

The Alibaba phenomenon

China's e-commerce giant could generate enormous wealth—provided the country's rulers leave it alone



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ON ITS way to becoming the world's biggest economy, China is passing another landmark. Its e-commerce market is overtaking America's. And one giant firm dominates the market: Alibaba, by some measures already the world's largest e-commerce company. Last year two of Alibaba's portals together handled 1.1 trillion yuan (\$170 billion) in sales, more than eBay and Amazon combined. Alibaba is on track to become the world's first e-commerce firm to handle \$1 trillion a year in transactions (see article). Yet despite such extraordinary success, many people outside China have barely noticed the rise of this privately held behemoth.

That is about to change. The firm's founder, a former English teacher called Jack Ma, has just announced that he will hand over the chief-executive job to a trusted insider, Jonathan Lu, in May. Soon afterwards, the firm is expected to announce details of its initial public offering (IPO), sure to be the most trumpeted since Facebook's listing last year—and possibly even bigger, too. Facebook's IPO valued the company at \$104 billion (its market capitalisation has since slipped back to \$63 billion). Estimates of the likely valuation of Alibaba range from \$55 billion to more than \$120 billion.

The IPO will turn global attention to Alibaba's remarkable rise. And there are other reasons to watch the company closely. One is its future growth potential: if it avoids a Facebook-like fumble, in a few years' time it could be among the world's most valuable companies (the current global leader, Apple, now worth around \$420 billion, was only valued at \$90 billion in 2009). Another is that, as Alibaba expands and moves into new markets, it has the capacity to change China.

The crocodile of the Yangzi...

Alibaba's story so far has been one of canny innovation and a clear focus on how to win competitive advantage in China. "eBay may be a shark in the ocean," Mr Ma once said, "but I am a crocodile in the Yangzi river. If we fight in the ocean, we lose; but if we fight in the river, we win." The crocodile of the Yangzi, as he became known, started the company in 1999 with Alibaba.com, a business-to-business portal connecting small Chinese manufacturers with buyers overseas. Its next invention, Taobao, a consumer-to-consumer portal not unlike eBay, features nearly a billion products and is one of the 20 most-visited websites globally. Tmall, a newish business-to-consumer portal that is a bit like Amazon, helps global brands such as Disney and Levi's reach China's middle classes.

Alibaba could grow even faster. By 2020 China's e-commerce market is forecast to be bigger than the existing markets in America, Britain, Japan, Germany and France combined. And although it is not about to challenge Amazon in America, Alibaba is expanding globally by capturing the spending of Chinese overseas and by moving into emerging economies. In this the firm is helped by Alipay, its novel online-payments system that relies on escrow (releasing money to sellers only once their buyers are happy with the goods received). This builds trust in societies where the rule of law is weak.

Perhaps Alibaba's greatest untapped resource is its customer data. Its sites account for over 60% of the parcels delivered in China. It knows more than anyone about the spending habits and creditworthiness of the Chinese middle class, plus millions of Chinese merchants. Alifinance is already a big microlender to small firms; it now plans to expand lending to ordinary consumers. In effect, it is helping liberalise Chinese finance. China's big state banks, which channel cheap capital to state-owned enterprises, have long neglected everyone else. The firm is using its online platforms to deliver insurance products too, and more such innovations are on the way.

Alibaba thus sits at the heart of "bamboo capitalism"—the sprawling tangle of private-sector firms that are more efficient than China's state-owned enterprises. Some 6m vendors are listed with its sites. The firm's efforts are boosting productivity in China's woefully inefficient retail and logistics sectors. And, more than any other company, it is speeding up the country's much-needed shift away from an investment-heavy model of growth towards one that is driven by consumption.

... is now in dangerous waters

All very promising but like the Yangzi alligator, which is now endangered, there is nothing inevitable about Alibaba's future fortunes. Three things could yet throw the firm off-course.

The most obvious is that it could overreach—and stumble. Coping with the stepping aside of a formidable founder is rarely easy. By China's low standards, Alibaba generally gets good marks for governance, with one caveat: observers have doubts about the murky way in which Mr Ma spun out Alipay from the parent company a few years ago. It will not be able to get away with that as a public company. The same transparency is needed with its products. By Chinese standards it has done a lot to fight fakes, so much so that the American government recently gave Taobao its official blessing. Yet it is still too easy to find knock-offs on that site.

Tidying up these things is not just good management. It ties into the second risk—that foreign governments will clamp down on Alibaba. China's companies are viewed with suspicion abroad: its resource-hungry state enterprises have suffered a backlash in Africa (see article); its firms listed on North American stock exchanges have been punished in the wake of accounting scandals; and Huawei, a telecoms giant, has been branded an enemy of the state by American congressmen. It would be sad if Alibaba, which seems to have far fewer ties to the Chinese state, was tarred with the same brush.

But the greatest threat to the company's future will be at home. Like Amazon or eBay, Alibaba needs to be monitored by antitrust regulators. But the politics of China pose a particular risk. Big banks are already lobbying against its financial arm. The Communist Party is bound to be jealous of an outfit that has so much data on Chinese citizens. For the government to clip Alibaba's wings without a good cause would be wrong. Alibaba has the potential to become the world's most valuable company, and in the process help create a better China.

Fonte: The Economist, London, v. 406, n. 8828, p. 15, 23rd – 29th mar. 2013.