhou to understand what prompted Joe to take such a gamble on Jack. Although the two men were born in the same year, they could hardly be more different. Joe came from a prestigious family[17] and he had a top-tier academic and professional background.

At the age of thirteen, speaking hardly any English, Joe was sent off from Taiwan to the Lawrenceville School, an elite[18] boarding school in New Jersey. There Joe excelled at his studies as well as at lacrosse, which he credits with helping him assimilate into American culture and learn the importance of working in a team: "The sport taught me life lessons about teamwork and perseverance. While I never got past playing on the third midfield line, being part of the team was the best experience of my life."

Joe won entrance to Yale College, where he studied economics and East Asian studies, and proceeded on to Yale Law School. After graduating he began his career in New York with the storied law firm Sullivan & Cromwell and a short stint at a management buyout firm. But Joe wanted to gain investment experience in Asia. He moved to Hong Kong to work for Investor AB, the investment arm of Sweden's powerful Wallenberg family. As the dot-com boom gained momentum, Joe starting looking out for opportunities to team up with an entrepreneur.

I asked Joe how he came to connect with Jack: "I wanted to be more intimately involved in technology start-ups. Because I was making investments for Investor, sitting on boards, I always felt a layer of distance between the board and the management. I said to myself, I should be involved in the operation."

Joe first heard about Jack from family friend Jerry Wu, a Taiwanese businessman who ran a communications start-up. After Jerry came back from Hangzhou he contacted Joe, telling him, “You have to go and meet this guy Jack Ma in Hangzhou. He’s kind of crazy. He’s got a big vision.”

Wu was hoping Alibaba might take over his struggling start-up and asked Joe for his help.

Joe agreed and hopped on a plane from Hong Kong to Hangzhou to meet Jack in the Lakeside Gardens apartment. “I still can remember the first sight of the apartment. It reminded me of my grandmother’s apartment in Taipei. When you walked into the building, the stairway was old and narrow. About ten pairs of shoes were in front of the apartment. It was a smelly place. I was in a suit. It was May—hot and humid.”

Joe remembers how Jack outlined his ambitious goal for Alibaba: to help millions of Chinese factories find an outlet overseas for their goods. The factory owners lacked the skills to market their products themselves and, Jack explained, had little choice but to sell their goods through state-owned trading companies. Jack was proposing to cut out the middleman, always a compelling idea.

Joe was intrigued by Jack as he talked, “sitting backwards in a chair, clapping, like someone from a kung fu novel.” Listening intently as Jack switched effortlessly in and out of fluent English. Joe was impressed. This guy is good! he thought to himself.

When Jack spoke Mandarin he did so in an accent that reminded Joe of his own grandfather, whose ancestral home was in Huzhou, near Hangzhou.[19] Speaking in Mandarin, Joe had started the conversation by apologizing to Jack that he couldn’t speak the Hangzhou dialect. Thinking that it might help establish a rapport, Joe added, “I do speak Shanghainese. My parents grew up in Shanghai.” Looking back on that first meeting, Joe laughs. “I hadn’t realized that Hangzhou people hated Shanghainese. They think they are too sly, too commercial, too money-oriented. Later on Jack told me that there are three kinds of people he doesn’t trust: Shanghainese, Taiwanese, and Hong Kong people.” But somehow Jack and Joe, a Shanghainese-speaking Taiwanese who lived in Hong Kong, hit it off. “It was fate that the two of us ended up working together.”

Joe flew back to Hong Kong and shared his excitement about Jack and Alibaba with his wife, Clara. But trading a well-paying job in Hong Kong for a start-up in Hangzhou was a big risk, especially since Clara[20] was expecting their first child. So Clara suggested she travel with Joe back to Hangzhou.

Jack remembers their visit. Clara told him she wanted to see Alibaba because her husband was crazy about it: “If I agree with him, then I am crazy. But if I don’t agree, he will hate me his whole life.”

Joe too was thinking carefully before taking the plunge. “I went back a second time because I saw something in Jack. Not just the vision, the sparks in his eyes. But a team of people, his loyal followers. They believed in the vision. I said to myself, If I am going to join a group of people, this is the one. There is a clear leader, the glue to the whole thing. I just felt a real affinity to Jack. I mean who wouldn’t?”

Jack struck Joe as being very different from other entrepreneurs he’d met or read about, telling Joe that “[t]o him, friends are as important as family. His definition of friends includes colleagues. When you try to compare [Jack] with, say, Steve Jobs, they are different people, different to the core.”

Joe liked the fact that Jack was open about his own shortcomings. “I think me coming into the scene was very novel. I’m the guy who knew finance. I was a lawyer before. I could help incorporate a company and I could help raise capital. So immediately from day one, I think we built a bond.”

When I first met Joe, I found him very calm and reserved, in many ways the polar opposite of Jack’s exuberance and unpredictability. As I spent more time working with them, I came to appreciate how Joe’s professionalism in, say, carefully drafting a contract created the structure for Alibaba to harness Jack’s energy and enthusiasm. Another China Internet founder I spoke to agreed, “In the early days, especially, Joe kept Jack in check.”

Joe is self-effacing about his role at the company. When I asked him whether he considered himself Jack’s “consigliere,” he told me he prefers to think of himself as Jack’s interpreter: “Jack is very smart. But Jack sometimes says things that people misinterpret, so I am there to explain things.”

Jack is effusive in his praise of Joe, often saluting him for the risk he took on joining Alibaba back in 1999. To an audience a few years ago in Taipei, Jack said, “How many would give up a well-paying job like him?” He added, “This is courage. This is action. This is the real dream.”

Joe did take a gamble back in 1999, but it wasn't a blind bet. Joe was able to increase his chances of backing a winner by first getting the company ready to raise capital, then taking the lead in finding its first investor.

Joe told his boss at Investor AB, where he would keep his job for now,[21] that he would spend his personal time helping an entrepreneur he had met in China.

Joe got to work sorting out the paperwork at Alibaba. As with many start-ups, it was a bit of a mess. "When I got to Hangzhou Jack didn't even have a company. He hadn't incorporated anything yet. It was just a website."

Joe's first task was to document Alibaba's shareholders: "I called him up and said, 'Jack, I'm incorporating the company. Who are the shareholders?' He faxed me a list of the names. My jaw dropped, because every single one of those kids in the apartment was on the list, as a shareholder. So from day one, he gave away quite a lot [of equity]." But as Joe looked through the eighteen names[22] he realized that "everybody was a crucial part of the team, whether an engineer or in customer service." He laughed as he recalled the nickname Potato for cofounder Lucy Peng, which she used when answering emails sent from Alibaba's Western customers.

Next he wanted to get an understanding of Alibaba's customers. He asked the team how many there were. When told there were twenty-eight thousand, Joe replied, "Wow, that's a big number!" Yet all of the customer information was being stored manually, each one on a piece of paper stuffed into a book with all the others.

Alibaba wasn't generating any revenue and urgently need to raise capital. "Of course at that time no capital was available in China. It was all American." Looking at how Sina, Sohu, and NetEase had done it, Joe registered an offshore company,[23] writing out a personal check for $20,000 to a law firm, Fenwick & West, to ready Alibaba's corporate structure to receive venture capital investment. All they needed now was to find the investors. He set out with Jack for San Francisco.[24]

On arrival, they checked into a cheap hotel off Union Square, then headed down the next morning to Palo Alto to meet some VCs. The meetings did not go well. Joe recalls being peppered with questions: "What are you trying to do? What's your business model?" But they didn't even have a pitch book. "I had tried to prepare something, like a business plan."

But Jack said he didn't do business plans, telling Joe, "I just want to go and meet people, and talk to them about it."

The trip was a failure, although they did have one promising lead from a breakfast meeting in Palo Alto with a Singapore-based investor, Thomas Ng, of Venture TDF. The VCs weren't really interested in business-to-business (B2B) e-commerce, which seemed dull compared to the excitement surrounding Yahoo, which Sina, Sohu, and NetEase were all able to tap into. There were a couple of B2B examples that raised venture money—Ariba.com and Commerce One—but they were U.S. based and served a much more mature market than Alibaba.

Other emerging China e-commerce players were beginning to have some success at fund-raising. One was a consumer e-commerce venture called 8848.net.[25] Launched in April 1999 and modeling its business on Amazon, 8848 sold books, software, electronics, and other local items, such as IP phone calling cards that were popular at the time. It had a well-established backer in forty-six-year-old Charles Xue (Xue Biqun). Xue had studied at UC Berkeley at the same time as SoftBank founder Masayoshi Son. The chairman of 8848, Wang Juntao, enjoyed a higher profile in China media circles than Jack. NetEase too was experimenting with consumer e-commerce, holding one of China's first online auctions in July 1999 when the site sold 100 PCs for a total of $150,000. Another new business, modeled on eBay, was also emerging: the Shanghai-based firm EachNet, led by a brilliant young Harvard-educated returnee, Shao Yibo, also known as Bo Shao.

Yet Jack was convinced that as the largest supplier of labor-intensive commodities to the world, China was ready for B2B e-commerce. But other entrepreneurs had come to the same conclusion. A California-based company had launched a B2B website called MeetChina.com and secured the backing of the venture capital firm IDG. In the coming year or so, MeetChina.com would raise more than $40 million in venture capital, significantly more than Alibaba. MeetChina would also excel at courting the support of governments on both sides of the Pacific.

In Beijing, MeetChina.com's founders claimed a special relationship[26] with the powerful Ministry of Information Industry. At its April 1999 launch, the company promoted itself as "China's first major government-sponsored business-to-business Internet portal." Cofounder Kenneth Leonard talked up his ties in Washington, D.C., claiming a business relationship with Neil Bush, the younger brother of George W. and Jeb Bush, and securing an invitation to the White House and publicity for the company's Asia-wide e-commerce push by signing an agreement in Vietnam during Bill and Hillary Clinton's groundbreaking presidential visit to the country the following year.

MeetChina was good at PR in China, too. One of its cofounders, Tom Rosenthal, told the *Wall Street Journal*, "We've got the services to make buying from China as easy as buying from a local hardware store." In the following months, MeetChina opened nine offices and hired more than 250 staff across China, signing impressive-sounding partnerships with a raft of companies including Dun & Bradstreet and Western Union.

B2B websites backed by Chinese government agencies were stepping up their efforts, too, including chinamarket.com, which Jack had helped set up. Watching the traction Alibaba was gaining with companies in Zhejiang Province, neighboring Jiangsu Province launched its own website—Made-in-China.com—as well.

But having just escaped the clutches of government, Jack was convinced that his customer-first approach would prevail over other websites that focused foremost on wining and dining government officials.

None of these sites would end up being Alibaba's main competitor. Instead Jack's biggest rival was not even a "new economy" company at all. It was an old-school publisher of trade magazines.

Global Sources had been around for more than three decades. The company was run by its founder, Merle Hinrichs. A reclusive American whose base of operations was his 160-foot yacht anchored in the Philippines, Hinrichs was a native of Hastings, Nebraska, but had been a resident of Asia since 1965. He had built up his company, originally known as Asian Sources Media Group, by churning out thick trade catalogs stuffed with advertisements from manufacturers in Asia of electronics, computer products, watches, toys, and sporting goods. Sent to buyers such as Walmart, the magazine generated hundreds of millions of dollars of orders per year.

Reluctant to cannibalize its profitable offline business, Global Sources was nervous about building a presence on the Web. Hinrichs was dismissive of B2B sites: "Suppliers and buyers were happy with the fax machine as that was cheap and simple to use."

But as Internet access spread, companies like Alibaba had an opportunity to pitch themselves as the new face of Asian business. Although Alibaba was struggling to convince investors to back it, the company started to have more success with the media, all thanks to Jack's charisma and gift of gab.

On April 17, 1999, *The Economist* ran an article titled "Asia Online." Its lead sentence consisted of the prophetic statement that "America has Jeff Bezos, China has [Jack] Ma Yun." Joe read that article on his flight up to Hangzhou to meet Jack, further piquing his interest in Alibaba.

The article was written by Chris Anderson, then based in Hong Kong. I contacted him to ask him what prompted him to write about Jack in such glowing terms. After more than a decade as editor in chief of *Wired* magazine, Chris lives today in Berkeley, California, where he is the cofounder and CEO of 3D Robotics, a drone manufacturing company.[27] Chris recalled his first meeting with Jack in early 1999 in Hong Kong. "Jack came to see me with what was then an idea for Alibaba. I thought it was a great business but a terrible name. Needless to say, he didn't take my advice, but we've remained friends since."

Chris explained to me that in his *Economist* article he had compared Jack to Jeff Bezos because "[b]oth are clever entrepreneurs who have grown rich by being among the first to exploit the Internet's potential. But there the similarities end." Of course, Jack wouldn't become truly rich for many years yet, but the fact that Chris had been impressed by his infectious enthusiasm is an early example of how "Jack Magic" has played a key role in Alibaba's rise.

Chinadotcom

But unbeknownst to Jack and Joe as they headed empty-handed from Silicon Valley back to Asia, their fortunes were about to be transformed thanks to an event that signaled the beginning of the China Internet gold rush: the Nasdaq IPO of China.com.

China.com, operated by the company Chinadotcom, part of China Internet Corporation (CIC), was led by a deal maker in Hong Kong called Peter Yip. Yip was an unlikely candidate for a China Internet entrepreneur. He wasn't from China—born in Singapore,[28] he was based in Hong Kong

—and was a decade or so older than Jack and the portal founders; few people in China had ever heard of him or his website.

But just as dot-com investing began to reach a fever pitch in the United States, CIC found itself sitting on some very important assets:[29] the domain names china.com, hongkong.com, and taiwan.com. Using these as leverage, Yip signed on some influential backers, including the unlikely bedfellows America Online and Xinhua, China's state news agency. To AOL he offered his services as a gatekeeper to the China market. To Xinhua he promised to build a "walled garden" of content, filtering out undesirable content on the Internet.

Yip called his vision the "China Wide Web." In a speech at Harvard University, he argued that much of the content on the Internet was "not relevant to most Chinese." Touting the Xinhua backing, he claimed[30] that the Chinese government had established an Internet strategy and "asked me to help them create a vehicle to allow people to participate." The news area of his china.com website carried the terrifying tagline "We do the surfing for you." But Chinese users wanted access to the full Internet, something that local entrepreneurs such as the three portal pioneers were working hard to enable. Yip's efforts failed to gain traction with Internet users in China. His "know who" approach, based on relationships, was beaten out by the "know how" smarts of China's new generation of tech-savvy Internet entrepreneurs.

But Peter Yip beat out his mainland Chinese rivals in one important aspect: He really knew how to raise money, scoring a $34 million investment in china.com from AOL, then in July 1999 an IPO for the company on the Nasdaq.

People working in China's Internet sector were fiercely critical of the company and its claims. I was one of them, telling the *New York Times* that China.com was "out of step with what Internet users in China are about," and that "companies that make deals with them are actually doing themselves a disservice." In June 1999 I wrote a report warning that if China.com was to IPO before the "real" Chinese portals it would "represent the triumph of form over substance and effectively spoil the market for mainland Chinese Internet companies." How wrong I was. Instead of extinguishing the opportunity for China tech IPOs, China.com lit the market on fire.

On July 13, 1999, China.com listed its shares on the Nasdaq. The stock ticker for the company was as catchy as its website: “CHINA.” Listing at $20, the stock closed that day at $67. What’s in a name? In the case of China.com, a company that people in China had hardly ever heard of, the answer was $84 million—the amount the company raised in the IPO, to which the company added a then-massive $400 million the following February in a secondary offering, valuing the company at $5 billion. The company raised so much money that it would be eleven years before it finally slipped into bankruptcy.

The shock waves from China.com’s July 1999 IPO reverberated across the mainland’s nascent tech community. How had a guy with a website that almost no one had heard of raised so much money overnight? The IPO unleashed a frenzy of investments and deal making as entrepreneurs across the country concluded, “If China.com can do it, so can I!”