

NETEVENTS

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*First Draft*

### *When the Dragon Awakes*

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Right, so, gosh, when the dragon awakes, yes. So he's not a dragon but he's increasingly a symbol of China. So first I'd like to say lovely to see Mark and everybody, the team. NetEvents is always a very family-feel event, which I love. I just came from a Deutsche Bank conference at the Marina Bay Sands which was wonderful but huge, 2600 people. The Marina Bay Sands, if you haven't been there, is just like living in a space ship. So I slept very well here last night, being with friends again, it's lovely.

I was at Deutsche Bank event with Joe Tsai whose face is not on this book but he is a very critical figure in the story of Alibaba. He's the Vice Chairman of Alibaba. But today, we're going to be talking more about three things. First, the company Alibaba. The company, the machinery that has made Alibaba this very impactful company on the world stage, the man behind it, Jack Ma, and actually the women too. Because six of the 18 co-founders of Alibaba are women. By the way, half of the co-founders of the company are still there. So it's a pretty interesting story. It puts Silicon Valley to shame, frankly, in terms of female empowerment, and really the meaning of the company, why does this matter to all of us here?

I guess most directly for you in the room, in terms of cloud computing, Ali Cloud is becoming an increasingly large player. But I think there is benefit in understanding the whole picture of Ali as well. I have a few just images, no text, I just want to run through. We'll want to spend as much time as possible with [Camille], fielding your questions.

So this is impossible, an impossible triangle. But actually what Jack - the first chapter of the book, what Jack has described as the iron triangle is exactly the reason, the

architecture of trust that has made Alibaba such a big thing in China today. The three sides of the triangle are ecommerce, logistics and finance. Ecommerce, Alibaba started out as a B2B website. It's still there, Alibaba.com. You can see that in English. It was in 1999 and I first met Jack just after he'd founded the company. I was in that apartment with the 18 co-founders and there's a bit of an, I'm an idiot, introduction to the book. Because they gave me these shares. I had worked with the company in the early years as a consultant, I've been based in China since '94 when I left Morgan Stanley. But the ecommerce website, the initial one B2B was okay.

Jack is a very interesting character; we'll talk more about him. But the B2B thing was a little dull and by 2003, it came time for me to pay to exercise the warrant to buy the shares, and I didn't do it. That turned out to be a \$30 million mistake. So failure is always very interesting and success is a bit boring. Anyway, so I'm the idiot who didn't do that, #loser I guess Donald Drumpf would call me. But in 2003, just after I did not buy the shares, Alibaba launched Taobao.com. This was really how they took on eBay. People forget that eBay was already well established in China, it had 90 per cent of the emerging consumer ecommerce market. Amazon was also there and was investing.

But Jack did something unusual, was that he made free a business model. He basically said to merchants in China, if you want to sell to consumers, we'll host your store front for free. So actually the Taobao.com website it still free. Today nine million, almost 10 million merchants are on that website. What they do is they sell billions of items; it could be a bottle of water, it could be a microphone, it could be clothing. They can sell small quantities, large quantities. Some of them are actually stores, merchants operating, and others are individuals. A lot of individuals supplement their income, including government officials, students, or people with no income, people who are unemployed. So it's a major social force in China as well today.

China, as you know, is restructuring from a made-in-China model and wants to be a bought-in-China or a designed-in-China kind of country. The second part of the - whichever side you choose to call ecommerce, is Tmall. Tmall is more like an Amazon in the sense that it's where brands - well not exactly Amazon, it's a branded area. So let's say P&G can sell products directly to consumers there. Interestingly, Amazon is now also on Alibaba in China. They only have two per cent of the market. So merchants and bigger brands sell on Tmall. There, Alibaba takes a commission, so they take a two per cent, three per cent.

How does Taobao make money? From advertising. So merchants come on for free and then they spend money on advertising to say, come to my store to buy my bottle of water. It took them about five years before they were profitable on Taobao, and eBay in that time was ejected from the market because Alibaba scooped up the market. So that is why we're talking about Alibaba in many ways, is ecommerce. But it wouldn't have worked without the other two sides of the triangle. One is finance, so Alipay, which is four to five times bigger, already than PayPal - just in China. The ability to have escrow, trust. Like I said, this is the architecture of trust. Because Chinese don't trust each other because they've very much experience of buying

products that are defective or fake, buying products and they're not getting delivered. There were companies before Alibaba that failed.

The other aspect of the triangle, the third edge is logistics. So today actually, in a small town near Hangzhou where Alibaba's based, three of the four largest courier companies in China are based. Imagine if UPS, FedEx and, let's say, DHL were based in rural Kentucky or something. There is actually this strange cluster and actually the three companies are interlinked, some of the founders are related to each other. This is an amazing story. Today, 60, 70 per cent of their businesses is Alibaba. Sixty per cent of the Chinese postal service packages are delivering for Alibaba. In fact, Alibaba bought 15 per cent of the Singapore postal service because they are increasingly having a global reach. They have ties with the Royal Mail, they're in France - we'll talk about their international side.

So that's the first chapter, iron triangle, why Alibaba is such an impactful company today. What I don't show here is a cloud, because there is data, of course, flowing through this triangle; what purchases are being made, how they're paying for them, intentions to purchase. That increasingly, the cloud both Ali Cloud and also the data technology revolution, as Jack describes, we're moving from an IT world to a DT world. So increasingly it's bits of data, not just packages that Alibaba's going to be focusing on. Also Alipay is now - a Chinese company called ANT Financial, that company was just recently valued at \$60 billion. It's the most value private company in the world and that's now made Jack, with his other stake in Alibaba, the richest man in Asia. Which was helpful during the book tour because it happened when I was in the States.

But to know China today is not just to know Beijing or Shanghai. It's increasingly cities like Hangzhou in the north of this map in the province of Zhejiang. Yes, it begins with a Z and an H, Zhejiang, it's a province we need to know a lot more about. Why? Probably most of the things in this room were either made or traded in Zhejiang. I guarantee you that this morning, the toothbrush that you hopefully used, 98 per cent of the world's toothbrushes are made in a town in Zhejiang. If they're not made there, they're traded in the city of Yiwu. So Yiwu, you can see, it's inland China and it has a tradition of selling, in the middle ages if you will, all kinds of agricultural feather dusters and random things, chicken fertiliser. But it has a very strong entrepreneurial spirit and also Wenzhou.

The reason that your property prices, hopefully if you own or unfortunately if you don't own, are going up in cities around the world now, increasingly, is people from Wenzhou. These people are - it's where the money comes from. In fact, a lot of the dodgy lending schemes and curb side lending come from Wenzhou. Highly entrepreneurial part of China. It's, I would say, the mecca of entrepreneurship, almost in the world now. With Jack Ma and his constituency, we're increasingly seeing these people on the global stage.

For example, if you've stayed at a Club Med, maybe not recently, but Club Med is now owned by a Chinese individual called Guo Guangchang who's also from Zhejiang. Fosun, his company, also owns the largest insurance company in Portugal.

There are many other examples I could go through of Zhejiang based hard-scrabble entrepreneurs that emerged. These were Jack Ma's constituency. Because the merchants that I was mentioning earlier, the initial merchants on the B2B site and then later on the consumer site, a lot of them come from Zhejiang. Also, we can say further north, we can see Shanghai but also Jiangsu Province.

We don't know enough about this province, given how much, without realising, we consume passes through here. Even 98 per cent of your Christmas decorations - either 90 per cent are made actually in, I think, Yiwu. Of course some of these cities are actually suffering now because they are one-product towns. So they are increasingly looking for international markets but also moving up the value chain. We know a lot more about Guangdong, of course. We know about the iPhone that you probably have and I can see that many Apple devices are made by Foxconn or assembled by Foxconn in Guangdong and other parts of China. But those factories were set up by Taiwanese, like Foxconn, or Hong Kong investors, Singapore, Korean. They already had markets but Jack helped lots of these merchants find markets internationally.

A lot of them didn't speak English and the key is that Jack himself was an English teacher. We're going to explore a little bit about him. Clearly [unclear] when I walked into that apartment in 1999, in Hangzhou, where Jack, his wife and 16 other people had founded the company just a few months earlier, when I went to the bathroom, it was an apartment full of people, went in the bathroom, I discovered two mugs stuffed with I think about 20 toothbrushes. So the toothbrush already showed to me these people working around the clock. It was very much a family feel.

But the toothbrushes, as I did my research for the book, I discovered that in 1983, I think it was, the government in Wenzhou, that city I just showed you, had actually invited in businesspeople who had just begun to emerge from the shadows - don't forget, China's cultural revolution which started 50 years ago last week, ravaged through the country and only in the late '70s did China start picking itself off the floor. Early '80s you started to see people emerging selling surplus agricultural products and entrepreneurship was coming back. It's not new, because it had been there for centuries, but it had been eviscerated by war and political conflicts.

But in 1983, Wenzhou city government summoned some of the early businesspeople who'd started to emerge selling things on the streets, and they arrested them all, they put them in prison as being speculators. The following year, the Wenzhou summoned another bunch of people who'd been doing business and all those people showed up to meet those people with toothbrushes, because they thought they'd be in prison and in Chinese prisons, apparently they don't give you toothbrushes. Today, some of those guys probably make 40 per cent of the world's toothbrushes because what happened, the government didn't arrest them, they said, things are changing, we want to support you. Actually Zhejiang province became really the creation, the spark which really lit the fire of what has powered China's economic restructuring in the last three decades.

If you look at all the job creation today, all the innovation, it's coming from the private sector in China. The state-owned enterprises, including the ones we love to deal with in the telecom and technology industry, like China Mobile, China Unicom,

these are state enterprises. They're listed overseas but - and some of them frankly have got a lot better than they used to be. But the real powerhouse has been these private-sector entrepreneurs. So the toothbrush is a symbol, really, of the origins and the global impact of this class.

So in doing my research, I did something - as a Scot, I'm very tight with money, that's why I didn't buy the shares, stupidly, but I did invest in Factiva. Factiva; if you think Google has everything, it's not true. Particularly when you go into archives of stuff. But I came across - again, I met Jack in 1999 but here he is in 1980, a boy of 15 years old. I found an early press story in an Australian newspaper about a family that Jack had met. I just tracked down the family. This kid, David Morley, today is my age, 20 - no, he's 47. At the time, he was 12. You can see already that he's almost taller than Jack, Jack is not a tall man. David Morley runs a yoga studio in Newcastle, New South Wales, and he's a lovely chap. I ended up calling lots of David Morleys in Australia, getting a lot of people hanging up. I found the right one, he's like yeah, that was me.

So quite ironic story in a sense that David and his sister and brother had visited Hangzhou in 1980. So if we go back, Hangzhou at the top of the map is the provincial capital of Zhejiang Province. It's a tourist destination. In 1979, I think 700 people, foreigners visited Zhejiang. In 1980, including when this picture was taken, 40,000 visited. The gates were beginning to open. Nixon had visited there five, six years earlier as part of his opening to China. But this is when foreigners started to come in.

Now David's parents were committed communists and socialists. His mother was a member of the Australian Communist Party, his father a socialist. They had taken the children to see a socialist paradise. They also went to Cuba the next year. But ironically, David struck up a friendship with Jack. Jack walked up to David and said hi, my name is Jack, can I practice my English on you? I'll show you our town for free. Good deal. So again, free is always a part of Jack's pitch. David said, g'day, whatever, and actually they spent the next few days together and they became pen pals. Ken Morley, David's father, ended up helping out Jack. He would correct Jack's English and I embarrassingly include in the books one of Jack's pen pal letters, double spaced.

Jack had basically grown up - he was born in 1964, so he's 52 now, but he grew up born between the great leap forward and the cultural revolution, pretty tough chronological neighbourhood. But he was born in Hangzhou. Because of this tourism input, he was able to start walking up to foreigners and he listened to the Voice of America, BBC, he read Tom Sawyer, he immersed himself in books. He actually - his parents were actually storytellers. So one was a factory worker, one was a photographer but at home they would practice this traditional Chinese art form.

Jack is an amazing storyteller. If he was on the floor right now, you might be reduced to tears. I've seen grown investors cry, he has this mesmerising appeal. So his charisma is chapter 2, the Jack magic, because people flock to work with him, like those 18 people. Most of them had already worked for Jack in two previous ventures

that had failed. So he has this ability to mobilise people. So what makes successful entrepreneurs is the ability to communicate and motivate people and keep them in tough times.

Anyway, it turned out, pen pal relations developed, Jack was invited to Australia by the Morleys, Ken Morley, the father, the socialist, ended up helping Jack financially. Eventually, leading up to helping him with an apartment, he bought him an apartment, which allowed Jack to become an entrepreneur for his own sake later on. But Jack struggled very badly in maths. He's an unusual tech entrepreneur, he got one out of 120 in the national exam. He had to do it three times before he squeaked into university. So he's not - Jeff Bezos went to Princeton, his parents were oil executives, Mark Zuckerberg famously was at Harvard. Jack is not that, he got into this pretty marginal teacher-training college, but he uses English. His English and his communication skills were his opening to the world.

He had a first venture which was a translation business called Hope. The second business, which is after he went to Seattle in 1995, he witnessed the internet. He was there as a translator and he actually saw the internet for the first time and realised that China was not on the internet. He typed the word beer in a mosaic browser, I'm not even sure which search engine he was using then, and all that came up was Budweiser. So he realised that China was just not on the internet.

He set up a company, actually, to help Chinese businesses market themselves on the internet. Including, for example, hotels in Hangzhou who were reaching out to tourists. The problem was, he would try to take money from the hotel, a hotel like this, and say, I'm going to put how many rooms, what the prices are. He had to do it on faith because they couldn't access the internet. The internet had not come commercially to China in 1995. So Jack said for several years, he felt like a con artist. He was like, give me the money and I promise you, it's going to be good. Eventually he was able to download a front page of the hotel two years later. It took, I remember, like 90 minutes to get a few lines of text.

So Jack actually is very clever, he started inventing quotes. So he started saying, if I, Jack Ma, tell you that the internet will change every aspect of your lives, you won't believe me because who am I? so he started saying, Bill Gates had said that the internet will change every aspect of your lives. But Jack said, I knew that he would. Sure enough, about a year later, Bill Gates famously discovered the internet and the second printing of his book, because it rode ahead, suddenly was peppered with internet references where previously it had hardly been mentioned. This was almost the death of Microsoft, had it not pivoted.

Anyway, so Jack is - I think he's part Irish, Jack, he's got the barney, he's part Jewish, he's got the chutzpah and wrapped in a Chinese package. He's an unusual and very entertaining fellow. But his second business, this China pages business failed. Jack actually was quite depressed, he had to move to Beijing, work for the government, take a job. One day the government said to him, hey, we have this visitor from the States, you have to take him to the Great Wall, you speak good English. There, sure

enough, he meets Jerry Yang from Yahoo!. So Jack became Jerry Yang's tour guide, twist of fate. This is Cathy, Jack's wife, who was a co-founder of Alibaba.

I met, recently, up with Jerry in Palo Alto, we had lunch at AME Ventures, he's an investor today in cloud ventures. Jerry Yang has no connection today to Yahoo!. He has no shares, no board role. But Jerry is on the board of Alibaba. He told me that actually when he decided to join the board of Alibaba with no connection to Yahoo, he did so because he was really interested in the future of Alibaba and the impact of this company, which is today - well, it's about four per cent less than it was yesterday, but we'll talk about that later. Close to a \$200 billion company, Alibaba. The past of Yahoo! and Alibaba is very interesting. Because this picture was taken in 1998, but in 2005, Yahoo! made a \$1 billion investment in Alibaba. If any of you follow the 19-whatever act opera that is Yahoo!, it's been a tragedy in 19 or 20, 21 acts. Yahoo! today, some people say 110 per cent of the value of Yahoo! is its stake in Alibaba and also in Japan, Yahoo! Japan.

Masayoshi Son is an investor, as you know, early investor in Yahoo!, he's also an early investor in Alibaba, in 2000. Anyway, twist of fate. Yahoo! really - or Jerry made Jack's fortune, in a sense. But Jack also made Jerry's legacy. The best investment of any Silicon Valley company in China. The only better investment of a tech company or a foreign company in China internet was a South African company called Naspers, which many people don't know. An Africana origin publishing group that's pivoted and started investing internationally. Their investment in Tencent went from \$40 million to, last time I checked, \$70 billion. So the \$1 billion from Yahoo!, I have to do the exact numbers, but it would be \$40 billion, \$50 billion, something like that.

Here's Jack with his co-founders and friends. It's very much a family feel. When I walked into that apartment, you can see, people don't have their shoes on, it was quite a - well actually she's got flip-flops - it was quite a strong smell of feet, instant noodles. Masayoshi Son is famous for investing on his sense of smell. But everybody, including Shirley Lin, the first investor, who's my classmate from Morgan Stanley, she was at Goldman. She made the first - she bought half the company in '99. We all were like, yeah, that place really stank. Joe Tsai yesterday at the Deutsche Bank conference said, he recently walked into a meeting of 200 engineers, he was like, yeah, it still smells. So it's sweat, you know what it feels like to be an entrepreneur and to be around entrepreneurs.

In the case of Steve Jobs, it was a cloud of pot the inventors remember. But that's not legal in China. Yeah, so it's very much a happy-clappy - we would say in the Church of England [model] - it's an unusual culture. In fact, some people found it a little weird that they had to go singing together and hiking. But he's managed to keep a team together in Hangzhou and now increasingly around the world, they employ about 40,000 people. Jack has famously dressed up as Lady Gaga on their 10th anniversary, with a Mohawk wig and sung a song cursing his investors. So Jack has a mantra; customer first, employee second, shareholders third. What he means by that is he's a long-term player, like the free business model. Trust me - well some people don't trust him this morning, there's some other things going on.

I took this map to California, where we launched the book a few weeks ago, and I was teaching people in California where they live in Chinese. So [spoken in foreign language]. Paul Revere told the Americans that, the British are coming. Well I'm British, although I grew up in the states, I'm telling you, the Chinese are coming. The Chinese are already here. Anybody who knows, we have - I think [unclear 22:44] you live in Cupertino, I think 90 per cent of the school system in Cupertino is now Chinese. But tech people are coming to Silicon Valley as well. I'm not telling you anything you don't know. They're also coming now to New York, Washington, London, Paris, Munich, Milan, where Alibaba has offices.

They're coming for technology. They're not coming for Amazon yet, frankly, and it's unlikely to happen in the near term. Alibaba has worked in China because of the inefficiencies I mentioned. Logistics, for example, they got that working. The retail, offline retail's terrible in China. So Jack benefits - these entrepreneurs, the internet feeds off inefficiency. The US is a very efficient retail market. I know that because my book has featured at Costco in [unclear] City and in Mountain View and it's great. Good price, it's \$16 by the way. But actually also Amazon, hugely efficient. So what's the space for a Chinese company coming in. But they come here investing in technology, so Baidu is also investing, Tencent, Alibaba. They're recruiting talent.

I hosted Jack twice - well, he came to Stanford twice, I hosted him the first time, the second time he came back and recruited, in Chinese, Stanford engineers. He was like, come back to China or even stay with us and work with us here in San Mateo for example.

He's investing in Hollywood. If you know Hollywood, it's west LA. The whole entertainment business is west LA. Where is the good Chinese food? East, San Gabriel Valley. So he's put Alibaba pictures in Pasadena, this is like - nobody's in Pasadena, so he's changing Hollywood by getting them closer to better Chinese food, which is a god thing. He's in Seattle as well. Anyway, but I think where he is also very impactful - the book is available in English in the foyer, but it's coming out also in 12 different languages which reflects the interest of developing countries in Alibaba. So Ali Express is a website where you can buy factory-priced stuff and it's the number 1 website in Russia, for example, for ecommerce.

Russia doesn't make anything, and also we're not trading with them too much anymore, but China's trading with them. Ukraine also, so we're even on that one, and Brazil it's a leading website throughout Latin America. So we have all these languages coming out, also here in - neighbouring in Indonesia, Bahasa Indonesia, Vietnam. Alibaba just two weeks ago invested \$1 billion in a South-East Asian ecommerce company called Lazada. So we think of Alibaba because we know them from Wall Street, it's the biggest IPO ever, 2014, \$25 billion. We know them from their tech stuff, they're investing here. I should also add, they're an investor in Lyft, the Uber - I think it's San Francisco, I think Uber is less than 50 per cent of the market share because Lyft is very popular.

Something very interesting happened a few weeks ago. So Alibaba and its rival Tencent had invested together in a company called Didi. So Didi is killing Uber in



China. So 80 per cent of the market is this app called Didi. Didi actually is now the default app. When Chinese go to the United States, they get Lyft, because Alibaba was an investor in Lyft. So suddenly you're beginning to see that the chessboard of competition in China between Alibaba, Baidu and Tencent, BAT we call them, Baidu, Alibaba, Tencent, is beginning to have international implications.

Uber is partnered with Baidu in China so the others are ganging up and they're partnering with Uber's rivals in the US. So increasingly, you can no longer look at China without saying, well it's actually going to have some international implications. Also the market's so huge.

So I'm going to wrap up. Here's Jack with some other person. Alibaba's investing in movies, Alibaba Pictures, I mentioned. So this year, you will see Star Trek, I'm sure. Within the first two seconds, you'll see Alibaba Pictures. He's trying to bring the Hollywood style content to China. Literally bringing Hollywood movies but also bringing formats. Jack says - it's true actually; most Chinese movies, if you watch them, you end up crying because the heroes all die. Jack says, why don't we have a little bit more uplifting thing. So his two big strategies for the future are health and happiness. China has a terrible legacy of pollution, that's why I was coughing earlier, I've been there 20 years, but it also has - it needs more uplifting content, it needs - the middle classes don't just want stuff anymore, and the middle classes are 300 million, 400 million, increasingly they want services and then they want content entertainment.

Here's Jack with some other guy. This was in 2007, so then Party Secretary of Shanghai, Xi Jinping came. So big debate, the last chapter. I'm hedging my bets; Jack is - the last chapter is called icon or Icarus. Jack is an icon in China and increasingly in emerging markets and globally in fact for entrepreneurs. The nicest thing on my book tour was in the US, somebody came up, a Chinese lady, said, I'm so happy that you've written a book which has a Chinese face or somebody like Jack on it. He's not, frankly, a white male in California. There's room now for global icons, I think, coming from China.

But the relationship between government and private sector in China is very interesting. Because increasingly Jack is going to finance, he's going into media and entertainment and other areas where the state used to be in charge of everything. So the question is, it's like a negotiated transfer if you will. So this wealth in Zhejiang and all these coastal provinces versus political power in Beijing. [China Communist 27:53] Party wants to stay in power, the economy's slowing, so how do they work with these entrepreneurs.

Anyway, it's all in the book. Camille, we're on, thank you. Shall I sit here or?

## *Interview and Audience Q&A*

**Camille Mendler - Practice Leader, SoHo & SME Services, Ovum**

I think we're going to have some chairs brought up.

**Duncan Clark**

Made in China.

**Camille Mendler**

Isn't it amazing how un-bitter he is, considering you let \$30 million...

**Duncan Clark**

\$30 million, yes. Well thank you for any donations you make in the lobby.

**Camille Mendler**

I think one thing we should find out is what is in your share portfolio so we can not replicate it, I think.

**Duncan Clark**

Exactly, yes. I don't think I mentioned Enron. I'm kidding, no I didn't do Enron.

**Camille Mendler**

Anyway, pleasure to be quizzing you on this. I just thought I would look up what were viewed as the strongest brands, Chinese brands.

**Duncan Clark**

Yep, that's a good question.

**Camille Mendler**

According to the BrandZ index, Alibaba's number 3.

**Duncan Clark**

Yes.

**Camille Mendler**

Number one on the list is Tencent and number 2 is China Mobile.

**Duncan Clark**

Yeah.

**Camille Mendler**

Now that's in China, but outside of China, what do you think the number 1 brand is? It probably is Alibaba now.

**Duncan Clark**

Yeah, depending how you define it, whether it's consumers or professionals. In this room, we would probably say Huawei.

**Camille Mendler**

In this room, yes.

**Duncan Clark**

But this room - it's a lovely room but it's not representative of larger society. Huawei sounds vaguely Scottish or something, it's a strange sounding name. One of the reasons this company is so well known is its name is Alibaba and the founder's name is Jack, we can pronounce it.

**Camille Mendler**

Well okay, yes, well we'll leave aside the Jack but why Alibaba?

**Duncan Clark**

Well the big IPO helped...

**Camille Mendler**

No, I mean why did they choose that name?

**Duncan Clark**

Oh why did he - ah, chapter 5. Interestingly, he wanted a global name and he, in San Francisco, went up to a waiter in a coffee shop and he said, Alibaba, and she said, 1001 Nights or something. He's like, okay, so he road checked it, street tested the name. He wanted the name that was something recognisable. It's helping a lot, certainly helping my book sales because we know the translation.

**Camille Mendler**

It's pronounceable.

**Duncan Clark**

Yeah, and it's an odd name in many ways. Because it's Alibaba and the 40 thieves, which when you're talking about building trust seems the opposite. So it's counter-intuitive but it seems to have worked.

**Camille Mendler**

But was it not a wakeup call for Wall Street when this amazing float happened?

**Duncan Clark**

Yeah, well it was, and Alibaba changed Wall Street.

**Camille Mendler**

From nowhere, for many people I think.

**Duncan Clark**

A lot of people didn't know much about the company. The company had listed in 2007 in Hong Kong, but it didn't do well. That was the B2B business. They only really brought the major business to Wall Street in 2014. But they did actually change Wall Street by having six banks really manage it. Normally you pick two and three - Alibaba had so much leverage in a way, not debt but leverage, in able to pick and choose who they wanted to be their bankers. Today, they're still courted by everyone. No, there are some sceptics and we should say overnight there was an accounting question and there's always, it shouldn't have fakes, because a lot of fakes have been sold on their platforms. Now, [Timor]...

**Camille Mendler**

What, they're not sold on eBay or Amazon? Come on.

**Duncan Clark**

Yeah, exactly. So it's a bit of the China rising is challenging our idea, the orthodoxy that all innovation comes from Silicon Valley, all the best players are based in Silicon Valley. All the best players are based in Silicon...

**Camille Mendler**

Well exactly, what's what I was getting around to. Because isn't this just resetting the balance?

**Duncan Clark**

It's getting back to where we were, frankly, in the mid-19th century. People forget that China's economy...

**Camille Mendler**

Or earlier, or 18th century.

**Duncan Clark**

Eighteenth century, yeah. In fact, Hangzhou was the largest city in the world in the 13th century and it's a very prosperous - it's the southern end of the Grand Canal, it's

the Beijing-Hangzhou Grand Canal in Chinese. So there has long been a tradition of mercantilism and wealth in China. But obviously not - well frankly us Brits and other people, carving bits of it off and selling them drugs and things like that. Anyway, let's not mention the recent unpleasantness. But not the question is though, can there be a rise? This is the track that people talk about. Can a rising power not run into problems with a - well it depends who's going to be elected in November in the United States, a troubled power. So this is a bigger question.

But in terms of also Silicon Valley and elsewhere, accommodating China's rise, welcoming it or resisting it. Everybody in the room, we have to ask ourselves questions about China. What does it mean for us?

**Camille Mendler**

Yeah, one of the biggest questions is really - this has always been the case, whether we're talking 17th, 18th, 19th century or today is, does China really need the rest of the world?

**Duncan Clark**

Yeah, well as we saw in telecom, it's interesting there, instructively we remember all the TDS, [CDMA], China was trying to build its own 3G and it was a disaster. Because even if China itself deployed it - but they didn't because frankly Nokia and Ericsson and others were selling them WCDMA and other stuff and into 4G. It wasn't big enough. So China's big but technology's global and adoption is global. Now in content, the great firewall has sealed off China for Facebook, for Twitter, for YouTube. Why I wrote this book and not a book about, say, Baidu, is frankly Jack is a much more charismatic individual and interesting, I think, than the founder of Baidu. But also, it hasn't directly benefited from censorship, it hasn't been part of the business.

It is increasingly, because of content, but ecommerce - and I write the chapter, how eBay messed up China...

**Camille Mendler**

What chapter number was that, just checking?

**Duncan Clark**

I think that should be chapter 7 but yes, sorry, I should know this.

**Camille Mendler**

You can check later when you get a copy, a signed copy of the book.

**Duncan Clark**

Yeah, so that's why he's an icon in China and in the west is he took on eBay and won. Now there was some government support, particularly in payment, PayPal struggled in China because - but they also messed up. I chironical through emails and internal things that I was able to get hold of, like the terrible hash they made of China, eBay.

Meg Whitman admits, she came to Stanford and says, we invested in a company in China, based in Shanghai, and our big mistake was to then invest again and take control and take the entrepreneur out, that was a big mistake. So the big lesson behind this, look at the Yahoo! investment, look at the investment in Tencent by the South African company, back a Chinese entrepreneur and get out of the way.

You cannot run China by conference call. Chinese don't like - I hate conference calls. Maybe there are some conference call vendors in the room, I have to be careful...

**Camille Mendler**

No, but we all live on them.

**Duncan Clark**

Because it's just not - Chinese business is round the table. How do you, as a remote operator, even if you hire a VP and send them there, it's very difficult for non-entrepreneurs.

**Camille Mendler**

All right, so if we step back, okay, Alibaba has certainly indicated that China is rising, can actually invest globally. But does it actually prove this other point that was about the innovative capability of China?

**Duncan Clark**

I think it does but I think - when we often think of innovation, and that's what I was at Stanford for four years doing was looking at innovation. We think often of invention, inevitably, we think of the eureka moment, radical innovation is invention. But most innovation is not. It's incremental, it's combinations of business models. But we are already seeing - and it's not just China contributing, other parts of Asia, particularly Korea in gaming and in Japan, to some extent. We've seen it. Some of these models have failed or are failing like Zynga and others, but a lot of them are inspired by North-East Asia. I think it's a new Silicon Valley is emerging in North-East Asia.

**Camille Mendler**

All right, so that's a major statement. So that may be in terms of ideas and business models, but what about money?

**Duncan Clark**

And money. There is so much money - there's too much money today in the Chinese...

**Camille Mendler**

Too much money?

**Duncan Clark**

It's sloshing around.

**Camille Mendler**

It is real money?

**Duncan Clark**

It's funny money. The largest note is only RMB100 in China because the Chinese don't trust that it won't be fake or it's used for corruption above that level. So Europe is getting rid of the €500 for that very reason. So look, there's a lot of funny money sloshing around, a lot of it's from Wenzhou and other places, but there's also real stuff. So you have to - look, you can be a cynic, you can say the glass is half full, you can say the glass is half empty, but the glass is made in China. But you need to go beyond - you need to have a healthy cynicism in looking at China, but you shouldn't be naive. But on the other hand, you shouldn't be overly cynical that you miss opportunities, like I did.

**Camille Mendler**

Yet what I see, is Jack is going to the west coast of the United States. He is investing in North American innovation, American industries.

**Duncan Clark**

What he's now trying to do is turn it on its head. So he's actually said, we don't need to help Chinese companies from Zhejiang or whatever sell to the US, they're doing that on their own. Guess what? Most of the goods in Costco and all these places are from there anyway. So he's saying, actually we're going to help western brands sell into China. Now some say took many fakes and so on...

**Camille Mendler**

Yeah, but that's what diplomats around the world have been trying to do...

**Duncan Clark**

For hundreds of years, yes.

**Camille Mendler**

Yes, for some time.

**Duncan Clark**

but Chinese middle class is...

**Camille Mendler**

Sometimes with guns, sometimes not.

**Duncan Clark**

Right, but now the Chinese can afford the stuff increasingly. Look around, look at these apartments around this hotel. A fair number of them are owned by wealthy Chinese who come here two days a year. When they come, they also go shopping. Look at them all, go to Marina Bay Sands and just see all the gambling - we can't say that in Singapore. The integrated resort, you can't say casino. But they're also buying Louis Vuittons, they're buying all this stuff. It's a major force in global luxury. But it's also now increasingly going beyond - people are a bit sick of the bling now in China, people make fun of those people wearing everything Vuitton, but you look lovely tonight in this. But there are - Chinese are getting to a level of sophistication - in the UK, we have 180,000 Chinese students, 600,000 Chinese have studied in the UK. I used to run the British Chamber of Commerce, it's a huge asset.

These are people who are well trained, some of them went to St Martins, they've studied fashion, they've studied music - as well as accounting and finance and technology. China's changing and you can see the people increasingly looking for authentic goods. They want food, they buy...

**Camille Mendler**

That's true, auction houses, Chinese antiques are being bought more by Chinese than anyone else.

**Duncan Clark**

The Chinese, bringing it back. But also cherries. So in Washington state where I visited last year, fresh cherries were crated in ice and flown on three Boeing 747s to China and delivered directly to tables within 72 hours. Apples from Washington State. You can also go into niche brands. Cambridge Satchel, a woman in the UK has a satchel brand that's huge in China. So it doesn't take much of a shift if you make it in China. Just be ready to be dealing with getting the stuff where it needs to be and any returns, it can be very big.

**Camille Mendler**

Well yeah, just one thing that you said also about the change in the economy from one where things are made in China to things that are bought in China, et cetera.

**Duncan Clark**

This phone, look at all our phones, made in China, designed in California, ha ha. We're approaching the limits of that. Apple just invested \$1 billion in that company Didi I mentioned because I think they're beginning to see slowing sales of the iPhone, even in China which is their second-largest market.

**Camille Mendler**

I read somewhere that in the past five years, almost 20 million manufacturing jobs have been eliminated in China.



**Duncan Clark**

Absolutely, but where are they going?

**Camille Mendler**

Wouldn't Marx, Engels and all of the Chinese communists be spinning in their graves?

**Duncan Clark**

China was a Marxist-Leninist economy. Today it is market-Leninist economy. So the Leninism is control of the printing presses. It's this content, that's why we have the firewall. But it's not Marxist any more. Well, Xi Jinping is trying to talk that up a bit but I'm not sure it's going to work.

**Camille Mendler**

Okay, and culturally, clearly a lot of skills, educated, literate people.

**Duncan Clark**

Yeah, and in film, the Chinese box office will overtake US...

**Camille Mendler**

It sounds a bit decadent too.

**Duncan Clark**

Decadent within reason, but we like decadence don't we? There's an element of - there's a big variety. We think of China through often the rose or red-tinted glasses of Mao and we've seen this right now with the cultural revolution. My book in the UK is number 2 [on] China. I'm between Wild Swans and Wild Swans. There is a paperback I think and Kindle. So we like our images of China as regulated and communist but get on a plane anywhere, who are you sitting with.

**Camille Mendler**

I think the audience has got a few questions before they're convinced to get on a plane. I think we had a couple of questions in the audience, is that right? Yes, sir.

**From the floor**

So I think for all of us, we recognise the rise of China. I suppose what I'm interested in your view is what role will the government have, either positive or negative, in the continued expansion of them outside the region and people wanting to come back in?

**Duncan Clark**

The last bit of the question was?

**From the floor**

Sorry, the role of government in terms of both-way trade. Us...

**Duncan Clark**

Oh, I see. No it's difficult for multinationals today in China. Now some of this would be natural in the sense that as China grows, any country grows and you get enough scale for local companies. We saw that with Huawei and ZT basically evicting, effectively - some through, what would argue, quality and service, others would argue protectionism - the incumbents. Now China is unusual in the sense that Siemens, Nokia, Alcatel for example, were in China very early. Alcatel was there in 1983, the King of Belgium opened the - it was then ITT, anybody remember ITT? So what happened was, manufacturers went to China really to manufacture for export. But then the domestic market started taking off.

It actually meant that Chinese weren't able to get a foothold. So companies like Huawei, particularly, are more like a Nokia or an Ericsson than they are a Siemens or an Alcatel. Why? Because Siemens always had the Bundespost, Alcatel always had France Telecom. But Huawei never had anybody; they couldn't sell in China for years. That's why they were in all these crazy places in the Middle East and in Africa and so on. Now they're back, they've developed a world class - they started selling to Vodafone and others.

So in a sense, the positive story of China is the Chinese companies suffered, they developed world-class products through hard sweat and tears and they came home. Now the other question is the firewalls, the great firewall of China blocking out western companies. So the question is, what degree of protectionism is necessary. The Communist Party clearly wants to stay in power, to your point. The economy's slowing in China, it's actually less polluted in Beijing, I'm very happy about that. Because the steel price has collapsed, so that's good. But Chinese trying to shift is a very difficult shift, as you were saying. A lot of people are being laid off and a lot of people now becoming taxi drivers, they've become - they're operating shops on Taobao and things like that.

So the Communist Party, number 1 thing is stay in power. That's all about economic and social stability. There's a lot of unrest in China over pollution, over corruption, Xi Jinping has had a very strong anti-corruption drive, controlling media more tightly. It's a big open question; we don't know. The most interesting chapter in the book is chapter 13, and there are 12 chapters in the book. Because I don't know what's happening next. We all need to know that because it really affects our lives in terms of global capital markets...

**Camille Mendler**

Well to that point, going back to Alibaba, Amazon, if we think about how they've diversified their model, the percentage of domestic income, wallet share that they control increasingly is going to be more than a quarter to a third in many households. With Alibaba, would you say a similar ambition is in play?

**Duncan Clark**

Yeah, Alibaba has about 80 per cent of the...

**Camille Mendler**

Would you like to make a bet?

**Duncan Clark**

So here's an interesting idea. So Amazon has just announced their starting own-brand products, they'll be selling you diapers and things like that. That's a big threat to people like P&G with Pampers and so on. They're still working with those people. Alibaba is a market place. So Taobao's a marketplace, Tmall is also...

**Camille Mendler**

They could have their own brand.

**Duncan Clark**

They could, but they're not. I think interestingly, Amazon - it'll be interesting to see how far they push. If they start worrying others who are selling through their platform - it's already happening, a lot of merchants are saying, hang on, I'm dead, because the marketing and power that they have. So you might see, like you saw the Uber example, there's a Chinese-funded competitor to Uber, globally may save us from all being dominated by Uber. Maybe Alibaba will also be a counterpoint to this massive expansion of Amazon, which is in India as well, and Alibaba's investing in India.

So as they start looking at other markets, it's interesting to think, how much power can we allow one company to have. Will China actually play a positive role? China, the face of Xi Jinping and the South China Sea and the pollution and the politics is a scary often prospect. We're still trying to figure that out. Jack maybe is a face, maybe we invest too much hope in this guy. But he's potentially the face of something more positive.

**Camille Mendler**

Well let's see what his children are like.

**Duncan Clark**

Exactly, next generation.

**Camille Mendler**

All right, well on that point I'm told that we're running out of time. A lot of unanswered questions, but first read chapter - what's the best chapter?

**Duncan Clark**

The one you're in. The best chapter, chapter 13 chi is not in the book. So for chapter 13, contact me, d@bda.com is my email. I'm duncanclark.com and lovely to be back. Thank you.

**Manek Dubash**

Duncan's going to be signing books outside so you can ask him any more questions you may have.

**Duncan Clark**

Absolutely. So [spoken in foreign language] NetEvents, as you say in China. Thank you.

**Manek Dubash**

Thank you very much Duncan Clark.

**Camille Mendler**

Thank you.

[End]