Case Study 1.1

Alibaba and Ant Group

Developing a Hybrid Chinese-International E-commerce Platform Ecosystem

Colin Hawes

1 Overview

This case study uses Alibaba/Ant Group as an example to show how the meteoric growth of e-commerce and the platform economy in China has transformed the way that business is done and has made Chinese consumers into some of the world's most active online sellers and purchasers. It focuses especially on the constantly evolving interactions between Alibaba/Ant Group, the Chinese government, and international investors, providing evidence of the complexities of these relationships and pragmatic compromises required on all sides. The case study demonstrates that the expansion of large Chinese corporations within China and overseas, as well as their occasional setbacks, cannot be understood without a broader knowledge of the legal structures underpinning cross-border investment and awareness of the multiple competing political interests in China.

The case also gives insights into the multinational links of Chinese e-commerce firms, such as international buyers purchasing Chinese goods online through Taobao and AliExpress, investors buying Alibaba's shares on the New York Stock Exchange (NYSE), and Alibaba acquiring e-commerce firms overseas, especially in Southeast Asia and developing countries elsewhere.

Finally, the case explains how e-commerce platforms like Alibaba/Ant Group evolved into numerous business sectors, especially online banking and financial services. Their huge size and financial complexity have led to some negative impacts and systemic risks, and this in turn has caused the Chinese government to regulate these e-commerce and fintech firms more tightly.

2 Introduction

This case study explores the meteoric growth of Alibaba/Ant Group, one of the most successful private Chinese e-commerce and financial technology (fintech) platforms. While these online platforms have opened up a whole new channel for small and medium-sized enterprises (SMEs) to do business within

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and outside China, creating tens of millions of new jobs, the sheer speed and scale of their growth has magnified key defects of the Chinese SME ecosystem, especially endemic fraud, product safety issues, and intellectual property violations. Because Alibaba's e-commerce platforms now extend to more than 190 countries and regions throughout the world, both through overseas direct investment (ODI) and through providing efficient channels for global import/export direct from producers to consumers, these issues clearly create concerns well beyond China's borders.

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The case study starts with a brief review of Alibaba/Ant Group's main businesses, demonstrating how they have transformed the Chinese commercial landscape and facilitated the rapid growth of SMEs and the private economy. The growth of Alibaba/Ant and other massive Chinese platform firms, and their expansion overseas, could not have occurred without large-scale capital from international investors. This, in turn, has relied on their ability to establish so-called variable interest entities (VIEs) listed in the United States, tacitly permitted yet technically illegal (under PRC law) hybrid structures that continue down to the present. The case study explains how this structure works, the hands-off regulatory role of the Chinese government, how it has facilitated rapid expansion within China and ODI through acquisitions – especially in Southeast Asia – and its legal and political risks.

Besides enabling e-commerce, Alibaba/Ant Group's platform business has also diversified incredibly rapidly into a wide range of financial services, some providing the essential lifeblood for legitimate businesses while others are highly speculative and risky. The case study shows how Alibaba/Ant Group has benefited from gray areas in financial regulation and used its access to extensive customer data to offer financial and investment products to hundreds of millions of users, in collaboration with more than 100 banks and some 6,000 other financial firms.

While initially adopting a hands-off approach to platform finance, more recently the Chinese government has tightened regulations in response to widespread online fraud, official corruption, and numerous financial and e-commerce scandals. The abrupt suspension of Ant Group's initial public offering (IPO) in 2020 was an integral part of this more interventionist approach.

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3 The Case

3.1 Creating a Platform for International Trade and Domestic E-commerce: Alibaba's Initial Growth

Alibaba's first business venture was a simple platform website where small Chinese manufacturers could post information about their products in English, allowing internet users around the world to easily locate potential Chinese suppliers. Jack Ma and seventeen founding partners (including six women) established the business in an apartment in Hangzhou City in February 1999.[1]

Hangzhou is situated in Zhejiang Province, which by the late 1990s had become home base for around ten million private firms – mostly small, efficient manufacturers of light industrial and consumer products, from socks to ball bearings and anything in between. Many had evolved out of so-called township and village enterprises (TVEs), former collective firms that sprung up in their millions after the Chinese Communist Party (CCP) relaxed its rules on state ownership in the early 1980s.[2]

Many businesses were keen to attract international buyers, but their knowledge of computers and access to the internet was still extremely limited. Out of China's population of 1.2 billion in early 1999, only 2 million were internet users, mostly in larger cities like Beijing and Shanghai. Fortunately for Alibaba, these numbers expanded exponentially; by 2009, internet users had already surpassed 300 million, and by 2020, they reached 989 million.[3]

In early 2000, Alibaba managed to raise a combined US$25 million from a Goldman Sachs consortium and Japan's SoftBank in return for 80% of its shares.[4] This vital capital injection allowed Alibaba to ride out the dot.com crash and greatly improve the functionality of its platform website. It also added a Chinese-language site for small businesses to sell wholesale products to traders within China, which is now called 1688.com.[5]

Alibaba expanded very quickly, and it continues to connect both Chinese and international wholesale suppliers with buyers through several sub-platforms in

[1] Alibaba Group, 'Our History and Corporate Structure' and 'Business' in *Alibaba Group Holding Ltd. Prospectus* New York Stock Exchange (18 September 2014); Ant Group, 'History and Development' and 'Our Business' in Ant Group, *H Share IPO Prospectus*. For useful accounts of Alibaba's early years and growth, see Porter Erisman, *Alibaba's World: How a Remarkable Company Is Changing the Face of Global Business* (Macmillan 2015); Duncan Clark, *Alibaba: The House That Jack Built* (HarperCollins 2016); Shiying Liu and Martha Avery, *Alibaba: The Inside Story behind Jack Ma and the Creation of the World's Biggest Online Marketplace* (HarperCollins 2009).

[2] For more on TVEs, see Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Harvard University Press 2011) chs 14–16.

[3] CNNIC [China Internet Network Information Center], 'Hulianwang Fazhan Yanjiu' [Research on Internet Development] www.cnnic.cn/hlwfzyj/.

[4] Clark (n 1) 97–102, ch 7; Erisman (n 1) 17.

[5] Alibaba Group, 'Our Businesses' www.alibabagroup.com/en/about/businesses; Liu and Avery (n 1) 70–4.

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more than 190 countries and regions. Enough clients are willing to pay premium fees to make it a profitable business, accounting for 5% of Alibaba's revenues in 2020.[6]

However, Alibaba's business did not really take off until 2003, when it launched a platform for Chinese businesses and entrepreneurs to sell products online to domestic consumers – a kind of Chinese Amazon. China's bricks-and-mortar retail industry was underdeveloped, especially in smaller cities and towns: products were limited, and prices were high due to inefficient distribution. Alibaba set up Taobao, which allowed individual sellers and small businesses to advertise their products, arranged into easily searchable product categories on the Taobao website.[7] Larger brands soon realized the benefits of e-commerce too, and they paid Alibaba to create virtual storefronts on its Tmall (*Tianmao*) site.[8]

Taobao had initially faced stiff competition from eBay, which had entered China by acquiring a local e-commerce startup called Eachnet in 2003.[9] However, eBay/Eachnet was unable to keep up with Taobao due to various cultural and technical failures, not least its inability to establish a secure and efficient online payment system.[10] Alibaba overcame the payment problem, setting up a fully digitized system called Alipay that allowed customers to make payments for online purchases via their computer (or, from 2012 onward, via mobile phone), and the money was withheld from sellers until delivery was confirmed.[11]

The convenience and sheer volume of online traffic made Alipay highly profitable despite very low transaction fees. Alipay's user numbers have now climbed to more than a billion, including online/mobile payments and "offline" payments made at millions of shops and service outlets throughout China (restaurants, hotels, taxis, ticketing agents, even rural farmers' markets).

In 2011, Alipay was spun off into a separate company, Ant Financial (later renamed Ant Group), but Jack Ma remained its controlling shareholder, and Alibaba currently retains a one-third stake in Ant Group. Ant Group's revenues from Alipay fees in 2019 totaled almost RMB 52 billion (US$8 billion).[12]

If we view the Chinese economy as a highly complex system of circulating capital, goods, and labor, the success of Alibaba/Ant Group has come from identifying the most serious blockages within that circulatory system and using the power of the internet and digital technology to open up the flows. Typical early blockages included (1) the difficulties of small Chinese manufacturers/traders to connect with foreign wholesale buyers and even Chinese buyers outside their local regions; (2) the high prices (or unavailability) of consumer

[6] Alibaba Group, *Annual Report 2020*, 120 www.alibabagroup.com/en/ir/reports.
[7] Clark (n 1) ch 9; Erisman (n 1) ch 11. [8] For Tmall, see Alibaba Group (n 5).
[9] Clark (n 1) 152–5. [10] Clark (n 1) 163–73. [11] Clark (n 1) 178–83.
[12] Ant Group (n 1) 'Our Business' and 308.

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goods outside the largest urban centers; and (3) the trust deficit with online payment systems.

Alibaba (and Ant Group) refer to themselves as an "ecosystem," and the firm does now consist of a complex network of subsidiaries and affiliated companies in diverse sectors, with more than 250,000 employees.[13] However, the firm's success cannot be divorced from the broader corporate, financial, and regulatory ecosystem within which it operates, and it is more accurate to say that Alibaba/Ant Group provides channels to open up the flow of goods and capital within that broader corporate-financial circulatory ecosystem, both in China and overseas.

Though Jack Ma and Alibaba's other founders were quick to spot the potential of this "online platform" business model, and they worked incredibly hard over two decades to constantly adapt and extend its functions and revenue sources, they could not have succeeded without the coevolution of the Chinese commercial system and technological infrastructure, which was facilitated by Chinese government policy initiatives.

First, from the late 1990s, the Chinese government's "informatization" policy funded a massive expansion of broadband and mobile communication networks.[14] Second, the frenzied expansion of the private sector during the 1990s, which was also encouraged by the government as it downsized the state sector, provided Alibaba with a huge potential customer base of sellers among SMEs and coincided with greater disposable income of Chinese consumers due to rising living standards, not to mention private logistics firms to deliver goods efficiently.[15]

Third, there was also the reform of the Chinese banking system to introduce market competition from the late 1990s onward, including setting up more than 100 local city commercial banks hungry for new sources of revenue. These state-owned banks were highly receptive to collaborating with Alipay because its millions of online transactions gave them access to fees from customers who would otherwise have remained underserved by the banking system.[16]

Fourth, there were supportive government incentives encouraging Chinese manufacturers to export their products overseas, as well as growing awareness among CCP officials that private firms were key drivers of GDP growth. As a crucial "platform" facilitating this growth and an exemplar of Chinese hi-tech innovation, Alibaba received numerous visits and statements of support

[13] Full-time employees on 31 March 2021: Alibaba Group, 'Frequently Asked Questions' www.alibabagroup.com/en/about/faqs.

[14] Clark (n 1) 94–5; CNNIC (n 3).

[15] Bin Jiang and Edmund Prater, 'Distribution and Logistics Development in China: The Revolution Has Begun' (2002) 32(9) International Journal of Physical Distribution & Logistics Management; Cynthia Luo, 'One Platform to Rule Them All' (*eCommerceIQ*, 7 December 2016) https://ecommerceiq.asia/cainiao-logistics-southeast-asia/.

[16] Ant Group (n 1) 164–5. For early banking reforms, see He Wei Ping, 'Introduction' in *Banking Regulation in China: The Role of Public and Private Sectors* (Palgrave Macmillan 2014).

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from local CCP leaders, including Xi Jinping when he was Party Secretary of Shanghai in 2007.[17]

Finally, inbound foreign investment was pivotal to Alibaba's survival in its first decade, and the government's pragmatic attitude toward partial foreign control of internet technology firms (discussed in Section 3.2) allowed Alibaba and other private tech firms to actively seek overseas capital funding when Chinese state banks and stock markets were still focusing their attention primarily on state-owned enterprises (SOEs).

At the same time, the contradictions and fragmentation within the Chinese political/legal ecosystem, the poorly regulated helter-skelter expansion of e-commerce and online banking, and ruthless competition among Chinese technology firms have harmed Alibaba/Ant Group's reputation and potentially increased financial risks for the Chinese economy. The following sections explore these risks and negative impacts, beginning with Alibaba's mutant hybrid corporate structure.

3.2 Foreign Funding with Chinese Management Control: Alibaba's VIE Structure and Fragmented Authoritarian Politics

Despite extensive economic reforms and relative openness to foreign trade and investment, the CCP continues to strictly censor and control all media content in China, including newspapers, magazines, television, and movies. With the massive expansion of the internet and online news via social media, Chinese government censorship has extended its tentacles to cover all online content and to block politically sensitive foreign websites and social media from being accessed in China.[18]

This government censorship is also exercised through restrictions on foreign ownership of Chinese "value-added telecom services," which includes any "internet content providers" (ICPs).[19] In theory, therefore, no "foreign-controlled" ICP firm should be granted a license to operate its business in China, including e-commerce firms like Alibaba who own video streaming and media businesses.

Despite this, most large "Chinese" private internet technology firms are controlled by foreign corporations listed on American or international stock

[17] Clark (n 1) 238–9; Leonard K. Cheng and Zihui Ma, 'China's Outward Foreign Direct Investment' in Robert C. Feenstra and Shang-Jin Wei (eds), *China's Growing Role in World Trade* (University of Chicago Press 2010) ch 14.

[18] Cate Cadell and Pei Li, 'Tea and Tiananmen: Inside China's New Censorship Machine' (*Reuters*, 18 October 2017) www.reuters.com/article/us-china-congress-censorship-insight-idUSKCN1C40LL; Anne-Marie Brady, *Marketing Dictatorship: Propaganda and Thought Work in Contemporary China* (Rowman & Littlefield 2007) chs 5–6.

[19] See NDRC, 'Special Administrative Measures on Access to Foreign Investment (2020 edition)' linked from Qian Zhou, 'China's 2020 New Negative Lists Signal Further Opening-Up' (*China Briefing*, 1 July 2020) www.china-briefing.com/news/chinas-2020-new-negative-lists-signals-further-opening-up/.

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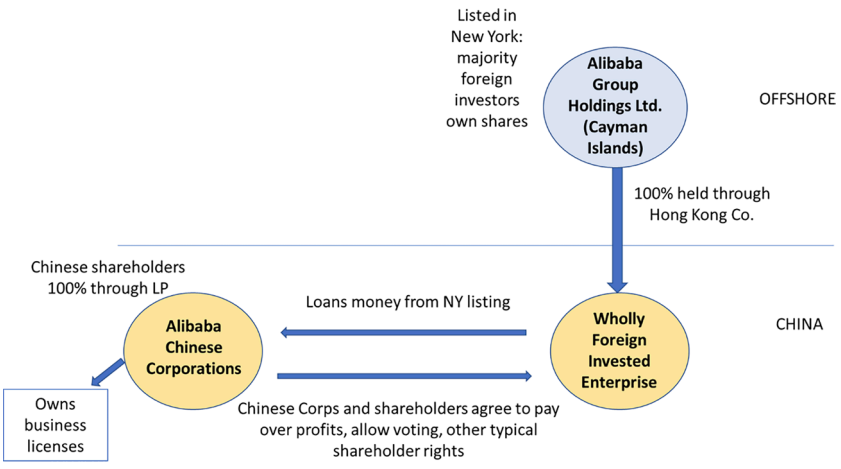


Figure 1.1.1 Alibaba Group VIE ownership structure

exchanges. Yet all of them have managed to obtain Chinese ICP licenses. How did this paradoxical situation arise and why has it persisted for more than two decades?

Alibaba, for example, was first incorporated in 1999 as a Cayman Islands company, Alibaba Group Holdings Ltd., and during the early 2000s the majority of its shares were held by foreign investors, with the rest (around 20%) issued to Alibaba's Chinese founders and employees, including CEO Jack Ma.[20] Even since its IPO in 2014, Alibaba remains majority-controlled by a broad range of international investors.[21] How did Alibaba get around the Chinese restrictions on foreign-controlled ICPs and telecom services?

Like other private tech firms, it used a legal sleight of hand called a variable interest entity (VIE): see Figure 1.1.1.

Cutting through the legal jargon, the VIE structure involves a set of agreements between the Cayman Islands firm Alibaba Group Holdings and several Chinese corporations. These Chinese corporations currently have only five shareholders who are all Chinese citizens, so the corporations are permitted to hold the ICP and telecom licenses.[22]

However, the Chinese corporations and their shareholders have agreed to give all the benefits of their ICP/telecom and other licenses to Alibaba and to allow Alibaba to make all decisions on behalf of the Chinese corporations. In other words, even though Chinese corporations technically own the licenses, a foreign corporation (Alibaba Group Holdings) can oversee every major

[20] Alibaba Group (n 1) 250–1, 297; Clark (n 1) 200.

[21] Japanese company SoftBank is still Alibaba's largest single shareholder, with around 25%. See Alibaba Group, *Global Offering*, Hong Kong Stock Exchange (15 November 2019) 169.

[22] For a detailed description of Alibaba's VIE structures, see Alibaba Group (n 1) 87–92; and for the current arrangement, Alibaba Group (n 6) 95.

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decision made by the Chinese corporations and receive all financial revenues through a series of contracts, just as if it was a 100% controlling shareholder of the Chinese corporations.[23]

In other words, we see a kind of mutant hybrid corporate structure – a pragmatic compromise – that allows substantial foreign investment in these technology firms through majority shareholding, yet without giving up day-to-day management to non-Chinese shareholders or allowing them to directly own the licenses that are prohibited or restricted from foreign investment.

This VIE structure is purely designed to get around the restrictions on foreign ownership of Chinese licenses, and its legality remains uncertain.[24] Yet it is a very common structure among private Chinese technology firms. By 2010, more than 100 offshore-listed Chinese firms had used this structure to obtain their ICP and telecom services licenses from relevant government ministries.[25]

Several factors will likely perpetuate this pragmatic but unwieldy regulatory fudge. China's security establishment is still unwilling to allow direct foreign control of internet providers, yet the Chinese government relies on these private online platform firms to boost economic growth and provide tens of millions of jobs to Chinese workers and entrepreneurs. The firms are also highly reliant on foreign capital to maintain their rapid expansion.

However, it is not clear whether Chinese courts would enforce the VIE contracts when disputes occur, making investors entirely dependent on the personal integrity and goodwill of the corporations' founders or senior managers.[26] More recently, the Chinese government has launched intrusive "cybersecurity investigations" into several large VIE firms on "data security" grounds, including the ride-hailing firm Didi Chuxing, leading to sudden market delisting, losses, and shareholder lawsuits.[27] It is unnerving to think that hundreds of billions of dollars of foreign investment in Chinese technology firms relies on such shaky legal and regulatory foundations.

A similar lack of regulatory clarity has allowed various online fraud and financial scandals to emerge over the past decade, which we will discuss after tracing the further breakneck expansion of Alibaba/Ant's ecosystem.

[23] 'Alibaba Partnership' in Alibaba Group (n 1). [24] Alibaba Group (n 1) 49, 92.

[25] Thomas Y. Man, 'Policy above Law: VIE and Foreign Investment Regulation in China' (2015) 3 Peking University Transnational Law Review 215–22.

[26] Li Guo, 'Chinese Style VIEs: Continuing to Sneak under Smog?' (2014) 47 Cornell International Law Journal 569–606, part IV.

[27] Coco Feng, Che Pan, and Minghe Hu, 'Didi Chuxing "Forced Its Way" to a New York Listing, Triggering Data Security Review, Sources Say' (*The Star*, 7 July 2021) www.thestar.com.my/tech/tech-news/2021/07/07/didi-chuxing-forced-its-way-to-a-new-york-listing-triggering-data-security-review-sources-say.

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3.3 ODI and Alibaba's VIE Structure: Acquisition of Lazada in Southeast Asia

Besides its useful function as a conduit for raising money from international investors, the foreign-listed VIE structure also directly facilitates ODI in the form of overseas acquisitions by Chinese private firms. The Chinese government still imposes capital controls on foreign exchange – in other words, restrictions on Chinese individuals and corporations converting RMB into US dollars or other currencies. Exceptions are made for ODI that is encouraged by the Chinese government, but for private firms that may prefer to invest for their own purely commercial reasons, an overseas listing can give them direct access to US dollars, which can then be channeled into acquisitions without the need for foreign exchange approval.

Alibaba's 2014 IPO provides a clear example, as the company's prospectus stated that the net proceeds raised from the NYSE listing would be used "outside of China, and [we] do not expect to transfer such funds into China."[28] By 2018, Alibaba had invested around US$4 billion of those proceeds to acquire full control of Lazada, which is Southeast Asia's largest e-commerce platform, operating in Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.[29] With Alibaba applying its advanced online platform, payment system, and logistical software to improve Lazada's efficiency, not to mention extensive marketing campaigns, this acquisition immediately gave the company a commanding market share in the whole region and significantly increased the use of e-commerce by local consumers for their purchases. Some local intermediary merchants have since complained that Alibaba is using its market power to squeeze out the competition, similar to its alleged monopoly practices in China.[30]

Alibaba also used its IPO funds to acquire local e-commerce companies in several other countries or regions, including Indonesia, Turkey, and South Asia, and to invest in a joint venture with three local firms in Russia. Most of these businesses will be operated under the AliExpress brand, which links international online consumers with commercial sellers in China and dozens of other countries.[31]

The potential benefits for Alibaba from this type of ODI are huge, especially in developing countries: Southeast Asia alone has a population of more than 630 million, with rapidly increasing access to mobile phones and the internet and more room for future expansion than the highly competitive domestic Chinese e-commerce market.[32] At the same time, by creating efficient channels connecting domestic Chinese sellers, many of them SMEs, with international buyers, Alibaba continues to stimulate economic growth in China and (along with other

[28] Alibaba Group (n 1) 71. [29] Alibaba Group (n 20) 203, 236.
[30] Qian Linliang, 'Buying Power: Alibaba in South-east Asia' (*The China Story*, 2018), www.thechinastory.org/yearbooks/yearbook-2018-power/forum-the-power-of-money/buying-power-alibaba-in-south-east-asia/.
[31] Alibaba Group (n 20) 203, 235–6. [32] Qian (n 30).

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large private Chinese firms) solves a perennial headache for the Chinese government of providing employment opportunities for its enormous population.[33]

3.4 Alibaba/Ant Group's Expanding Fintech Ecosystem: "Trust," Credit, and Data

The Alibaba/Ant Group has consistently billed itself as a firm (or "ecosystem") that promotes trust and integrity.[34] To a certain degree this is true, but the broader fragmented political and economic ecosystem within which it operates has facilitated numerous instances of fraud that the company must constantly try to stamp out. In the process of dealing with these trust issues, Alibaba/Ant Group has collected a gargantuan mass of data about its users, which it now employs to identify and target businesses and consumers for each of their new products and to guide their behavior.

In terms of building trust, we noted how Alipay provided a secure online payment system that would not release funds to sellers until buyers had approved the goods received. This system increased user confidence in e-commerce but still left gaps for potential fraudsters. Alibaba/Ant realized that the data it collected on its sellers and their transactions, along with buyer ratings, complaints, and lawsuits, could be used to fill these gaps by calculating a comprehensive "trust score" for each seller (also known as a Sesame Credit Score). Having a high trust score would make a seller more attractive to buyers, whereas a low trust score would lead to warnings and ultimately exclusion from Alibaba's e-commerce platforms.[35]

Alibaba/Ant's most important and financially lucrative insight was that they could then employ this extensive data on hundreds of millions of users to diversify into financial services. To start with, they could offer small business loans to their merchants who had high trust scores and had achieved certain revenue levels and numbers of successful transactions. This kind of short-term finance was crucial for SMEs to survive and expand their operations, but state banks were not interested in lending amounts less than RMB 1 million at a time (around US$200,000) due to high administrative costs and risks of default, whereas SMEs on average only required loans of RMB 36,000.[36]

By June 2020, Ant Group's small business loan program had expanded very rapidly, approving credit for around 20 million SMEs in the previous twelve months, with a loan balance of more than RMB 400 billion (US$61 billion) through its private bank subsidiary MyBank.[37]

[33] Vikas Shukla, 'Alibaba Follows Beijing's "One Belt and One Road"' (*Value Walk*, 2 February 2020) www.valuewalk.com/alibaba-follows-one-road-one-belt/.

[34] Alibaba Group (n 6) 4, 220.

[35] Ant Group (n 1) 183; Erisman (n 1) 64–5, 194.

[36] Ant Group (n 1) 197–8; Dong Youying, 'Integrity Capital-Based Finance,' in Ying Lowrey (ed), *The Alibaba Way* (McGraw Hill Education 2016) 178–96.

[37] Ant Group (n 1) 9, 198. For MyBank's five main shareholders, see Wangshang Yinhang, '2020 Niandu Baogao' [2020 Annual Report] 13.

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However, Ant Group's largest revenue generator is not SMEs but consumer credit and loans. Since 2014, Ant has used its trademark data-crunching methods to develop a kind of virtual credit card for Alipay/Alibaba users called "Huabei" (which means literally "Why not spend?"). In 2015, Ant also introduced a consumer small loan program called "Jiebei" (literally "Why not borrow?").[38]

These two consumer credit products filled another large gap for the majority of Chinese people who didn't meet the criteria for bank loans or credit cards or wanted a quicker and simpler way to borrow money. Huabei and Jiebei generated an incredible credit balance of more than RMB 1.7 trillion by 2020 (US$262 billion), around four times the amount of Ant Group's SME loan balance.[39]

The other crucial plank in Ant Group's evolving financial services ecosystem is investment and wealth management products (WMPs). Interest rates for depositors at traditional Chinese banks are very low, so Ant developed a low-risk money market fund in 2013 called Yu'ebao (literally "Leftover Treasure") that allowed their Alipay users to deposit their unused e-wallet cash balances and earn interest higher than a bank account, while having instant access to the money via their Alipay mobile phone app. Yu'ebao soon became the largest money market fund in China with more than 600 million users. Ant Group earns money from the spread between deposit rates and its own investment of the funds.[40]

Ant has also promoted a wide range of higher risk mutual funds and other WMPs to online users through its InvestmentTech apps, aimed at China's growing middle classes. For most of these products, Ant acts as an intermediary, first vetting investment firms and working with them to develop online consumer products, then mining Ant's user data to target those in the right income brackets who would be likely to invest in specific funds. Ant receives a "technology services fee" from the fund management firm for locating and recommending the investors. By mid 2020, Ant was already working with around 170 asset management firms, including mutual fund companies, insurers, banks, and securities firms, to offer more than 6,000 products through Ant's platform.[41]

The total amount under investment in Yu'ebao and other investment products offered through Ant's platform by June 2020 was a staggering RMB 4.099 trillion (US$633 billion), and its revenues from InvestmentTech amounted to RMB 16.9 billion (US$2.61 billion) in 2019, or 14.9% of Ant's total revenues. Clearly, Ant has become a major financial services conglomerate in its own right and has developed a huge customer base in the hundreds of millions.[42]

Although Alibaba only owns one-third of Ant Group's shares, one reason that Alibaba and Ant refer to themselves as an "ecosystem" is that their various businesses constantly interact and feed off each other in a kind of symbiotic

[38] Ant Group (n 1) 136, 166. [39] Ant Group (n 1) 13. [40] Ant Group (n 1) 200–1. [41] ibid.
[42] For Ant's revenues: Ant Group (n 1) 13; for Alibaba's total revenues: Alibaba Group (n 6) 220.

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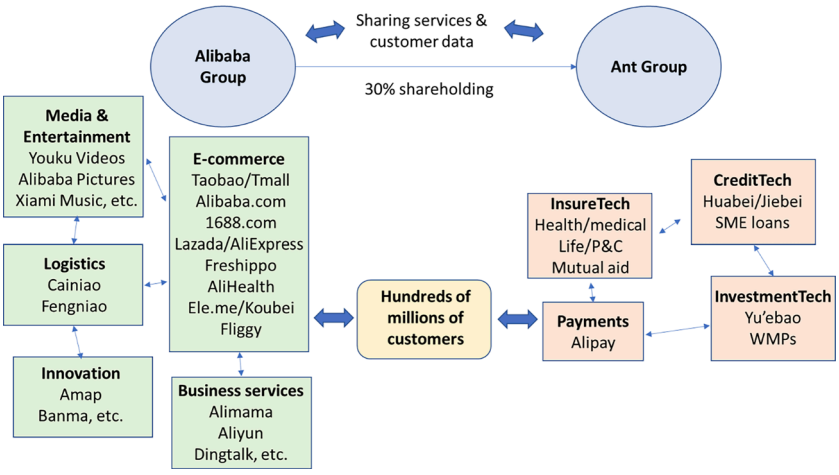


Figure 1.1.2 Alibaba/Ant ecosystem

relationship: see Figure 1.1.2. Ant Group's success has therefore depended to a great extent on Alibaba's ability to develop new lines of business and constantly attract new users previously neglected by traditional business networks.[43]

Other sectors that Alibaba has expanded into include cloud computing services for businesses (Alibaba Cloud, or Aliyun); logistics and product delivery (Cainiao Network); fresh food delivery and smart supermarkets (Freshippo and Fengniao); online restaurant ordering and delivery (Ele.me, literally "Are you hungry?"); as well as travel ticketing and bookings (Fliggy).[44]

Finally, the company has also ventured into pharmaceutical sales and healthcare through AliHealth, mostly focused on online ordering and delivery of safe medical drugs using blockchain and QR codes, to counter the dangers of fake medicine suppliers, which is one of the deepest concerns of Chinese consumers along with tainted food.[45]

These are just some of the key business sectors that Alibaba/Ant has expanded into over the past decade. Their aim is to provide a so-called "seamless" group of business and lifestyle apps that are all integrated and downloaded onto users' mobile phones, so that virtually all their daily life activities will be conducted through an Alibaba or Ant Group platform. As Alibaba put it in a recent Annual Report, "we envision that our customers will meet, work and live at Alibaba."[46]

Like any natural ecosystem, Alibaba/Ant is also continually testing, negotiating, and breaking through the boundaries that separate its own ecosystem from others. Is a small business that sells most of its products online through Taobao/Tmall and distributes them through the Cainiao Network, while

[43] Ant Group (n 1) 294, 297–8; Alibaba Group (n 5) 59–60.
[44] Alibaba Group (n 6) 48, 120, 126, 136, 353; Alibaba Group (n 5).
[45] Alibaba Group (n 6) 352. [46] Alibaba Group (n 6) 3.

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paying for promotion by Alimama, storing its data on Aliyun, receiving payments through Alipay, obtaining loans from MyBank, and investing its profits in one of Ant Group's sponsored WMPs really independent, or is it simply a component element of Alibaba/Ant's ecosystem? Has this mutant hybrid (Chinese-foreign) superstructure evolved so quickly and sucked in so many diverse entities that it is now beyond effective control by the supposedly powerful CCP and Chinese government – even, possibly, beyond the control of its own managers? As the next section shows, there is strong evidence that this has already happened, and that the Alibaba/Ant monster cannot be fully tamed. All that government regulators (and Alibaba/Ant itself) can hope to do is act strategically, using market discipline whenever possible, to address its worst abuses and mitigate the potential systemic risks that emerge from all directions.

Of course, Alibaba/Ant is not the only entity seeking to occupy these business niches. It faces fierce competition from other private Chinese firms such as Tencent, JD.com and Meituan. Yet this only increases the urgency of consistently regulating these new corporate ecosystems.

3.5 Alibaba/Ant Group's Scandals and Tussles with Chinese Regulators

The main problem with being primarily a "platform" or channel business "ecosystem" is that when user numbers expand rapidly into the hundreds of millions, it becomes extremely difficult to monitor and control their negative behavior.

Alibaba has long faced criticism for failing to prevent fraudulent activities on its platforms. The US Trade Representative (USTR) has been especially vocal about counterfeit products sold on Alibaba.com and Taobao, especially those that impact consumer safety, such as fake medicines, contaminated pet food, and children's toys. Both platforms have been placed on the USTR's list of "notorious" infringing copyright/trademark markets from 2008 to 2010, and again from 2016 to the present.[47]

The Chinese government has also repeatedly censured Alibaba through its corporate regulator, the State Administration for Market Regulation (SAMR).[48] A 2015 White Paper briefly posted on the regulator's website claimed that only 37% of sample purchases in its investigation of Taobao could be considered

[47] For earlier complaints, see *Christine Asia Co., Ltd., et al., against Alibaba Group Holding Limited, et al.*, United States District Court Southern District of New York, No. 15-md-02631 (21 June 2016) 3; for the USTR listings, see Trevor Little and Tim Lince, 'Notorious Markets List 2020: USTR Resists Call to Include US Platforms as Alibaba and Amazon Remain' (*World Trademark Review*, 15 January 2021) www.worldtrademarkreview.com/anti-counterfeiting/notorious-markets-list-2020-ustr-resists-call-include-us-platforms-alibaba-and-amazon-remain.

[48] The earlier action against Alibaba was brought by the State Administration for Industry and Commerce (SAIC), which was merged into the SAMR in 2018.

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authentic products.[49] Far from meekly accepting the censure, Alibaba publicly criticized what it called the regulator's flawed and biased investigative methods, and the White Paper was abruptly removed from the regulator's website. The lack of official sanctions demonstrated the company's strength and the government's reluctance to punish the company for fear of impacting China's economic growth.[50]

Several features of the broader Chinese corporate-political ecosystem combine to make Alibaba's task of ensuring "trust" virtually impossible. First, the Chinese government itself is highly fragmented, with local government officials and police frequently turning a blind eye to counterfeit manufacturers in their regions, either because of the employment/tax revenues they provide or because of well-placed bribes aimed in their direction.[51] Second, despite the Chinese government's reputation as an all-seeing force that can track every citizen's online identity, it is still very common for users to create fake internet and social media accounts to engage in fraud.[52] Third, during its incredibly rapid growth phase, more than 100,000 new merchants were signing up to Taobao every day, and it is very difficult to predict which of them will become fraudsters.[53] Fourth, Alibaba and other Chinese e-commerce firms provide indirect employment to millions of honest SME owners and significantly boost China's economic growth, something China's SOEs have failed to do.

In other words, these aspects of the Chinese corporate-political ecosystem have led to a kind of symbiotic codependency of the Chinese government on private firms, limiting its regulatory capacity to situations where firms might endanger the financial or social stability of the whole society or directly threaten the CCP's rule.

The limits of government control are clear from two other major scandals involving Alibaba. The first was its use of market power to engage in monopolistic and anti-competitive practices. Merchants who refused to sign exclusive agreements with Alibaba would be penalized on Tmall/Taobao by adjusting search algorithms to prevent customers from locating their storefronts; or their orders would not be fulfilled efficiently; or their accounts would be temporarily suspended on Alibaba and Ant Group's various sites to disrupt their businesses. These practices had been ongoing since at least 2015, and the firm had repeatedly ignored government warnings, but it was only in April 2021 that the

[49] Clark (n 1) 236.

[50] Clark (n 1); Zhang Jinshu, 'Taobao Yu Gongshang: Banzi Gai Da Shei?' [Taobao versus SAIC: Who Deserved a Beating?] (*Caixin*, 31 January 2015) https://opinion.caixin.com/2015-01-31/100780433.html.

[51] Michael Schuman, 'Why Alibaba's Massive Counterfeit Problem Will Never Be Solved' (*Forbes*, 4 November 2015) www.forbes.com/sites/michaelschuman/2015/11/04/alibaba-and-the-40000-thieves/?sh=2475ec629dc7; Daniel C. Fleming, 'Counterfeiting in China' (2014) 10 University of Pennsylvania East Asia Law Review 15–18, 27–8.

[52] Emma Lee, 'Sale of WeChat Accounts Prompts Concern over Fraud' (*TechNode*, 16 January 2019) https://technode.com/2019/01/16/wechat-accounts-sale-online-fraud/.

[53] Schuman (n 51).

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SAMR finally fined Alibaba RMB 18 billion (US$2.8 billion) for breaching the PRC Anti-Monopoly Law.[54]

This was the largest financial penalty ever exacted on a corporation in China, but it was only 4% of Alibaba's 2019 sales revenues, so it will not have a major impact on the firm's finances, not least because Alibaba's main competitors like Tencent, JD.com, Didi Chuxing, and Meituan were also penalized.[55]

The SAMR's future ability to control abuses of market power will continue to be limited by its own understaffing as well as resistance by numerous powerful state and private interests who benefit from Alibaba's continuing expansion and profitability.[56]

The other major tussle with the government was the sudden suspension of Ant Group's planned IPO on the Shanghai STAR Market and Hong Kong Stock Exchange. This was a major shock, as the IPO was expected to become the largest ever global public offering, raising around US$34 billion from investors.[57]

Some claimed that this "crackdown" was a first step in the CCP's plan to renationalize private technology firms, but this has not occurred.[58] A more plausible explanation is that Ant Group had consistently neglected warnings about the financial risks of its breakneck expansion. With the increasing liberalization of China's financial services industry, especially since 2010, numerous state banks and other firms (both SOEs and private) have offered a broad range of retail investment products.[59] An increasingly large portion of their business has come from products marketed through Ant Group or Alibaba's platforms. When promoted in this way, it is not clear to investors whether they are investing in an Ant-backed fund or a third-party fund.[60]

The fact that more than 6,000 financial products are now offered on Alibaba/Ant's platforms involving huge numbers of borrowers/investors with

[54] SAMR, 'Guojia Shichang Jiandu Guanli Zongju Xingzheng Chufa Juedingshu' [SAMR Administrative Penalty Decision] *Guo shi jian chu (2021) 28 hao*, 10 April 2021, linked from the SAMR's website, www.samr.gov.cn/xw/zj/202104/t20210410_327702.html [hereafter 'SAMR Decision'].

[55] See the SAMR Decision 25. For its 2020 sales and net income, see Alibaba Group (n 6) 106. cf Qian Tong and Denise Jia, 'China Hits More Internet Businesses with Antitrust Fines' (*Caixin*, 1 May 2021) www.caixinglobal.com/2021-05-01/china-hits-more-internet-business-with-antitrust-fines-101704752.html.

[56] See Angela Huyue Zhang, 'Bureaucratic Politics and China's Anti-Monopoly Law' (2014) 47(3) Cornell International Law Journal 672–707.

[57] Karishma Vaswani, 'Jack Ma's Ant Group: World's Biggest Market Debut Suspended' (*BBC News*, 3 November 2020) www.bbc.com/news/business-54798278.

[58] For example, contrast Lingling Wei, 'China Blocked Jack Ma's Ant IPO after Investigation Revealed Likely Beneficiaries' (*Wall Street Journal*, 16 February 2021) with Huo Kan, 'Mayi Xiaojin Huopi Kaiye' [Ant's Consumer Finance Subsidiary Gains Approval to Operate] (*Caixin*, 3 June 2021) https://finance.caixin.com/2021-06-03/101722422.html.

[59] Jinglin Jiang et al., 'Government Affiliation and Peer-to-Peer Lending Platforms in China' (2021) 62 Journal of Empirical Finance 87–90; Emily Perry and Florian Weltewitz, 'Wealth Management Products in China' Reserve Bank of Australia Bulletin (June 2015) 59–68.

[60] Ant Group (n 1) 168, 189, 201.

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rudimentary investment knowledge triggers anxiety among regulators about potential social instability. Numerous collapses of large financial firms have occurred in recent years due to corruption and reckless growth. There have also been hundreds of peer-to-peer lending scandals in which millions of ordinary investors lost their savings, with many protesting outside the headquarters of the People's Bank of China (PBOC) in Beijing.[61] And high-risk WMPs have often involved huge amounts of unauthorized local government borrowing and guarantees, which has worsened a massive local government debt crisis.[62]

Ant Group claims that its sophisticated online data analysis can carefully vet investment products to minimize risks.[63] PBOC's officials were not convinced by these assurances, as they had already encountered numerous situations where third-party investment funds had collapsed, leaving investors without their life savings and totally confused about why they could not seek compensation from the platforms that had marketed the funds to them.[64]

This explains the sudden suspension of Ant Group's IPO until it implemented tighter regulations requiring these platform firms to adopt similar risk-control measures as banks.[65] Rather than viewing this as a power grab by the CCP, or an attempt to stifle private enterprise, it is more accurate to see it as a struggle between financial regulators, especially the PBOC, which justifiably fears financial instability, and powerful technology firms working in conjunction with financial service SOEs, who utilize big data to maximize their profits and channel customers' savings into all manner of financial products. To claim that this is a battle between government and private enterprise is to ignore the fact that powerful state interests are involved on both sides of the struggle.[66]

We will conclude with an analysis of this complex codependent relationship that has evolved between Alibaba/Ant Group and the Chinese government/state at many different levels.

[61] Bloomberg News, 'Trouble Is Brewing in the Farthest Corner of China's Shadow Banking' (*Business Standard*, 9 October 2019) www.business-standard.com/article/international/trouble-is-brewing-in-the-farthest-corner-of-china-s-shadow-banking-119100900105_1.html; Xie Yu, 'China Regulator Orders Bailout of Peer-to-Peer Lenders by Managers of Distressed Assets' (*South China Morning Post*, 17 August 2018); Jiang (n 59).

[62] He Huifeng, 'China's Provinces Fall Deeper into Local Government Debt Mire, Study Finds' (*South China Morning Post*, 9 May 2021) www.scmp.com/economy/china-economy/article/3132815/chinas-provinces-fall-deeper-local-government-debt-mire-study; Zhuo Chen, Zhiguo He, and Chun Liu, 'The Financing of Local Government in the People's Republic of China: Stimulus Loan Wanes and Shadow Banking Waxes' *Asian Development Bank Institute Working Paper,* No. 800 (January 2018) 1–59 esp. 12.

[63] Ant Group (n 1) 166, 193–203. [64] Xie (n 61).

[65] For summaries, see Chambers and Partners, 'Fintech 2021: China: Trends and Developments' https://practiceguides.chambers.com/practice-guides/fintech-2021/china/trends-and-developments/O7729; Bloomberg News, 'China Reins in Tech Giants to Curb Push into Financial System' (*Aljazeera*, 30 April 2021) www.aljazeera.com/economy/2021/4/30/bb-china-reins-in-tech-giants-to-curb-push-into-financial-system.

[66] See Zhang (n 56).

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4 Conclusion: Alibaba/Ant Group and China's Codependent Corporate-Political Ecosystem

Despite Alibaba/Ant Group's regular run-ins with Chinese regulators, it has become an indispensable private sector partner to the CCP by promoting the Party's policies of economic growth, entrepreneurship, and poverty alleviation among hundreds of millions of lower-income and rural Chinese citizens. Of course, while this approach may indirectly help to guarantee the CCP's hold on power, it also greatly benefits Alibaba/Ant's own bottom line, and makes the CCP (and broad swathes of the Chinese populace) highly dependent on Alibaba/Ant's continuing growth and success.

Like many large private firms, Alibaba set up an in-house CCP branch (in 2008), which had attracted 2,094 members by 2017, around 4% of total employees.[67] However, being a CCP member within a private firm does not necessarily mean prioritizing the Party's interests over the interests of the firm, especially as these CCP members are not paid by the Party but are full-time employees or managers of the firm, with a vested interest in maximizing the firm's profits. For example, Alibaba's CCP Secretary, Shao Xiaofeng, was ranked at number 277 on the *Forbes* 2020 list of richest Chinese people, with an estimated net worth of RMB 14 billion (US$2.16 billion), due to the value of his shares in the company.[68] Former CEO Jack Ma, ranked number one on the *Forbes* 2020 China rich list with a net worth of around US$42 billion, has also been a CCP member since his university days.[69]

Though the firm's profits may come first, these political links and the necessity of maintaining a positive relationship with the CCP mean that the company will frequently assist the CCP to implement its policies and maintain its legitimacy. The most obvious contribution is through opening markets and distribution channels for tens of millions of SMEs, helping them to sell their products and services, and removing many obstacles that blocked the flow of capital, goods, and resources and prevented SMEs from accessing bank loans. This was something the CCP had failed to achieve through its traditional state banks and logistical networks, despite its claims to be the Party of the common people.

Alibaba/Ant is also helping to tackle other social issues that have threatened social stability and the CCP's legitimacy, such as high costs of healthcare

[67] Bian Mei, 'Pandian Chengli Dangwei De Hulianwang Gongsi: Qishi Chule BATmen Haiyou Hen Duo' [Inventory of Party Committees Set Up by Internet Corporations: Actually There Are Many Others Besides BAT] (*BiaNews*, 1 July 2017) http://tech.sina.com.cn/i/2017-07-01/doc-ifyhrxtp6420838.shtml.

[68] Forbes, '2020 Fubusi Zhongguo 400 Fuhao Bang' [Forbes 2020 China 400 Rich List]. www.forbeschina.com/lists/1750. For Shao's current position, listed as Secretary-General, see Alibaba Group (n 6) 172.

[69] Liu Xuesong, 'Zai Ma Yun Zhonggong Dangyuan De Jianli Zhong Duchu Zheng Nengliang' [Discerning the Positive Energy in Ma Yun's CCP Member Resume] (*Hunan Ribao*, 3 December 2018) http://theory.people.com.cn/n1/2018/1203/c40531-30438208.html.

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(through its cheap insurance products), food safety (through blockchain-secured food supply chains), and rural poverty (through working with hundreds of local governments and telecom SOEs to bring e-commerce supply and distribution networks to remote villages, as well as assisting farmers to market their produce online to customers who would otherwise never see them). Despite its regulatory run-ins, in February 2021 Alibaba still won an award from the CCP for being an "advanced model enterprise" due to its poverty alleviation efforts.[70]

Like other private technology firms, Alibaba/Ant has also assisted with the CCP's attempts to improve governance through technology, especially at the local level. For example, they have codeveloped tax payment and other government apps linked to Alipay and helped to improve enforcement of court judgments by cooperating with local courts to blacklist defaulting judgment debtors on Alibaba/Ant's platforms until they repay their debts, or to prevent them from buying luxury items like plane or high-speed rail tickets.[71]

Behind all these activities is the ever-looming potential risk that these private Chinese firms will fall foul of powerful CCP leaders, or that CCP policies will abruptly change, leaving them without a viable business, as occurred in recent years with many of China's largest private tutoring firms.[72] Even a few unguarded criticisms of government policies in a public speech can lead to a private technology firm's founder being called in for a "chat" with powerful government officials and forced to stay out of the public eye for months, as occurred with Jack Ma in 2021. Large private Chinese firms like Alibaba/Ant must therefore constantly seek to make themselves indispensable to the government to reduce their vulnerability to political risks.

All these evolving interactions point to a highly codependent private firm/government corporate-political ecosystem. Yet to conclude that this is clear evidence of monolithic Chinese government or CCP control over Alibaba/Ant and other private technology firms is too simplistic. While these private firms certainly need to demonstrate their support for the government/CCP by engaging in these kinds of initiatives, in most cases they also benefit greatly through extensive positive promotion of their platforms in the official Chinese media, through setting up e-commerce and physical trading

[70] 'Chinese Conglomerates Including Alibaba, Wanda Praised for Poverty Alleviation Efforts' (*Global Times*, 25 February 2021) www.globaltimes.cn/page/202102/1216526.shtml; Alibaba Group, 'Sustainability: Poverty Relief Programs' www.alibabagroup.com/en/about/sustainability.

[71] Yang Yi, 'Chinese Courts Use Technology to Tighten Noose on Debt Defaulters' (*Xinhua*, 3 October 2017) www.xinhuanet.com//english/2017-10/03/c_136657135.htm; Alison (Lu) Xu, 'Chinese Judicial Justice on the Cloud: A Future Call or a Pandora's Box? An Analysis of the "Intelligent Court System" of China' (2017) 26(1) Information & Communications Technology Law 59–71.

[72] Luo Meihan, 'Regulations Forced China's Tutors Out of a Job. Will TikTok Save Them? (*Sixth Tone*, 22 July 2022) www.sixthtone.com/news/1010828.

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networks that make local communities highly dependent on their services, and through setting the technological agenda in ways that will make the government more reliant on their products and services, in other words, becoming indispensable.

So far, they have managed to do this without giving up their private ownership. Ant Group, for example, is still controlled by the same group of private shareholders that owned its shares prior to the suspension of its IPO in 2020, even if Jack Ma has now given up his veto power over their collective decisions.[73] In fact, firms like Alibaba/Ant Group have grown so large that even when they get into trouble with regulators, the penalties only act as a temporary brake on their relentless expansion.

It is crucial to understand how Alibaba/Ant operates, and its rapid diversification into financial services, as the firm is already exporting its e-commerce model globally through ODI acquisitions. If Ant Group is able to resolve its restructuring to the satisfaction of Chinese regulators and proceed with its own long-awaited IPO, its plan for the proceeds would involve further global expansion of Ant's online payment services and financial products, technological upgrading through recruitment of top global talent, and further ODI through acquisition of "leading technologies including AI, … machine learning, natural language processing, man-machine interaction, … as well as computing and technology infrastructure."[74]

5 Discussion Questions and Comments

This case study uses Alibaba/Ant Group as an example to show how the meteoric growth of e-commerce and the platform economy in China has transformed the way that business is done and made Chinese consumers into some of the world's most active online sellers and purchasers.

The case also gives insights into the multinational links of Chinese e-commerce firms, such as international buyers purchasing Chinese goods online through Taobao and AliExpress, investors buying Alibaba's shares on the NYSE, and Alibaba acquiring e-commerce firms overseas, especially in Southeast Asia and developing countries elsewhere.

Finally, the case explains how e-commerce platforms evolved into numerous business sectors, and especially focuses on their rapid diversification into financial services. Their huge size and financial complexity have led to some negative impacts and systemic risks, and this in turn has caused the Chinese government to regulate these e-commerce and fintech firms more tightly. The following questions will explore some of these issues in more detail.

[73] For details on Ant Group's restructuring and shareholding, see Huo Kan (n 57); Yong Xiong and Laura He, 'Jack Ma to Relinquish Control of Ant Group' (*CNN*, 7 January 2023) www.cnn.com/2023/01/07/intl_business/jack-ma-ant-group-restructuring-intl-hnk/index.html.

[74] Ant Group (n 1) 377.

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5.1 For Law School Audiences

1. Briefly summarize how the variable interest entity (VIE) structure works and why it is necessary for Chinese e-commerce and internet firms like Alibaba to use it. How does the structure facilitate ODI by Chinese private firms? What are the key legal risks of the VIE structure?
2. What are the legal risks of Ant Group's online finance businesses, especially in the area of wealth management products (WMPs)? Why was the Chinese government so concerned about those risks that they suspended Ant Group's IPO in 2020? How has Ant Group been required to restructure its financial businesses, and will this help to reduce the risks to consumers and the broader financial system?
3. Why is Alibaba considered to be a Chinese firm when it is actually a Cayman Islands company listed in New York and the majority of its shares are owned by non-Chinese investors? Think about this question in terms of where the legal risks to investors would be resolved if there was a dispute, who actually manages the firm's businesses, and where the firm's core businesses are regulated.

5.2 For Policy School Audiences

1. How did the Chinese government facilitate the rise of platform firms like Alibaba/Ant Group since the late 1990s, either directly through its policies or indirectly through its failure to strictly enforce specific policies? Why was the government willing to allow the growth of these private firms – in other words, how do these firms indirectly benefit the Chinese government?
2. More specifically, why did the Chinese government allow such platform firms to expand so rapidly into online finance (even without banking licenses prior to 2015)? What market demands were they meeting that state-owned banks were unable to meet, and what political risks did this cause from around 2016 onward? Does this explain the government's "crackdown" on these online finance firms in 2020?
3. What political risks are faced by Alibaba/Ant Group due to their status as private firms in China? How can they try to mitigate those risks, and does this create potential problems for them when they try to expand overseas?
4. What is the "symbiotic codependency" of the Chinese government and private Chinese technology/e-commerce firms? Use Alibaba/Ant Group as an example to show how this relationship involves compromises on both sides, and how it has hampered the government's ability to regulate such large firms. Does this case study also reveal competing interests *within* the Chinese government (and SOEs). If so, what are they? Many political scientists have referred to China as a "fragmented authoritarian" political system: How does the case of Alibaba/Ant Group support this characterization?

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5.3 For Business School Audiences

1. Alibaba's business growth has been incredibly rapid, from an unknown startup in 1999 to China's largest e-commerce firm by 2014, when it held its IPO on the NYSE. What were the key factors that allowed Alibaba to grow so fast in these initial years? Why were traditional (offline) businesses not able to meet customer and market demand? Which of the key factors were due to Alibaba efficiently filling gaps in the market, and which factors were external, such as technological and policy developments? Could Alibaba have survived as a private e-commerce firm in China if it had started operating in 1990 instead of 1999? Why or why not?
2. Ant Group was initially not an independent corporation but simply the payment service for Alibaba, called Alipay. How did Alipay help Alibaba to win its early competition with eBay in China, and how has it diversified into financial services after being spun off into a separate affiliated corporation called Ant Group since 2011? What gaps in the financial services market did Ant Group fill and who were its main target customers?
3. How do Alibaba and Ant Group work together synergistically to attract more customers and grow their respective businesses? What role does their customer (or user) data play in this, and how is such data shared between the two affiliated firms?
4. What impact has Alibaba/Ant Group had internationally? Think about this in terms of both investment markets (i.e., raising money from international investors) and ODI (i.e., acquisition of businesses overseas). Why does Alibaba's ODI depend so heavily on raising money from international investors? Why do you think those Chinese government restrictions (especially on private businesses and individuals) are in place?
5. Using Alibaba/Ant Group as an example, explain what is a Chinese corporate ecosystem, and how does it interact with the Chinese political ecosystem? Are there some key differences between such Chinese corporate ecosystems and multinational firms in similar business sectors in other jurisdictions, such as Amazon? Think about both the differences in their target markets and the types of "social responsibility" activities they must engage in to remain viable.

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