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Abstract

This thesis examines the characteristics of the Chinese Internet industry and analyzes the relationship between this newly developed industry and the unique Chinese political and economic environment. The thesis focuses on case studies of four leading Chinese Internet companies. Data from secondary resources and direct interviewing of industry participants helped the formation of the findings and the conclusions in the thesis.

The research shows that the Chinese Internet industry nurtures the new type of Chinese entrepreneurs who are more closely connected with the international society in terms of absorbing the newest technologies and advanced management skills from the Western world. Foreign capital plays a crucial role in the establishment and the rapid development of the industry and causes conflicts between international capital and local management teams. Despite its high growth rate and striking performance, the industry is still in its infancy in light of its financial performance and the lack of dominant players. The immaturity of the Chinese market environment such as the imperfection of the Chinese financial structure and uncertainty about the legal framework have greatly restrained the development of the industry. The relation to the Chinese government is also a vital issue for the industry to deal with. The industry needs to accommodate the government, which is still insecure with potential openness, and to promote communication with the government in order to build a clear and completed legal framework to guide the positive development of the industry.

The thesis concludes that localization is still a key issue in China's increasing connection to the globe. In order to take advantage of the opportunities and challenges

brought by the diffusion of IT, a networking revolution involving various social, political, and economic fields is required.

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Dedication

To my deeply beloved parents, Ran Zhengli and Zhang Zhengqin, for their unconditional love and support.

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Chapter 1: Introduction to the Thesis

Purpose of the Study:

For China, a country that is still in transition from a semi-agricultural to an industrial society, the opportunities brought by the Internet might be more numerous than for developed countries. By means of the Internet, China could probably leapfrog directly to a knowledge-based society with opportunities equal to those of developed countries. However, the challenges arising with the opportunities are also more immense for China considering the gigantic economic gap between China and the developed world. Therefore, China especially needs to enhance research and development (R&D) about the Internet in China in order to prepare herself for the opportunities and challenges that the Internet affords. The Chinese government has already showed its tremendous attention and supportive attitude to the Internet in various ways on many formal and informal occasions, as the literature review will show.

The Internet is a major element shaping the concept of the knowledge-based society. According to a report submitted to the Canadian government by the Information Highway Advisory Council in September 1997, the augmented power of telecommunication technologies is now carrying everyone toward a society that is very different from the industrial one which was based on the exchange of tangible goods and services and has prevailed in the developed world for most of the past two centuries. Infrastructure for a new 21st century society is based on the exchange of intangibles - ideas, information, knowledge and intelligence.

The council pointed out that the Internet has thus become central to the Information Highway's evolution and it is the system carrying the exchange of

knowledge, information and intelligence, both in Canada and around the world (The Information Highway Advisory Council, 1997). Many people regard today's Internet as a model for the Information Highway of the future.

The Internet has brought an equal opportunity for China to stand at the threshold of a new phase of society at the same time as the developed world. Pushed by gradually broadened applications of the new communication technologies represented by the Internet, China has correspondingly switched its guiding concept of the Four Modernizations to the one of knowledge-based economy. Premier Zhou Enlai announced the concept of Four Modernizations in 1975 as an attempt to revive the collapsing national economy. The concept meant modernization in industry, agriculture, science and technology. Deng Xiaoping, the leader of the post-Mao era, reaffirmed it in 1978 when he launched a comprehensive reform with the contracting of agricultural production to households and the subsequent dissolution of the communes in the countryside to show the national resolution to concentrate on economic development rather than on class struggles between the bourgeois and proletariat. As a general idea of catching up with the developed countries through a comprehensive industrialization by 2000, the Four Modernizations represented a preset goal for national development. When the Chinese Communist Party was advocating this idea nationwide, it was not really sure how to quantitatively measure the degree of the Four Modernizations. But as a guideline, the concept of the Four Modernizations was constantly mentioned during the first decade of the reform.

The second decade of the reform pushed the entire Chinese society in a more radical direction towards a more mature and completed marketing system and greater

tolerance for free speech, which correspondingly required a more explicit and fitting new guideline to replace the abstract concept of the Four Modernizations. In 1997, Jiang Zemin, the president of China, the head of the military and general secretary of the Communist Party, formally became the center of the so-called "collective leadership" that rose to prominence after Deng's death. Around the same time, following the emergence of the Global Information Highway, the concept of the knowledge-based society came to light. It injected new characteristics into Jiang's era and provided an opportunity for Jiang to create his own political and economic blueprint different from Deng's. Thus, he could avoid the accusations of totally following the old way of the Deng era; therefore, Jiang mentioned the concept of knowledge-based society on various occasions and advocated it as the new goal of the national development, calling for adopting changes and challenges brought by significant breakthroughs in communication technologies.

The development of the Internet has an important meaning for China because the challenges and the benefits brought by the Internet are almost equally intense. The Chinese government is continuously troubled by how to benefit from spectacular new technologies without being politically overthrown by the unlimited free speech space on the Internet. The past decades have seen a constant debate on the essence of the Chinese reform and openness: is China currently undergoing transformation or reform? Western observers of China's development often oscillate inconsistently between the two perspectives. However, the events of the past decades and the framework of socialism market economy tell them the changes occurring in China are meant to preserve rather than transform the underlying system (Mueller & Tan 1997). Maybe it is reasonable to think there have been a couple of times when China was forced to the edge of

transformation, such as in late 1986, when thousands of students throughout the nation took to the streets to make their views known and in 1989, to a broader extent, when the Tiananmen Square Democratic Movement finally resulted in direct conflict between the government and the public. However, the Chinese government cracked down on those movements and still sticks to the structural reform in economic fields while successfully keeping strict political control. As politics and the economy have continued to respond to and change each other, China's reform has had to balance contending forces within and against their reform efforts while maintaining the momentum of the Four Modernizations Program. Even though the concept of the Four Modernizations has been gradually replaced by the new guiding concept of a knowledge-based society, the same challenge of balancing a relatively radical economic reform and a relatively conservative political change remains.

At the same time, the Internet is only the latest example of how fast and furiously technologies can be put to work when the policies and practices enable rather than control. Therefore, considering the potential of the Internet as an economic force and its potential as a powerful mass medium to damage a dictatorship, the Chinese government faces a more challenging dilemma than Western governments. Clearly, the Internet is a two-edged sword, which could be utilized by the government to strongly promote the national economy while it could be used by the masses to expand information flow, ideas, expertise, and entrepreneurship in ways unimagined even half a decade ago.

However, balancing the economic needs and the political control over the Internet is not the only issue encountered by the Chinese government. In the economic field, there are also some new issues regarding national infrastructures such as the privatization of

the telecommunication field. Across the world, development and investment banks are pushing hard for telecom privatization. The tidy sums being raised through privatization of the monopoly phone companies, even in small countries such as New Zealand and Zambia, are turning telecom privatization into the policy “pet rock” of the 1990s. Currently, more than 20 countries are in the process of at least partially privatizing their telecom monopoly (Mueller & Tan 1997). China has adopted market reforms that have allowed a private (or quasi-private) sector to grow up alongside the state sector. This phenomenon is especially prominent in the telecommunications field, which had been strictly controlled by the state for decades and is going through the process of being gradually monopolized (Mueller & Tan 1997). Therefore, how to manage the relationship between keeping current with the global trend and not subverting the present infrastructures overnight is also on the priority list of the Chinese government.

Based on the above considerations, research about the Internet could provide an updated picture of the entire Chinese political-economic environment in the context of the reform and openness. More specifically, the research would contribute insights to direct economic and political influences of the operation of the Internet in urban Chinese society, which has more economic strength to access telecommunication and information technology resources. The utilization of the Internet in rural areas of China and its influences on the development of these relatively impoverished and remote areas will not be addressed in the thesis.

Research questions:

This thesis explores this context through the following specific research questions:

1. What are the characteristics of the Chinese Internet industry?

The Internet industry is quite a new field even in the developed world. In China, the unique Chinese political-economic environment determines that the Chinese Internet industry is endowed with some Chinese characteristics. For example, there might be some conflicts existing between the need for Western venture capital and government restrictions; the immature Chinese market environment could affect the operations of the industry; the ambiguity of relevant laws and regulations could have an impact on the industry; the government tradition of control could interfere with the development of the industry.

2. What are the implications of these characteristics of the Chinese Internet industry?

The Chinese Internet industry cannot be separated from the environment in which it is rooted. Therefore, what is the link between this specific industry and the Chinese political-economic environment? Could the link be the interaction between these two? How does the unique Chinese political-economic environment affect the development of the Chinese Internet industry? Does the Chinese Internet industry appear to be changing the Chinese political-economic environment?

Chapter 2: Literature Review

1. How is information shaping the economy and society? -A global perspective

Daniel Bell, a professor of Sociology at Harvard University and well known for coining the term "Post-Industrial Society," claims,

For Goete, the basis of the human community was communication... But it was the Canadian economic historian Harold Innis, more than any other person, who saw changes in the modes of communication, rather than production and property relations, as the key to transitions from one stage of society to another (Bell 1979, p.506-507)

With another revolutionary change of the modes of communication, human society is entering a new phase at the turn of the century. Kohayama states:

Some writers have argued that the present information revolution is the fourth in a series of such communication revolutions in human history. The first one began when human beings acquired language, giving birth to an oral culture. The second occurred when writing was invented, giving birth to a literary culture. The third communication revolution began when mass printing and mass publication technologies were invented, facilitating the spread of mass education. And the fourth is the present digital electronic revolution (cited in Goonasekera 1997, p.12).

Mostly, people call this new phase "the information society," "the knowledge society," "the networking revolution," or "the information revolution". All these words point to one question: how is information shaping the new economy and society?

Regarding the distinctions of the new phase of the society, Bell (1979) states that the coming "Information Society" is based upon the production and processing of knowledge. He says the crucial variables of the postindustrial society are information and knowledge. By information, he means data processing in the broadest sense. The storage, retrieval, and processing of data become the essential resource for all economic and social exchange.

Goonasekera (1997) states, "the present information revolution is a result of a confluence of technological advances in three fields viz. computing, telecommunications and broadcasting. The technical convergence of computing and telecommunications has created the sector of information technology (IT)" (p.13). Cane (1992) elaborates, "IT is a hybrid technology. It results from a synergy between telecommunications infrastructure, software development, standards, and human skills" (p.1723). He argues "the expression "information technology" emerged in the late 1970s...IT implied an extension of the use of computers from traditional back office activities such as accounting and payroll processing to the front office activities of production, sales, marketing and distribution" (p.1728). IT has developed rapidly in recent times and became the signal of entering the information society. In other words, Ito indicates that IT refers to the "explosion of information flows caused by the development of broadcasting and telecommunications, and the drastic increase of information processing capabilities enabled by computers, automation and telecommunications equipment" (cited in Goonasekera 1997, p.12). Bamgemann further elaborates the incomparable advantages of IT:

Throughout the world, information and telecommunication technologies are generating a new industrial revolution already as significant and far-reaching as

those of the past are. It is a revolution based on information, itself the expression of human knowledge. Technological progress now enables us to process, store, retrieve and communicate information in whatever form it may take, unconstrained by distance, time, and volume. This revolution adds huge new capacities to human intelligence and constitutes a resource which changes the way we work together and the way we live together”(cited in Talero & Gaudette 1996).

In the final report for 2000 of World Bank and the Information for Development program (InforDev), “networking revolution” is used to define the core characteristic of the coming information society; a combination of powerful technological, regulatory and demand-side developments is accelerating the development of “networking.” Established stable relationships are transforming into dynamic systems with “positive feedback” characteristics. Specifically, the networking revolution includes positive feedback mechanisms that can be identified in nine main areas, six that link supply side and demand side effects, and three that operate within the networking sector itself.

The supply-demand mechanisms are:

- technology cost, volume and innovation effects;
- system development cost, risk and timescale effects;
- user expectations;
- competitive forces;
- e- commerce and other network external effects;
- industry restructuring effects and financial market behavior.

The effects that operate within the networking sector are:

- standardization;

- liberalization
- re-regulation

According to the report the networking revolution can lead to a very wide range of both positive and negative outcomes for world economies, societies and institutions. Its effects are far-reaching and transformative.

As for the impacts of IT on the economy and society, as early as 1979, Bell specified the policy questions of the information society and social and economic transformations inevitably caused by information technology. On the political level, he indicates some of the challenges society will face in the next two decades such as new infrastructure. He indicated that the major social change would come: communications. The merging technologies lead to a vast reorganization in the modes of communication between persons. That poses “two economic-political policy problems, one structural, and the other intellectual. The structural question dealt with what kind of technical-economic organization is best designed to be efficient, meet consumer needs, and remain flexible enough to allow for continuing technological development” (p.533). Furthermore, Bell (1979) indicates, “the second problem posed by the upheaval in telecommunication is intellectual rather than structural and concerns the question of a national information policy, particularly the dissemination of science and technical information” (p.535). On possible social and economic transformations, Bell (1979) indicates more diffuse policy issues derive from the economic and social transformations.

He examines four central issues of this type:

- (1) the location of cities
- (2) the possibility of national planning

(3) centralization and privacy

(4) elite and mass international organization

Addressing the same subject as Bell, in a proposal for a World Bank Group Strategy, Talero and Gaudette (1996) indicate that at the social level, a corresponding new society is also emerging which is substantially different from an industrial society. All trends pose a large variety of policy issues. The courts and Congress have been struggling with these questions for years. They elaborate that the impacts of the IT on society are divided into three aspects:

- the information revolution magnifies and accelerates economic transformations;
- the information revolution fuels social transformation;
- all countries must adjust urgently in policy making.

On the first aspect, the information revolution has effects on employment and the emergence of new economic rules. Under the new environment, market economies prevail; global trade and investment increases; competition increases; firms compete with knowledge, networking, and agility; entire industries transform and emerge through adjustment to the new economic, social, and technological environment.

On the second aspect related to social transformation, according to Talero and Gaudette (1996), society is being reorganized; demand for institutional accountability is increasing; an environmental agenda is arising; the social agenda, such as human development and poverty alleviation, long-established goals of economic and social development, is receiving more attention.

Talero and Gaudette indicate (1996) that on the third aspect, the challenge by IT requires all countries to quickly adjust. They highlight that “these changes dictate, a

major adjustment--the information adjustment to achieve macroeconomic and political balance in an environment of uncontrolled information flows and global competition, trade, and investment". Especially, they emphasize that "developing countries must also adjust or experience severe disadvantage in the competitiveness of their goods and services and suffer exclusion from the global economy".

2. Survival or extinction in the information age -- A perspective from the developing world

In order to understand the path that China is now following in the information age and the direction that China should follow to gain the most benefits from IT, we must examine the situation that the developing world in general faces in the coming information society.

The present situation of the developing world in the information age is different than that of the developed world in terms of different economic strength. Although having the majority of the population of the earth -- the five billion people live in developing countries -- the developing world still lags far behind the developed world in the use of IT. Rober and Hay (1990) state that the diffusion of phones, televisions, and computers in countries is the determinant of IT diffusion (cited in Ducatel and Miles 1992,p.1853). In 1988, developing countries had about 75% of the world's population, about 16% of its product, but only about 12% of the main telephone lines. In India, for example, there are five telephones for every 1,000 people and only 23,000 of 575,000 villages were connected to a telephone system in 1988 (Robert and Hay 1990, cited in Ducatel and Miles 1992, p.1853). The situation in many African countries is much worse. Developed countries averaged about 32 main lines per 100 inhabitants; developing

countries only 1.5, even though between 1969 and 1988 developing countries almost doubled their share of the world's telephone lines, from 7% to 12% (Saunders 1994, cited in Talero and Gaudette 1996).

The inhabitants of the developing world are too poor to buy computers or telephones. In Bangladesh, a computer costs the equivalent of eight years' average pay. The 2 billion people living in low income economies (with average incomes below \$800 per head) have only 35 telephone lines and five personal computers for every 1,000 people, compared with 650 phone lines and 540 computers in America. One in two Americans are online compared with only one in 250 Africans (Woodall 2000).

In general, there is a close relationship between per capita income and IT diffusion (Mody and Dahlman 1992). In 1992, Kraemer indicates that the higher the level of development, the higher the level of computing expenditure in a country. In most developing countries, telecommunications remain in the hands of monopolies, poor on reliability and service quality and deficient in service delivery. Value-added services are underdeveloped (Canc 1992). It is a common observation that there is a profound imbalance between north and south; countries in the south depend on the communication structures of the developed Western nations to gain access to information (Goonasekera 1997).

Most scholars view information technology as a two-edged sword for developing countries. While the information revolution creates both the challenge and the means necessary for successful adjustment, it also threatens the developing world with a new and dangerous form of information poverty that could further widen the gap in economic status and competitiveness (Talero and Gaudette 1996). Bangemann states:

The first countries to enter the information society will reap the greatest rewards. They will set the agenda for all who must follow. By contrast, countries which temporize, or favor half-hearted solutions, could, in less than a decade, face disastrous declines in investment and a squeeze on jobs (Bangemann 1994, cited in Talero and Gaudette 1996).

Cane (1992) states that information technology, the product of microelectronics, can itself act as an amplifier, boosting the industrial performance of countries with access to the technology, and potentially widening the economic gap between technology-rich and less developed countries at an accelerating rate.

However, the opportunities brought by IT to developing countries are still obvious and numerous. There is a view that developing countries with little in the way of telecommunications infrastructure might leapfrog the problem Western countries have with their heavy investment in mixed analogue and digital networks involving copper or optical fiber laid in the ground by moving immediately to digital networks. In 1992, Mody and Dahlman indicate that IT is sometimes thought to have additional relevance for developing countries because it is believed to be applicable in small modules. The personal computer and associated storage technologies have brought IT within the range of small users offering them an opportunity to leapfrog to the most recent generation of equipment. Furthermore, they elaborate, the underlying knowledge is available "free" in the sense that much of the development expenditure of the relevant technologies does not have to be paid for by developing countries. Cane (1992) questions whether a country needs an active computer and telecommunications manufacturing industry to make effective use of IT. He argues that if a country is not at the leading edge of a technology it

has to be a technology follower and this is not always a disadvantage. Technology leaders take the risk and may get it wrong. In contrast, an alert technology follower can seize the advantage of a promising technology after the leader has shown the way. Developing countries can deploy telecommunications for lower costs per capita than was spent by the industrial world (Talero and Gaudette 1996). "When a country goes from no infrastructure to the latest, it will leapfrog entire rungs of development" indicated John J. Legere, AT&T's managing director of consumer services for Asia (*Business Week* 1994, cited in Talero and Gaudette 1996).

It may be possible to defend a view that IT development led or anticipated the dynamic growth in economics of developing countries. Mody and Dahlman (1992) use the example of the East Asian newly industrializing economies where IT use, and especially telecommunications services, has grown rapidly, suggesting at the very least that IT has been an important ingredient of the growth generating factors. Frischtak (1992, cited in Mody and Dahlman 1992, p.1704) presents evidence suggesting that Brazilian banks have benefited from the use of computer systems. Lui and Loh (1992, cited in Hou 1992, p.1817) discuss the Port of Singapore, where they show that operation productivity increased significantly through the use of IT. Moussa and Schwere (1992 cited in Mody and Dahlman 1992, p.1704) describe the use of IT in a wide range of government activities in Africa. While they are unable to construct specific productivity measures, their message is that when used effectively, IT has brought substantial benefits to African countries. Ducatel and Miles (1992) elaborate that most telecommunication traffic has been concentrated among the rich industrial countries; however, the newly industrializing economies have become major generators of new traffic with countries

such as Brazil, Mexico, Singapore and South Korea accounting for substantial international traffic. Analysys (2000) states that the macro-level correlation of development progress and telecommunication progress is well established and a large body of specific evidence has been accumulated over recent decades, showing the importance of communication and information for development, both in the commercial and the public sectors. As for how new networking accelerates development, Analysys highlights five specific areas:

- improved economic efficiency and competitiveness;
- more efficient and effective education, healthcare and public administration;
- opportunities to exploit low factor costs in international markets;
- opportunities to increase social capital;
- opportunities to bypass failing domestic institution.

However, despite the opportunities that the IT revolution offers the developing world, there are also many ways in which it could widen the development gap. New networking presents significant threats to the developing world, partly because the transition to new networking, and specifically to e-commerce, exposes known weakness in most developing countries. Analysys (2000) says those weaknesses include:

- inadequate legal and commercial framework;
- shortfalls in education and knowledge development;
- weak network services and infrastructure which slow the development, dissipating the benefits and opportunities that would flow from more rapid progress.

Talero & Gaudette indicate the same issues faced by developing countries. They point out that because of social and technical complexity, the power of information technology, which has so much potential for social good, can also be harnessed for selfish, dangerous, or even destructive ends. Developing countries, which have not completed the legal, financial or political, and educational systems required to match opportunities brought by IT, would be more vulnerable to the rapid and huge changes of the new era. There could be waste and misallocation of scarce resources, for instance when telecommunications services are available only to the urban rich, when incentives favor use of technology more for recreational than productive purposes, and when an excessive share of investment is directed toward military purposes. There are also possibilities of cultural imperialism and social disruption because of an imbalance between import of artistic, recreational, and educational products and local generation and consumption of culture-enhancing products. There also may be prolonged lags between job losses and creation of new jobs. And the new jobs may be inappropriate for the displaced workers, resulting in social and employment inequities (*The Economist*, 11 Feb 1995, cited in Talero and Gaudette 1996).

Ducated and Miles (1992) argue that effectively tapping into the international pool of knowledge requires that nations be open not only to the technology flows but also, more generally, to the flows of services and investment in which the technology is often embodied or with which the technology is packaged. It could result in developing countries exposing themselves in a strong international competitive environment, with relatively weak competitive strength.

Facing the coming threats and opportunities and at the same time, making a balance between them is an important issue for developing countries. As policy makers, as users of information products and also acting in a catalytic role, government action is necessary (Talero and Ggaudette 1996). From the perspective of a country, these influences caused by the information technology raise additional policy concerns (Ducatel and Miles 1992). Particularly in the technology sector, for developing countries, establishing and maintaining an adequate telecommunications infrastructure is a major issue, with requirements posed not only by urban industries but also by rural areas and remote regions with inadequate provision (Ducatel and Miles 1992). In addition, in general, to participate in international ventures, developing countries need to create regulatory and financial preconditions for private investment (Ducatel and Miles 1992). First of all is one of the key characteristics in the area of communication technology utilization in developing countries: competition consequent to privatization and/or liberalization of statutory monopolies (Goonasekera 1997). With the example of the United States, the United Kingdom, Japan, and New Zealand to follow, it seems likely that deregulation will become the principal trend in value-added services. Privatization of basic telecommunication will also grow (Cane 1992). As for the IT policies of ASEAN countries such as Malaysia, Indonesia, Singapore and Thailand, where local and foreign investors are encouraged to develop telecommunication services, the state policies in the IT sector, emphasize liberalization and deregulation, providing private corporations with the freedom to invest in IT related technologies such as telecommunication networks (Goonasekera 1997). Ducatel and Miles (1992) also indicate that there is a significant trend toward the privatization of telecommunication services in less developed countries.

In cases such as Argentina's Entel and Pakistan's PTT, state-owned PTOs are being offered for sale in order to reduce debt burdens and to encourage private investment in these countries' often antiquated telephone networks. Mexico's Telemex service has similarly been privatized, with the breakup of the state monopoly into three regional companies, a business-orientated service, and a long-distance carrier.

Another concern for policy makers of developing countries is how to attain advanced technology transfer from developed countries and to promote IT diffusion. It is now generally accepted that international trade and investment serve as a mechanism for knowledge transfer. Exports of manufactured goods often require close interaction with international buyers, who provide both technical and marketing know-how (Mody and Dahlman 1992). The East Asian NIEs have developed national plans and strategies for IT diffusion. Wong (1992) describes a set of policies directed towards telecommunications development, human capital formation, and technology diffusion through specific Singaporean government-led projects. In South Korea, the government-sponsored Korean Productivity Center (KPC) has orchestrated the effort in automation technology (Kim, Kon Kim and Yoon, 1992). During 1982-1990, the Taiwan government devoted substantial resources to the development and diffusion of automation technology (Mody and Dahlman 1992). In attracting technological transfer from the developed world, a major advantage that developing countries hold is the comparatively undeveloped state of their IT market while they could become partners in developing technology as well (Cane 1992). Therefore, another key characteristic in the area of communication technology utilization in developing countries are joint ventures with foreign suppliers to attain technology transfer.

However, unlike the information equipment or technology markets, which are left to be determined by market forces and business interests of the countries or parties concerned, there are some cultural sensitivities involved with public policy in some developing countries. Facing the possible cultural imperialism coming with huge information flow worldwide, in the case of state policies relating to broadcasting, a different logic of a non-economic type seems to prevail in developing countries. In this area, public policy is governed by political concerns to safeguard a public sphere of pluralism and national sovereignty (Goonasekera 1997). Enhanced access to telecommunications and broadcasting creates opportunities for those who would enhance culture, society, and human life, as well as for those who diminish or destroy them (Talero and Gaudette 1997). Schiler indicates:

Especially when the development of global communication highways are the order of the day, leadership for this move came naturally from the technologically advanced countries, particularly the US. Reinforced by new delivery systems--satellite and cable networks--the image flow is heavier than ever...the corporate media cultural industries have expanded in recent decades and now occupy most of the global social space and developing countries continues to be under siege...facing the relentless flow of Western Media (Schiler 1991, cited in Goonasekera 1997, p.19).

Therefore policies are informed by the perceived cultural impact of new communication technologies in developing economies. The communication revolution is viewed by some Asian leaders more as a threat to cultural identity, rather than an

opportunity to create a more consensual culture among neighboring people (Goonasekera 1997).

3. The Chinese way in the information age -- A Chinese perspective

As China belongs to the camp of developing countries in this highly globalized and connected world, it does have common characteristics that are generated from the information revolution and also particular Chinese characteristics.

In recent years especially during from 1998 to the present, which is the peak period of the development of IT in China, a lot of research, mostly from a political-economic perspective, has been done around the information revolution in China. A number of academic scholars and industry observers discuss several strategic issues that provide insights into the current reality of “the Chinese characteristics” of the Chinese information revolution characterized by the utilization of the Internet in China.

The generally accepted consensus is that the Chinese government welcomes the coming information age, being ready to completely embrace the opportunities:

A low income country that is wholeheartedly embracing IT is China, which has four times as many telephone lines and Internet users per 1,000 people as India, and 8 times as many mobile phones (Woodall 2000, p.37).

As early as 1978, the Communist Party of China (CCP) shifted its priorities to economic development and gradually recognized that a telecommunications infrastructure capable of supporting business would have to be built (Mueller and Tan 1997). Also, the penetration of China’s economy by market forces and foreign business is creating a strong demand for information technology and telecommunications, just as in

any industrializing economy (Mueller and Tan 1997). The government has firm faith in the benefits that could accompany the flood of the information age including the Internet.

It is clear that Beijing now more fully understands the power of the Internet: it can help boost state revenues through control of telecommunications infrastructure, improve national economic competitiveness, and control its population (Bickers 2000, p.48).

One article published in *The Economist* (Special: wired China. *The Economist*, July 22, 2000), indicates that everything is possible in the information age. It is a notion that is encouraged at the highest levels of the state. Since the early 1990s, China's Communist rulers have continually emphasized the need to create modern telecommunications and information industries. The article also indicates that Chinese leaders hope success will also be a vote of confidence in the party's own policies, and in particular in its insistence on what it calls a "socialist market economy," in which a strong measure of state guidance prevails.

There is a great deal of evidence showing strong support for IT from the government. The official Xinhua News Agency described the opportunities brought by IT as Kuayue Shi development, meaning a stride-forward development for China. A recent gesture of the strong support from the government is reflected in the March 6 Xinhua News Agency report on the People's Republic of China's (PRC) Chinese People's Political Consultative Conference (CPPCC at which) national committee members discussed what they called "informationization," meaning the transition to an information-based society. According to the report, most members thought informationization is the only road to modernization. The report also mentioned that

according to the “Draft of the 10th Five-Year Plan,” in which Premier Zhu Rongji states that China will speed up the development of infrastructure for the IT industry and popularize the use of information technology in different sectors. In order to do so, it is necessary to enhance the information infrastructure construction; to widely apply information technology across society; to do a very good job at combining industrialization and informationization; and to accelerate the informationization of the national economy and society. As the report indicated, at the same time, the government is also aware of the possible “Digital Gap”, and therefore claims that a wide “Digital Gap” exists between the north and the south and China has to change the “Digital Gap” into the “Digital Opportunity”. (Li and Zhai 2001).

The state’s plans for information technology have chiefly taken the form of massive investment in telecom and data-processing hardware. As Einhorn & Webb indicate in an article published in 2000, with the strong backing of President Jiang Zemin and Premier Zhu Rongji, the government has been slashing access fees and urging everyone from factory-floor managers to elementary-school students to go online. As a result, the online population jumped from 1.5 million to 8.9 million during 1999. In the eyes of foreign investors, China is a market with huge potential in light of its size and a lower starting point in commercialization of information technologies. During the early and mid-1990s, China’s economy was growing at a double-digit clip and every multinational wanted a piece of its mythical 1.2 billion consumers. The first part of the battles was for Chinese telecom sales (Whilhelm 2000). The second part of the market battle might play out more lucratively were China to fully liberalize its telecom industry and loosen government control on the pace of network development, therefore allowing

more operators to participate. Now foreigners want to profit from the Internet boom by providing software and other services (Whilhelm 2000). Particularly, China should be the perfect bet for Internet access through the mobile phone. With nearly 40 million cell phone users in 1999 growing at 50 percent this year, and commerce growing at a 500 percent rate in China to more than \$50 million in 1999, there is a definite and growing demand for wireless Internet services (Mueller and Tan 1997). For every four Chinese with a handset, there is only one with Internet access through a computer. China has the third largest and the fastest-growing mobile-telephone network in the world. Its subscriber levels, now at 56 million, are predicted to exceed the entire population of the United States in seven years. It also has a poverty barrier that rules out massive computer purchases and has seen slow growth in conventional access to the Internet (Holland and Lawrence 2000).

The development of IT has caused internationalization that requires competitiveness and openness in an international environment. Internationalization is a complex and multidimensional force consisting of various aspects including world economy, international trade, cultural communication, and political interaction etc. The Chinese government is therefore making efforts to create an environment with more completed social systems and more freedom and fewer strict restrictions in order to participate internationally in the information age. China is now in the process of joining the World Trade Organization (WTO). When China becomes a WTO member, it will be obligated to abide by the organization's protocols, which promote equal access to trade by requiring tariff reductions or elimination of import quotas and non-tariff barriers, and reduction in restrictions on foreign investment (Gooley 2000). Therefore, there has been

also a certain privatization and liberalization going on in the Chinese information industries. However, alongside internationalization, there is localization, which is also shaping events and changing the lives of people and states. At the early stage of the Chinese reform and opening, “the approach to internationalization then seemed to be brutally simple for some international corporations: get in fast, strike mega deals with top officials, and watch the profits roll in.”(Engardia, Kripalani, and Webb 2001). It is increasingly recognized that a solution tailored to internationalization must mobilize and include all local stakeholders. Due to China’s long independent history, communist political system, and present economic strength, localization in the context of internationalization is especially debatable. In reality, rather than attempting to privatize existing state enterprises, China has adopted market reforms that allow a private (or quasi-private) sector to grow up alongside the state sector. This point is especially obvious in the telecommunications field, which had been strictly controlled by the state for a long time (Mueller and Tan 1997). In the early 1990s, various government agencies with private networks formed telecommunication enterprises. Municipal government departments, local branches of the military, the Public Security Bureau, and ministerial administrations prevailed upon provincial authorities to allow them to have control of the radio spectrum licenses or private networks (Mueller and Tan 1997). China has also established timetables for an increase in the allowable percentage of foreign investment in a wide range of service industries including telecommunication (Gooley 2000).

However, liberalization is still limited. China’s basic telephone services like mobile phone and long-distance calling, remain controlled by a handful of state-owned companies who compete among themselves on long distance and paging, the less

competitive area in the market, and have a narrow grasp of the scope of competition (Forney 2000). Beijing will limit foreign ownership of Web business to 49% even after it joins the WTO; in contrast, India now allows foreigners to own 100% of an Internet startup.

As for openness, a large part of China's reform program has involved opening its economy to foreign investment and trade (Mueller and Tan 1997). In high technology sectors such as computers and telecommunications, openness is carefully modulated to achieve certain objectives in consideration of national security, sovereignty, and industrial protection. However, there are still some signs of loosening restrictions on information industries. Mazurkewich (2000) says that the Chinese government appears to have reversed its ban on foreign investment in China's dot coms. Lycos Asia, a joint venture between U.S.-based portal Lycos and Singapore Telecommunication, says it has been granted a commercial business license that enables it to operate as an Internet-content provider in China.

In order to encourage controlled competition in the telecommunication field, in 1994, Lian Tong, a company backed by the Ministry of Electronics Industries and several other ministries, won approval to establish a second national telecommunications network, and so broke the monopoly of China Telecom. Another new company under the aegis of the electronics ministry, JiTong, became the focal point for several projects aimed at modernizing China's information infrastructure (Mueller and Tan 1997).

However, there is a great uncertainty in Chinese making policy related to the diffusion of IT, reflecting the hesitation of the Chinese government on how to use the new technology best without experiencing side effects. One case cited by Forney (2000)

to prove this uncertainty is that China's top telecommunications official insisted that the government would fulfill its promise to open its market to foreign investment but according to draft regulations on foreign investment in telecoms, foreign firms operating an infrastructure telecommunications business in China must have annual telecom revenues of \$10 billion over the previous two years, a prohibitive clause that would bar from China's market all but the world's largest dozen or so phone companies. The two draft laws, one a comprehensive telecommunications law and the other regulations governing foreign investment in telecom enterprises, introduce a torrent of licensing obstacles that could complicate existing operations and even deem them illegal in their current form. The draft laws also consistently use vague terms that fail to remove uncertainties for investors (Chang 2000).

This uncertainty is also shown by the government's stepping into the information industry and its not being willing to give up state control even though there has been some liberalization and privatization in the field. One regulation also calls for all telecom joint ventures in infrastructure telecommunications to partner with a state-owned Chinese firm with an annual revenue of \$360 million. And it requires that the chairmen of such ventures be appointed by the Chinese side (Forney 2000). The telecom draft law calls for anyone seeking to operate "Internet and multimedia network services" to apply for a license from authorities under the State Council, China's cabinet. Telecom joint ventures with foreign investment must obtain approval from two government bodies, the Ministry of Information Industries and the Ministry of Foreign Trade and Economic Cooperation, before being allowed to conduct business (Chang 2000).

The control of the state is also shown in the government stepping into the formation of industries by funding or other ways. There are some industry players that have obtained powerful state-linked backing, such as Red Flag software. Most of it is owned by the state's elite science-and technology think tank, the Chinese Academy of Sciences (CAS). The vice-director of CAS is Jiang Mianheng, son of President Jiang Zemin. In China, however, the rule makers are involved in the game as well. The government is backing Red Flag software especially because Red Flag is producing desktop software using the Linux operating system, an alternative platform to Microsoft Windows. The support can be seen as a gesture that the government wants to break Microsoft's monopoly in China (Bickers 2000). Also, the government's immediate priority is to build up a few strong domestic operators who will be able to hold their own when entry into the World Trade Organization obliges China to begin allowing foreign operators into the market (Whihelm 2000). In Red Flag's case, it means if the government becomes too closely interlinked with the success of Linux, it may feel it necessary to actively push a Chinese standard of Linux on companies by mandating use of the software for all business dealing with state organizations (Bickers 2000).

Even with a great deal of uncertainty around the policy-making of the Chinese government, there is one thing certainly to be strictly controlled: the unwelcome information flow through the new information technologies, especially through the Internet. The large Chinese portals that have received Beijing's permission to list their shares overseas to raise funds were forced to separate their mainland content operations from the rest of their business (Mazurkewich 2000).

There are four important ways that the government tightens its control of the content. One is state control. The number of organizations that can interconnect with the global Internet is limited to just four state-controlled entities. This makes it much easier for the state to control what comes into the countries, establishing a firewall to block some Western websites.

Second, late in 1999, regulations were issued by the new State Encryption Management Commission that banned Chinese companies or individuals from using foreign encryption software. That gives the state a powerful tool for monitoring computer traffic.

Third, the State Secrecy Bureau promulgated regulations for computer systems on the Internet. These extended the ban on the publication of vaguely defined "state secrets" to the Internet including e-mail, bulletin boards, chat rooms and news groups. In addition, the Propaganda Department of the Communist Party has drafted new laws touching the publication of news on the Internet; only news that has already been published by a state outlet is now allowed (Special: wired China. *The Economist*, July 22, 2000).

Another way that the government wants to restrict communications is by building and controlling its own state network to provide information to the Chinese (Stanley Foundation 1996). The key to controlling the Internet, Chinese officials believe, is an "intranet" being developed by the China Internet Corporation (Kniffel 1996). The China Internet Corporation intend to dominate the vast potential market connected with Internet use in China; its principal shareholder is the Chinese official news agency Xinhua (Sherry 1997).

In practice, there have already been some arrests and sentencing involved violation of those rules, even before the new regulations. To watch over the Internet users, a new force of more than 200 Internet security guards has been assigned to patrol computer networks at state companies and ministries (Fang 1998). In Shanghai, a computer engineer named Lin Hai faces charges of “inciting the overthrow of state power” by providing 30,000 E-mail addresses to Big Reference, a dissident Internet magazine in America. He was sentenced to two years’ imprisonment (Fang 1998). Other people arrested for Internet activity include Qi Tanchen, a journalist in Hebei province who had posted excerpts from his book, *The Collapse of China*.

More recently, on June 3rd, 2000, Huang Qi was arrested in Chengdu, the capital of Sichuan province, because his website’s address makes reference to the date of the still-taboo Tiananmen massacre on June 4th (Special: wired China. *The Economist*, July 22, 2000).

In the following part of the thesis, the information revolution with Chinese characteristics will be examined from a political-economic perspective through four case studies of Chinese Internet companies, which are real players in the information industry. These case studies will deepen our understanding of the day-to-day realities of the Chinese Internet industry.

Chapter 3: Methodology

Four Case Studies of Chinese Startups:

Case studies will be taken as the method of answering the research questions listed in the introduction. Compared to other methods, case studies have some advantages here. As a new field, the Chinese Internet industry is still in the process of changing without mature and fixed models to follow. Analyzing selected cases will help clarify what kind of change the industry is going through and how it copes with changes.

Four Chinese Internet startup companies were chosen as the focus of this study. These four companies respectively are Sina.com, Sohu.com, 8848.com and Alibaba.com. These companies are representative for a number of reasons. First of all, these four companies have been acknowledged as the leaders of the industry. SINA and SOHU have been listed in the top three portals by China National Network Information Center (CNNIC) for three consecutive years from 1998 to 2001. They are comprehensive portals. This makes them more representative than vertically divided portals, which attract users working only in certain fields.

8848 and Alibaba may not be the most successful companies in terms of profits, but their brands are most recognized by users and they respectively represent two main types of Internet application in e-commerce: B to C (Business to Consumer) and B2B (Business to Business).

Background was obtained through interviewing people and reading relevant information. Relevant information was defined as the materials directly related to these four companies and the materials referring to the industry trend, policy issues, and the context of Chinese reform and openness etc. Relevant information was gathered from

published books, journal articles and disseminated opinions over the Internet. The interviewees included executives who work for these companies or for other companies in the industry, officers who are involved in policy-making of the industry and scholars who specialize in this field.

The interviewees and the interview questions:

Interviews were conducted in Beijing, capital of China and the hub of the Chinese Internet industry, from January to March 2001. The principle of interviewing was to reach as many senior executives and key governmental officers in the industry as possible in order to collect information widely. The interviewees were required to answer the questions that were provided to them in advance (See Appendix). In addition, they were allowed to speak freely about their opinions on any issue that they thought related to the research. This part of the interviews resulted in more insightful references for the study.

The status of the interviewees ranged from middle-level manager to top management. The professions of the interviewees included content editor, web designer, technical support staff, management, government officer and scholar. On the list of the interviewees, there were some high-ranked people such as the following:

Insiders of the four companies:

Mr. Xian	The director of Business Development of one company
Ms. You	The editor in chief of news channel of one company
Mr. Wang	A main investor at one portal
Mr. Zeng	Sales Manager of one e-commerce site
Mr. Huang	Director of Strategy of one company
Mr. Mao	Ex-Director of marketing of one company

Outsiders of the four companies in the industry:

- Mr. Xiao Government official involved with Internet policy
Chairman/President of one network technology Ltd
- Mr. Xie General Manager of the China subsidiary of a renowned IT
multinational Company
- Mr. Chang Member of Chinese national youth league
General manager of a Chinese Internet startup
- Mr. Hao IT Customer Engagement Manager of a USA based international IT
Enterprise
- Mr. Shi Vice President of Business Development at Hiring.com
- Mr. Lee Deputy Chief of the Internet department of a China biggest national
newspaper
- Ms. Chen Senior Editor of the Internet department of a China biggest national
newspaper
- Ms. Xia General Manager of the China branch of a USA based biggest
communication group
- Ms. Wen General Manager of Shanghai Branch of a well-known interactive
TV

Scholars and analysts:

- Dr. Kuang Assistant Professor of Communication College of People's University
of China
- Dr. Zhou Visiting Professor of the China Center for Economic Research of

Beijing University

Assistant Professor of Department of Geology & Geography of Vassar

College in the USA

Dr. Miao Analyst of the Chinese Internet Lab

Mr. Du Columnist of *Chinese Internet Weekly*

The outline of the interview questions has been divided into three parts. The first part was related to background knowledge regarding to the founding and the development of these four companies. Most questions in this part served to confirm the authenticity of the collected relevant information from other published materials.

The second part was to ask their comments on some special issues going on within these four companies such as the relationships between investors and management teams of these four companies, NASDAQ trading of SINA and SOHU and their performance in terms of profit-making etc.

The third part of the interview questions was involved in the general situation and trend of the industry and the connection of the industry performance with the whole political-economic environment. In this part, the interviewees were allowed to have more space to address their personal interests and opinions in depth, not restrained in details regarding to operations of these four companies. For example, one interviewee addressed a long-term debate regarding the status of private economy in the national economic system and the relationship between the state-run economic sectors with the private economy. Later on, the research on these four Internet companies showed this debate was still reflected in the Internet industry.

In the following part of the thesis, case studies will be addressed in two chapters. Chapter 4 will present background regarding details of the founding and development of these four companies. This background mainly came from the secondary resources such as published books and journal articles. Chapter 5 will address the interview results, which mainly came from the original resources. Chapter 6 will present analyses and conclusions.

Chapter 4: Backgrounds of SINA, SOHU, 8848 and ALIBABA

In this chapter, most information about backgrounds of these four companies is obtained from secondary resources such as published interviews accomplished by other observers or journalists. These materials collected through secondary resources build a solid base in order to develop a comprehensive and deep understanding of these four companies in the following chapter.

For SINA and SOHU, the information will be presented under the following headings: founding, founder, strategy, capital operation and relation to the government.

For 8848 and ALIBABA, the information will be presented under the following headings: founding, founder, and capital operation and management team.

The “founding” sections will briefly provide the basic background of these four companies. The “founder” sections are important for readers to understand the common characteristics of entrepreneurs in the Chinese Internet industry.

Strategy making is leading the direction of the companies and it reflects how the companies balance local Chinese market focus and building an international image. Compared to 8848 and ALIBABA, the strategies of SINA and SOHU more typically reflect the concern and the efforts of the companies to balance the needs of localization and internationalization, thus, only the information regarding the latter two companies’ strategies will be presented.

Capital operation in the Chinese Internet industry is the most debatable subject and it reflects most conflicts within the companies and raises more questions about the whole industry. Without exception, these four cases present the absolute dependence on foreign capital and the intense conflicts caused by capital operation.

In light of their function of news providing, SINA and SOHU encounter stricter control of the government compared to 8848 and ALIBABA, thus, information regarding their relations to the government is gathered and presented in the thesis.

In 8848's case, conflicts and changes existing within its management teams has been a topic in the industry, therefore, the information regarding its management teams will be presented here.

The business model of Alibaba is designed for the Asian market, providing B2B services to small and middle-sized enterprises. It has many unique aspects; thus, it will be presented in this chapter.

Case 1: Sina.com

Founding:

In December 1993, with an investment valued at approximate CN\$ 1,000,000 from Stone Group, which is a pioneer in privatizing technological enterprises in China, Wang Zhidong established Stone Rich Sight Information Technology Company Ltd. (SRS) of Beijing. The company's business was technologically oriented, focusing on developing information software. In the beginning of 1996, SRS started an Internet-oriented strategy by launching "Rich Win For Internet" software. In April of 1996, the "Internet" department within the company was established, and SRS online web site was launched. On April, 12, 1999, SRS announced a merger with SINANET, a Chinese web site based in Silicon Valley targeting the global Chinese community and officially became known as Sina.com (Yang 2000 translation).

Founder:

Wang was born and raised in China's northern countryside. He graduated from Beijing University in 1988 with a bachelor's degree in engineering and he developed the first Chinese-language adaptation of the Microsoft Windows operating system (Zhidong Wang: Stock price, profit margin and the possible merger of Sina.com. *South Net* 2000).

As early as his third year of university, he started to do part time jobs in Zhong-guan Valley, located just outside Beijing University campus gate. He worked for small start-up tech companies, assembling and selling computers, and converting English software into Chinese (Yang 2000, translation).

During his business practice in Zhong-guan Valley, he accomplished a painful switch from a pure technical person to an entrepreneur as he later mentioned in various interviews. Before starting his own business he worked for Square Group, which is an enterprise of Beijing University and a leader in the information industry in China. However, he felt frustrated and powerless when he encountered situations unrelated to his technical skills (Yang 2000, translation).

With an investment from an ex-classmate in university, he decided to establish his own business. The following experience triggered his painful switch from a pure technical person to a businessman. He said his dream of concentrating on developing good technical products through the use of his technical skills could not have come true if he was not in a controlling position in his business. He always seemed to be at the receiving end of struggles involving power and money. Wang was very disappointed in his failed attempt at looking for a healthy work environment (Yang 2000, translation).

He decided to create a good and fair environment for himself if fate could not give him one. At this point in time, Stone Group offered him a chance. Before deciding to cooperate with Stone, Wang put forward four requirements. One requirement was based on the lesson that Wang learned from his experiences. He wanted to have an independent right to manage the new company, and make the share options allocated to managerial and technical staff clear in advance (Yang 2000, translation). Stone agreed with these requirements, taking a hands-off policy on the new company. Then SRS, which SINA grew out of, was founded.

Although most gifted technical people go to the USA to pursue their dreams of Silicon Valley, Wang interpreted his own version of the dream: creating a Chinese Microsoft. In his dream, Chinese high-tech enterprises have to take the international stage, apart from Zhong-guan Valley, which nurtures them. He wanted to successfully combine the Chinese present situation with the applications of the Western advanced experiences (Yang 2000, translation).

Strategy:

SINA is an international company with a local focus.

Even before the merger between SINANET.com of Sunnyvale, California, a company founded in 1995 by three graduate students at Stanford University and SRS of Beijing, the process of running SRS had an international emphasis. As early as 1995 just after the founding of SRS, Wang started his fundraising abroad. What he wanted was not only to get funds from the US, but also to change the share structure of SRS and to improve the management level of SRS (Yang 2000, translation).

At that time of the merger, SINANET reached North America, Japan and Taiwan while SRS was engaged in Mainland China and Hong Kong. On April 12, 1999, the win-win merger was officially finished with the launching of SINA.com (<http://www.sina.com.cn/corp/intr-intro.html>, translation). From there, SINA started to play on the international stage targeting Chinese language services at the global market.

The joining of experienced professional managers also highlighted the internationalizing process. The first Westerner joining SRS was Mark, an American financial specialist from the investment-consulting field. His position was CFO of SRS, which was the first position of this kind created by SRS in its management structure (Yang 2000, translation). After the merger between SRS and SINANET, SINA faced a huge problem of needing more talented personnel. In March 1999, a new management team nicknamed by the press “the dream team” was established. James Sha, former senior vice president of Netscape, led the new team. At the beginning of James Sha’s involvement, he was CO-CEO with Jiang Fenglian who was the founder of SINANET. The new team also included Wang as Chairman (Yang 2000, translation). Soon after his taking up the post, James Sha replaced the primary members of the “dream team” with a group of professional managers from Silicon Valley (Yang 2000, translation). However, surprisingly, in the summer of 1999, James Sha resigned and left with his Silicon Valley team and Wang returned to the center of the power with his local team (Yang 2000, translation).

Besides its international focus, localization is also an emphasis for SINA. As defined in its self-introduction, SINA is a leading Internet media service company for Chinese communities worldwide, offering global Chinese-language content, commerce

and community services to four localized Web sites targeting China, Hong Kong, Taiwan, and overseas Chinese in North America (<http://www.sina.com/corp/about/>).

The combination of internationalization and localization even penetrated into SINA's consideration of recruiting employees. When SINA decided to hire a CEO from outside of China, they preferred an overseas Chinese with work experience, holding a high position in software or Internet multinational company, and someone that was able to speak Chinese. It was even emphasized that the candidate should have special feelings towards China in that he/she would be willing to contribute to the development of the Chinese Internet industry, rather than to their personal success. James Sha's wife was the niece of the first president of Beijing University, holding strong feelings towards China. She was a factor in SINA's decision to hire James Sha (Yang 2000, translation).

Capital operation:

After the founding of SRS Wang started his journey of fundraising abroad, which lasted for 2 years. From reading "The Wave of Silicon Valley," he was impressed by how American venture capital helped small high-tech companies grow into giants of the IT field (Yang 2000, translation). In October 1997 three American venture capital companies, led by Huandeng Group, invested US\$6,500,000 into SRS (Yang 2000, translation). After the merger happened, SINA successively preceded fundraising. In March 1999, it obtained an investment valued at US\$25 million; in October 1999, it gained another investment valued at US\$60 million from investors including Dell and others from Hong Kong, Japan and Singapore. The proportion of the shares held by foreign venture capital reached 80% (Yang 2000, translation). On April 13 2000, SINA formally started NASDAQ trading (<http://www.sina.com/corp/invest/company.html>).

SINA declared that it was going to list on NASDAQ trading in 1999, attempting to be the first Chinese Internet company on NASDAQ. However, it was not until April 2000 that SINA accomplished its goal. Wang explained the postponement was a strategic decision of the company and denied any connection to government policymaking (Yang 2000, translation). Besides, Wang mentioned the cultural barriers that hindered the process of SINA'S overseas fundraising. He said when he negotiated with foreign investors, he took 70%-80% of the time explaining the concept of China and Chinese policies and answering such questions as whether or not the Cultural Revolution would erupt again (Yang 2000, translation).

The relation to the government:

The relations of SINA to the government have been the focus of the attention of overseas media, which took them as signs of the potential actions that the Chinese government could take on dealing with the industry. For instance, in February 1999, because of a technical problem (as the company explained), SINA temporarily shut down a column called "Chinese Forum" on its web site for testing. Overseas media took that incident as a sign that the government was going to strengthen its control of the Internet. SINA was forced to reopen the column as soon as possible (Yang 2000, translation).

Ironically, while dealing with the Chinese government is such an important consideration in SINA'S strategic development, legally, SINA is not a Chinese company. In another interview, Wang was asked to explain the legal status of SINA, in which he frankly admitted that SINA on NASDAQ would rather be defined as "the concept of China," not a Chinese company. In order to merge with SINANET, a North America based ICP, SRS registered a new company on a island in the Pacific Ocean, and merged

with SINANET under a different name (People's net 2000, cited in Yang 2000, translation). In one interview, when asked about SINA's relationship with the Chinese government, Wang emphasized that no matter where SINA was, it would comply with local laws and regulations without hesitation (Yang 2000, translation).

SINA always keeps a very cooperative attitude to the government. What Wang talked about in relation to the government in public was always very positive. Wang repeatedly showed his attitude of firmly standing with the government on the same line. Wang claimed that SINA was developing with government support, and he thought that, recognizing the importance of the new economy, the Chinese government would actively support and encourage Internet development through various educational and regulatory initiatives. Ongoing governmental support was expected, as the Internet economy continued to develop in China (Yang 2000, translation).

Denying a rumor that he was questioned by the Ministry of Information Technology (MIIT) regarding some "improper operations," Wang explained that he was only trying to keep smooth communication with MIIT. Wang asserted that the development of the Chinese Internet industry was a process of learning new technology and a new economy for both the industry and the government. Therefore, the industry should take its own responsibility for providing relevant information to the government for its policy-making. It should be a process of unceasing interaction between the industry and the government (Yang 2000, translation).

Besides showing its absolute trust in the government's supportive attitude, SINA is also very careful not to touch sensitive topics and fields. In order to soften the direct and intense encounter with the government, SINA firmly denies that it is a news medium.

Wang says that news accounts for only 20 % of all the content provided by SINA's web site and its proportion is to be decreased, considering the whole strategy (Yang 2000, translation). In addition, SINA positioned its news channel as a publishing platform for other traditional media and established a cooperative relationship with them. Wang even defended government censorship of the news over the Internet and indicated that the rumor about government's taking a special control of the Internet was not trustworthy. He vowed to support the regulations regarding the management of Internet Content Providers (ICPs) and stated that those regulations were beneficial to the healthy development of the industry (Yang 2000, translation).

However, the relationship of SINA with the government seemed to be on good terms. On 29th December 2000, SINA officially obtained a Chinese telecommunication and information services license issued by Beijing telecommunication bureau. (Beijing ICP 000007). It was the one of the first commercial web sites to be bestowed with a license. Wang indicated that it sufficiently showed the government supports to SINA (<http://dailynews.sina.com.cn/c/163622.html>). In addition, SINA, in fact, recently became the first Internet company to receive a license from the Chinese government for online news publishing.

Case 2: Sohu.com:**Founding:**

In July 1996, Zhang Zhaoyang (also known as Zhang Charles) registered Internet Technology China (ITC) in the USA (Yang 2001, translation). Emboldened by the success of the Hot Wired web site in the USA, from June, 1997, Zhang determined that content on the Internet should be the direction of ITC's development, thus, he started specializing in developing content on the web site of ITC. Unexpectedly, the search engine called Saibai Space on the web site caught a lot of hits from net surfers. In October 1997, the engine was renamed to "SOHU" which means, "searching fox," and its function was strengthened to the level of category searching. Zhang was so inspired by the tremendous success of Yahoo that he positioned SOHU, which was launched on February 25, 1998, as "the Chinese Yahoo" (Yang 2001, translation).

Founder:

In 1986, after graduating from Qinghua University, one of the most prestigious universities in China, Zhang won the scholarship set up by Li Zhengdao, a famous oversea Chinese physician who was a winner of the Nobel Prize, to continue his study at MIT for his PhD program in physics. In 1993, Zhang was awarded his PHD in physics from MIT (Yang 2001, translation).

Deeply touched by a meeting with Chen Zhangliang, the vice president of Beijing University, Zhang decided to go back to China to build his career (Yang 2001, translation). Dr. Chen used to study in the USA and was well known by the international science community because of his achievements in the biological field. He returned to China and was hired by Beijing University. Since he was one of the few renowned

Chinese overseas scholars returning to China, the government molded him to attract more overseas Chinese to return.

In 1995, Zhang went back to China. Before starting ITC, he worked as Chief representative of Internet Security Company (ISC) in China, which was founded by a student from Harvard University. In November 1997, he gained investments from the USA to start ITC (Yang 2001, translation)

With an investment from Nicholas Negroponte, which was a small amount valued at US\$ 75,000 (Yang 2001, translation), Zhang gave the impression to people that SOHU had backup from Nicholas Negroponte who was famed as the Pioneer of the Digital Era, and was a Chinese field-test of Nicholas Negroponte's digital prophesies.

While emphasizing his connections with the USA, Zhang did admit he was sort of lost in the Chinese local environment. He was nurtured by the Western concept of business when he was studying at MIT. A topic constantly mentioned by him was how to be a professional entrepreneur, which is a concept from the Western textbooks (Yang 2001, translation). Returning to China with the dream of becoming an entrepreneur in his own country, he found that there were lots of things he did not really understand and needed to learn (Yang 2001, translation) He seemed not to like Zhong-guan Valley at all. His negative attitude towards Zhong-guan Valley might be the reason why Zhang set up his company in downtown Beijing, rather than with other high-tech companies located in Zhong-guan Valley. He also portrayed himself as an American businessman operating in China, and said the balance between internationalization and localization should be the first concern for him (Yang 2001, translation).

However, Zhang's success was strikingly rapid. On October 5, 1998, just seven months after SOHU's founding, Zhang was acclaimed as one of 50 digital heroes in the world by *Time*. Media also titled him "the Business Genius" and "the richest man in China." He was very proud of beginning the trend of overseas Chinese returning to their home country after his successful example (Yang 2001, translation).

Capital Operation:

Foreign capital played a crucial role in the establishment and development of SOHU. In November 1996, ITC, the predecessor of SOHU received seed capital investment valued at US\$170,000 from MIT professors Nicholas Negroponte, Ed Roberts and a MIT student (<http://www.sohu.com/about/English/milestone.html>). In April 1998, Intel, Harrison, and IDG invested US\$2.2 million in SOHU. Currently, SOHU investors include Intel, Dow Jones, IDG, Morningside, PCCW, Legend, Hikari and Goldman Sachs (<http://www.sohu.com/about/English/milestone.html>). In July 2000, SOHU successfully completed an Initial Public Offering on NASDAQ. The estimated funds raised from NASDAQ were US\$50 million (<http://www.sohu.com/about/English/milestone.html>).

Recalling that experience from the first fundraising, Zhang said the cultural gaps and unfamiliarity between China and the Western world caused hardship in fundraising in the USA because SOHU had to explain its business plan, which was based on a Chinese context, to Western investors who were not familiar with China. Furthermore, Zhang mentioned the obstruction caused by the imperfection of the national capital market. Due to the immaturity of Chinese financial system, Zhang said, it was impossible to raise funds from the channels inside China for a start-up Internet company. He explained that, unlike SINA, which was positioned in the global Chinese community market, SOHU

aimed at the Mainland market. The lack of backup from the Chinese local capital markets left SOHU no choice but to turn to the USA for fundraising (Charles Zhang: It is Sad that NASDAQ is the Only Choice for Chinese Internet Startups. *Financial Weekly*, Sep 22, 2000, translation). He questioned, "Why doesn't China have its own mature capital market?" (Yang 2001, p.78, translation) He indicated that China would never have its own completed capital market if the share market in China just served to benefit state-owned enterprises (Yang 2001, translation). Several months later when the share price of SOHU plummeted to US\$1.00 per share, Zhang more explicitly expressed his complaints about the national capital market. He said the bad performance of Chinese Internet companies on NASDAQ was a result of unfamiliarity and misunderstandings of foreign individual investors and monetary managers in the Chinese Internet market. He expected there would be a possibility for SOHU to trade in the national capital market. In addition, he said, if Renmin Bi (Chinese currency) was a convertible currency and Chinese financial policies allowed Chinese to purchase shares on NASDAQ, he believed that the share price of SOHU would not have plummeted so badly (Charles Zhang: It is Sad that NASDAQ is the Only Choice for Chinese Internet Startups. *Financial Weekly*, Sep 22, 2000, translation).

Foreign capital not only brought money to SOHU, but also Western management values. Since the founding, out of the need for foreign funds, Zhang had to run the business based on the Western accounting and presentation system, performing on an international platform.

Strategy:

Even though with Zhang's overseas background and with funds coming from the Western world, SOHU has a very clear Mainland China focus. The main branches of SOHU are located in Mainland China in Beijing, Shanghai and Guangzhou (Yang 2001, translation).

Zhang wanted to run a pure Chinese business only targeted on the Mainland China market. In order to be accepted by the Chinese society, Zhang proudly portrayed himself as a native of the People's Republic of China. He also repeatedly mentioned his patriotic feelings to China as an overseas Chinese. He used the slogan: "Americans use Yahoo and Chinese use SOHU"(Yang 2001,translation).

The product line of SOHU includes its directory service and content service. It asserts that on average approximately 3000 new listings are added to its directory every day. Its content service provides 24 branded channels in Chinese covering news, sports, business and finance, real estate, IT, education, career, fashion and women, entertainment and shopping, music, games, travel, pets and health (<http://www.sohu.com/about/English/company.html>). However, its content construction was considered poor quality compared to SINA's. Among its content channels, its Dow Jones channel was exclusive. SOHU partnership with the Dow Jones provides web users with authoritative insights into the world of business, offering access to leading industry and economic analysis (<http://www.sohu.com/about/English/product.html>).

In its directory services, SOHU offers the most comprehensive directory and a fast and highly relevant keyword search. SOHU emphasized its Chinese focus. It said that SOHU's directory contained over 300,000 Chinese language Web listings under 18 main

categories such as Arts, Business/Finance, Education, Health, News and Travel. Users can browse SOHU's directory listings through a Chinese keyword search request that scans the content of the entire directory or any category. The search software designed by SOHU engineers has fine-tuned a large database of Chinese synonyms and closely linked phrases to ensure users' Chinese key word searches yield efficient and accurate results. For browsing on the Web in English, it simply mentioned that users could access the co-branded Snap/SOHU search (<http://www.sohu.com/about/English/product.html>).

Based on its local focus, SOHU is devoted to developing its leading image in the industry. It claims that SOHU posted over 87 million average page views in January 2001, and had 14.3 million registered users by the end of January. In September 2000, SOHU acquired ChinaRen.com, a leading youth destination, and created the largest Internet portal in Mainland China (<http://www.sohu.com/about/English/companyt.html>). It constantly cited results generated by other media research companies to verify its leading position in the industry. It cited the surveys of Iamasia, the Internet measurement company for Asia-Pacific, to evidence the company's top rank in the industry (<http://www.sohu.com/about/English/newsrelease>). In December 1999, the Huicong International Information Group's 1999 market research ranked, which ranked SOHU the No.1 Chinese site (<http://www.sohu.com/about/English/milestone.html>).

In order to build its image, SOHU has spent a lot on publicity. According to what Zhang said in 1999, all expenses on publicity were just 4 million Chinese Yuan, approximately 10% of the total expenses in 1999 (Yang 2001, translation). However, many people showed disbelief in the published data by the company. One journalist estimated that SOHU held press conferences almost once a week. In addition, since the

second half of the year of 1999, advertisements of SOHU have covered important media in targeted cities such as Beijing, Shanghai, and Guangzhou where fees for advertisements are usually much higher than other areas in China. Therefore, some people in the advertising industry did not believe that SOHU spent only \$4 million Chinese Yuan for its marketing activities in 1999.

The financial report of the third quarter of 2000 showed that 93% of the company's net income came from online advertising which accounted for 70% of online advertising in the whole Chinese market while 3% came from the e-commerce service, and other income resources included web page designing and registration fees etc. In addition, the company also announced that it gained income from a new service, which provided short messages for cell phone users (SINA tech, Dec 12, 2000) However, the problem is that the company is still in a huge deficit despite having gained 70% of the whole online advertising market. SINA has its software products as the main source of its revenue, but SOHU faces a strategic issue of looking for a new profit making source.

The relation to the government:

Like SINA, SOHU uses the legal stance of a foreign company. SOHU is a pure American company registered in the USA. In July 1999, Zhang registered ITC in the USA and in February 1998, SOHU was generated from ITC. Most of its funds came from outside of China.

The relations of SOHU to the government showed the uncertainty of the role of the Chinese government in the industry. SOHU's search for an IPO on NASDAQ was an example. Although in a legal sense, as an American company, SOHU should be responsible only to the Securities and Exchange Commission in the USA, as a company

whose main business is in China, SOHU had to please the Chinese government as well. From the very beginning, SOHU was puzzled by not knowing which governmental department was in charge of reviewing and approving its application for IPO on NASDAQ because there was no Law of Security in China and no existing regulations indicating the legal process related to stock trading abroad that Chinese Internet companies should be complying with. During SOHU's preparation process for NASDAQ trading, in July 1999, the Law of Security went into effect in China. According to the 29th article in the Law, all companies that registered and operated a business in China had to submit their application for IPO abroad to the China Security Monitoring Committee for approvals. However, SOHU was registered in the USA while running a business in China. The law did not clearly regulate how to handle SOHU's special situation. It was still not clear as to who was supposed to manage its application. Puzzled by the government's unclear stance and being afraid of possible intervention from the government, Zhang publicly appealed for legislation of the Chinese Internet industry. He said, the whole industry was worried about the ambiguity of the relevant laws and did not know what could happen to their operations (Yang 2001, translation).

As a foreign company running a business in the Chinese ICP sector, SOHU wisely separated its ICP operation from other parts, which were allowed to accept foreign investments. At least, it seemed so on the surface. However, compared to Wang Zhi Dong, Zhang's attitude to the government was more radical. On various occasions, he criticized the imperfection of China's economic and legal environment and appealed for a mature market environment.

However, SOHU still showed a cooperative attitude regarding the government's existing regulations. On behalf of Sohu.com, Guo Qinglin, the director of administration and government relation, publicly expressed his support to the two new regulations, which were published in October 1999 and related to managing ICP. He indicated that the two regulations were a good summary of the development of the Chinese Internet industry, and had direct significance for the next phase of the industry. He believed that the regulations could safeguard SOHU's legal rights and interests because they set up rules for the industry, pouring more rationality into the industry. At the same time, he also showed his concern about the possible inconsistencies in terms of applying for regulation (Industry Players Claim to Support the Relevant Law and Regulations on the Internet. Guangmin Daily, Dec,2000).

Case 3: 8848.net:**Founding:**

In January 1998, Wang Juntao started web site experimentation of on-line sales of software in Fuzhou city. In August, the Board of Federal Software decided to support this on-line sales experiment. In January 1999, Federal Software formally established an E-Commerce Department and Wang was appointed as its General Manager. In March, the web site of 8848 was put into trial operation in Beijing with over 7,000 kinds of products for on-line sales. Finally, on May 18, 1999, 8848.com Co., Ltd. was officially established with a registered capital of RMB\$1,200,000, over 15,000 kinds of products and registered members of around 40,000.

Named after the height of Mount Everest, the highest mountain in the world, 8848 copied and challenged Amazon.com, which was named after the longest river in the world. Wang publicly admitted that 8848 was meant to copy the model of Amazon.com and he hoped 8848 could develop to be the best in the e-commerce field in the world, as its name implied (Zhao 2000, translation).

Media and the industry generally viewed 8848 as a Chinese version of Amazon.com. Wang was depicted as a pioneer in the e-commerce field as Jeff Bezos was, the founder of Amazon.com.

With no intention to deny the pleasant comparison with Bezos, Wang claimed that he also realized that the success of Amazon.com was made possible by circumstances in the USA. He indicated that Amazon's success was an American story in which there were many lessons of e-commerce that could be learnt, but many issues involved in the real

operation couldn't be copied in China in terms of different national strengths (Zhao 2000, translation).

Founded in the immature market environment of China, 8848 did much pioneering work to pave the way for Chinese e-commerce. For example, payment and delivery have been two main problems in the development of e-commerce in China. The credit system had not been completely built in China and most Chinese trusted cash exchanges. As a pioneer, 8848 had done much work to persuade banks to allow people to use credit cards to do online payment. In September 1999, 8848 cooperated with China Merchants Bank to accomplish the project of online payment in nineteen cities. In December of 1999, 8848 was the first one entitled to be the partner of China Construction Bank's online payment business. In February 2000, China Merchants Bank claimed that among its 160 partners, the volume of trade done by 8848 accounted for 50% of the total volume of trade (Zhao 2000, translation). In order to attract more users, they invested in the construction of delivery systems. They have built partnerships with state-owned post offices, railway and airlines while contracting with private express companies and sales chains, which have their own delivery channels (Zhao 2000, translation)

Even though under such restraints from outside the industry, the achievements of 8848 were still remarkable. The monthly gross sales amounted to RMB\$600, 000 the same month when 8848 was established. At the time of its founding, it had 5 employees including Wang himself. Within two weeks, that number grew to 16 employees, and four months later 180 employees. By November 1999 its sales revenues before tax had reached RMB\$12, 500,000. By May 2000, the first anniversary of 8848's founding, the number of daily users amounted to 500,000 and the number of daily hits had gone beyond

9,000,000. It sold 300,000 kinds of commodities over the Internet including software, books, journals, videos and other electronic and office products (Zhao 2000, translation). In February 2000, International Data Cooperation (IDC) published a report on Chinese e-commerce companies in which 8848 was rated as number one in both B2B and B2C fields in China. The USA's *Time* magazine named 8848 as the hottest e-commerce web site in China (www.8848.com).

By the end of 2000, 8848's online supermarket covered 450 cities in China and media called it the retail enterprise which had the widest covered areas in China (Zhao, 2000, translation). When Craig Barrett, CEO of Intel, visited China at the end of 2000, he inserted the video speech of Wang into his speech, as proof of the potential of e-commerce in China. He introduced 8848 to the world as a successful case of e-commerce and called it "the pioneer of the Chinese e-commerce" (www.8848.com).

Founder:

In 1982 Wang graduated from Harbin Industrial University in Heilong River province and was assigned a job in a research institute of the China Space Ministry (Zhao 2000, translation)

In 1987 his employer sent him to Silicon Valley for training. During his stay there, he experienced the process of how to start an undertaking in Silicon Valley through helping his friend establish a business there (Zhao 2000, translation). Wang was surrounded by various stories of how small companies grew to giants in the industry and an energetic atmosphere influenced him. He recalled that the most impressive thing about his Silicon Valley trip was that his American friend was 74 years old when he tried to establish a business (Zhao 2000, translation)

As early as 1988 when he was in the USA, Wang started using the email function of the Internet. At that time, the concept of the Internet was not introduced into China. In the USA, he tried to purchase a bowl of noodles over the Internet from a Chinese restaurant and that first experience inspired his resolution to pioneer e-commerce in China. He felt what he saw in the USA perhaps was the future trend in China.

With the concepts and means of establishing a high- tech business that he learnt in Silicon Valley, he went back to China in 1989. Inspired by the examples that he had seen in Silicon Valley, he resigned the job in the state-owned institute and went back to his hometown Fuzhou city in Fujian province to start his own business (Zhao 2000, translation).

When asked about the development gaps between the USA and China, Wang said the disparity was mainly on the degree of commercialization, rather than on the technological side (Zhao 2000, translation) This comment coincidentally predicted those difficulties caused by the uncommercialized environment that he met during running 8848.

Capital operation:

As a pioneer in the Chinese e-commerce field, 8848 was expected to be the first Chinese e-commerce company to commence NASDAQ trading and all of its operation proved that it was working hard toward the goal of NASDAQ trading as early as possible.

July 14, 2000 was the day when 8848 planned to be listed on NASDAQ. According to the report of Reuter's News Agency, 8848 was then working on the final part of the preparation for NASDAQ trading, but no details involving the pricing of IPO were revealed. At the end of August, 8848 declared that November should be the time to

be listed, but players in the industry doubted that 8848 had submitted its documents to the authorities for raising shares overseas at that time. Until November 2000, the share prices of the Chinese Internet companies on NASDAQ had been plummeting so badly that the time did not seem too good for 8848 to go on NASDAQ even though it had been already working a lot on it (Zhong and Song 2000, translation). According to a recent rumor that was disseminated in the industry, 8848's IPQ work team consisting of shareholders and stockbrokers were dismissed. It caused more conjectures about 8848's agenda of going on NASDAQ trading, which seemed unpredictable now (IPO work team has been dismissed from 8848. <http://tech.sina.com.cn/i/c/48910.shtml>, translation).

In order to comply with the government's regulations regarding stock trading abroad, 8848 conducted a comprehensive restructure of its share system. In January 1999, when the e-commerce department of Federal Software was established, there was not an explicit concept of a share system. In July 1999, when 8848 was officially founded, of RMB \$1,200,000 of the registered capital, Wang held 20% of the shares, while Federal Software had the other 80%. After that, other investors including IDG, an American cooperation, injected investments into 8848 (Zhong and Song 2000, translation).

According to the government policies, Chinese companies in which Chinese investment is over 20% of the total investments are not permitted to go on overseas stock trading (Zhong and Song 2000, translation). In order to comply with the policy, cooperating with other foreign investors of 8848, IDG registered a company called Mount Everest Software Inc, which was renamed as 8848.net Incorporated later, in a British governed island. As a foreign company, 8848.net Incorporated invested US\$

2,000,000 to restructure the share allocation of 8848.com (Zhong and Song 2000, translation).

After the rearrangement of shares, foreign investors obtained the great majority while the shares of Chinese investors decreased to fewer than 20%. When asked about this complicated process of share restructuring, Wang said with a wry smile "It is a story that I never can explain and you will never be able to understand" (Zhao 2000, translation).

During the process of searching for NASDAQ trading, 8848 also conducted a profound reorganization of capital and businesses. Wang used to be proud that 8848 had not followed a single model. In his eyes, any existing model, whether it was as B2B or B2C could not describe 8848's business model, which was designed according to market demands. However, this advantage now became an obstacle to NASDAQ, in which capitalists favored companies that had a single and clear business model.

In December 2000, 8848 was split into two companies. At the end of November 2000, in cooperation with an investment company, 8848 separated its B2C, E-shop, user community, and shared brand from other businesses such as B2B, E-marketplace, and E-solution, which still remained in the company. A new company called "Mount Everest Technology Development Co., Ltd was established to run the separated B2C relating business. Wang takes charge of the new company as the chairman of the board of directors and CEO (Zhao 2000, translation)

Although Wang indicated that the reorganization was supposed to serve a strategic purpose, he also admitted that the company was still striving to be accepted by

NASDAQ and it had always been the company's goal to operate under the standards of public trading companies on NASDAQ (Zhong and Song 2000, translation).

Wang publicly admitted that the new 8848 was going to apply for the second stock market trading. In an interview by New Weekly, Wang mentioned the three positive implications of reorganization. The first, he said, was to make more space for 8848 to develop its businesses in both B2C and B2B fields. The second was to allow 8848 to take advantage of its brand to its full potential. The third, it would attract the interests of different capitals (Zhong and Song 2000, translation).

Before the final separation of B2C from the company's whole businesses, the business model of 8848 had always undergone a process of change. Based on Wang's rich business experiences with serving customers and the existing wide sales channels of Federal Software, 8848 was founded as a B2C e-commerce company. In order to please Wall Street, which was in favor of B2B, 8848 gradually switched its focus to B2B. In October 1999, Wang started a wholesale and group purchase business, which faced business bodies on the 8848 web site. Until March 2000, it had been gradually building close partnership with publishing and distribution bodies in book, software, CD, and video fields in order to construct the biggest web channel for the circulation of such products in China (Zhao 2000, translation). However, strictly defined, those activities were not B2B business; they were rather supplementary activities for providing better services in the B2C field. In March 2000, Wang decided to be ready for the entire entry into the B2B field. In March 2000, 8848 signed a contract with 3COM, as the latter's general agent in China, selling products of 3COM through the web site to network product retailers nationwide. It was the first Chinese Internet company which became the

general agent of the world famous IT enterprise. In April, it signed a similar contract with Intel and in May with Compaq (<http://www.8848.com/news-Detail.asp?newsID=204>). In order to ensure the smooth proceeding of business between 8848 and other business bodies, 8848 invested in cooperating with Chinese banks to provide online payment platforms for business bodies. At the same time, it established tremendously scaled storage and delivery systems in Beijing and Shanghai, two of China's economic centers.

In May 2000, the first anniversary of the company's founding, Wang announced that the next strategic emphasis would be to provide e-solutions services and e-platforms for various enterprises. In June, it got the first order from the National Economy and Trade Committee to construct an e-commerce platform servicing for state owned large and medium sized enterprises (Zhao 2000, translation).

Finally on November eighth in 2000, 8848 launched a new business model, claimed to be the most important of all, and the newest model that the company developed. It was named the e-Marketplace (www.8848.com). According to the company's introduction, e-marketplace is an e-commerce application service tailored for business customers, which enables users to realize real time business in a wide, fair and competitive space. It also served to improve their business running efficiency and enhance their market competition ability. 8848 claimed it was a full set of solutions to run e-commerce business in China, including allowing a user to own management, commodities category management, stock management, backstage management, bidding management, demand management, approval process management, customer relationship management, purchasing orders management, and contract management (www.8848.com).

Wang defended the variation of 8848's business models and explained it as a necessary experiment in order to exploit the most suitable model for the company to the Chinese e-commerce environment (Zhao 2000, translation). However, in the industry 8848 was satirized as a "greedy bear that was always chasing for the imaginary biggest corn and therefore finally got nothing" (Zhao 2000, translation).

Management team:

After the founding of new 8848, Wang loosened his restraints on capital.

There were a lot of rumors about his being out of the power center of the company. The reason according to the conjectures was that Wang insisted on focusing on the B2C direction and on going on Hong Kong stock trading, while most investors preferred B2B and NASDAQ trading. Rumors said this divergence between Wang and the main investors resulted in the investors decision to set Wang aside from the decision making center. In November 1999, 8848 announced the assignment of a new CEO (<http://tech.sina.com.cn/i/c/44798.shtml>). Since then rumors had concentrated on the incompatibility between Wang and the new CEO.

Tan Zhi, the new CEO of the company, has a quite westernized background. Prior to joining 8848, Dr. Tan was the Deputy General Manager of Microsoft (China), responsible for all partner alliances, channels development and distribution management. Before joining Microsoft, Dr. Tan worked for two years for UTStarcom, where he was responsible for sales operations, marketing, administration and human resources in China. Prior to working at UTStarcom, Dr. Tan worked for Bay Networks as Asia Business Development Manager, responsible for defining marketing objectives for Asia, identifying business opportunities and analyzing market direction. Dr. Tan received a

Bachelor of Science degree in Computer Sciences from Jilin University in China in 1980, a Masters in Computer Sciences in 1984 and a Ph.D. in Computer Sciences in 1987 from Worcester Polytechnic Institute, Massachusetts (www.8848.com).

At a press conference held for Tan, 8848 highly emphasized its effort on internationalizing its management team. Following Tan's induction, several managers previously working for Microsoft China joined 8848.

After the founding of new 8848, when the interviewer asked Wang whether or not its model belonged to B2C field, Wang proudly said that he didn't care about what concepts would please the capitalists of Wall Street now. He created his own business model for 8848 and felt very confident of it (Zhong & Song, 2000, translation).

Case 4: Alibaba.com**Founding:**

In early 1999, with US\$2,000 from friends and family, Ma launched Alibaba.com, which he described as an online bazaar that links buyers and sellers worldwide (Hou 2000, cited at www.alibaba.com).

The company has its roots in China, home of founder Ma, and more than half of the exchange's participants are based in China. However, the rest come from all over the world, with a notable proportion from developing markets and poor countries that normally don't figure very prominently in e-business statistics (Burns 2000, cited at www.alibaba.com).

Like the other three cases in this research, Alibaba also separated its legally registered location from the area where its main business was focused. Alibaba is legally based in Hong Kong. Since its launch in 1999, Alibaba has set up in Hangzhou, Beijing, Shanghai and Hong Kong, and is opening up offices in Japan and Korea. Offices are also planned in London and Hamburg (<http://www.alibaba.com/aboutalibaba/overview.html>).

Forbes, a US business magazine, has featured the company as its cover story and selected the company as one of Forbes.com's "Best of the Web: B2B" companies. Alibaba is the only company on the Forbes "Best of the Web: B2B" list which was founded in China (Forbes Features Alibaba.com as Cover Story "Best of the Web: B2B". www.alibaba.com 2000). In addition, readers of the Far Eastern Economic Review also selected Alibaba as the most popular B2B web site (Burns 2000, cited at www.alibaba.com).

Founder:

Ma was one of the first people entering the Internet industry of China early. He took education domestically, but he started contacting the Western world in the early 1980s. In 1985, when he first traveled abroad, to Australia, it became clear that Ma and his hosts were utterly ignorant of one another. The experience turned him into a fanatical xenophile. Back in China, he listened to Tom Sawyer on the Voice of America and would cycle for almost an hour, in any weather, to "chat up" foreigners in the nearest smart hotel. In 1992, he founded the first English-language translation agency in his town. It was called "Hope," and its slogan was "Shake Hands across the Ocean" (The Jack Who Would Be King, *the Economist*, Aug 24, 2000, cited at www.alibaba.com). Such cross-culturalism was rare in China then. Owing to Ma's excellent English ability, he established his frequent contacts with the Western world.

The founding of Alibaba was also greatly inspired by Ma's contacts with the Western world, not in terms of technology but rather in terms of ideas. According to his recollection, his coming to spearhead China's best attempt yet to create a global Internet brand, was one of the more bizarre tales in the short annals of e-commerce (The Jack Who Would Be King, *the Economist*, Aug 24, 2000, cited at www.alibaba.com). An American firm and a Chinese partner had formed a joint venture to build a road, but the Americans refused to put up the promised cash. Ma was sent to mediate. Ma soon twigged that the company he was investigating did not exist, that his host was a crook, and that he himself was in serious danger. Frightened, he pretended to his captor that he was willing to "do business" with him. Ma had recently heard about the Internet, and suggested that they try their luck with it together in China. His captor eventually agreed

and set him free for Ma's proposed Internet business plan. Ma fled north to Seattle. It was there he surfed the Internet for the first time. So inspired was he that, back in China, he really did start a dot.com (without gangster backing). It was the country's first proper Internet venture. The Chinese government soon invited him to lead its search for an e-strategy. After four years of connection building with the government, Ma left last year to pursue his bigger vision, Alibaba (The Jack Who Would Be King, *the Economist*, Aug 24, 2000, cited at www.alibaba.com).

Ma has obtained a high international reputation. He is very popular in the view of Westerners. He was invited to speak at both Stanford and Berkeley universities in the United States and he said that he spends an increasing amount of time in the US (Robinson 2000, cited at www.alibaba.com). The World Economic Forum chose Ma and two of his counterparts, Charles Zhang, CEO of SOHU and Zhi-dong Wang, CEO of SINA as members of next year's 100 Global Leaders of Tomorrow. The 100 leaders are individuals under the age of 40 who are considered "global" in terms of their accomplishments and potential. As part of the honor, Ma has been invited to join the special GLT program during the World Economic Forum's Annual Meeting 2001 in Davos. Ma joins such leaders as Jerry Yang, and Tony Blair in a network of young leaders "encouraged to actively participate in activities and projects in line with the mission of the World Economic Forum-to improve the state of the world" (Jack Ma, CEO of Alibaba.com Selected As One of the World Economic Forum's " 100 Global Leaders for Tomorrow". 2001, www.alibaba.com).

Capital operation:

Although it is a local Chinese company, Alibaba got a strong backup from its western investors. Hardheaded bankers such as Goldman Sachs have joined Fidelity Capital and other investors in buying shares in Alibaba. Softbank chairman Masayoshi Son is on the board, who is on the brink of taking over Bill Gates' position as the world's richest man (Robinson 2000, cited at www.alibaba.com).

After starting with Ma's private savings of US\$ 2,000, the first round capital backing soon flowed in from Goldman Sachs, Fidelity Investments, Sweden's Investor AB, Singapore's TDF fund and Hong Kong's Transpac, totaling US\$5 million. In January, 2000, the second round of fundraising, a consortium led by Japan's Softbank, including Goldman Sachs and Fidelity, agreed to invest US \$20 million in the startup. Furthermore, Softbank committed a further undisclosed amount to establish joint ventures with Alibaba to develop local versions of the trade site in Japanese, Korean and several European languages (www.alibaba.com).

When referring to the timetable for NASDAQ trading, Ma showed his prudence and relatively low passion about this topic. He admitted that Alibaba had a plan, but it was probably too early to be talking about that (Leary 2000, cited at www.alibaba.com).

Still at the same side with most Internet companies, Alibaba was aiming at NASDAQ trading. Ma also publicly said, "Alibaba will be a public company very soon, because now it is a global company... We want to be listed on NASDAQ (USA), HongKong, Europe, as well as Tokyo... We are working towards that direction, we hope that when we are on the market, it will be a huge success." (Dubosky 2000, cited at www.alibaba.com).

Management team:

Although Ma's background is local, he has established an internationalized management team as other leading Internet companies have.

In January 10, 2001 Alibaba announced that Savio Kwan was joining the company as Alibaba's Chief Operating Officer (COO). Kwan, age 52, was born in Hong Kong and is a UK national. He pursued an undergraduate diploma at Cambridge Shire College of Technology and received a Master of Science degree from both the London Graduate School of Business Studies and Loughborough University of Technology in the UK. Kwan has 25 years of global management experience, including fifteen years at General Electric where he had responsibilities for sales, marketing, operations, business development, and establishment of joint venture companies and four years as the Managing Director of the China operations of BTR plc, a UK-based Fortune 500 company (Alibaba.com Names Savio Kwan Chief Operating Officer. 2000, www.alibaba.com).

Ma specifically indicated that at a time when many Internet companies were witnessing an exodus among their senior management, he was proud to have one of Asia's top business leaders join Alibaba's ranks (Alibaba.com Names Savio Kwan Chief Operating Officer. 2000, www.alibaba.com).

Alibaba was founded as a typical Chinese family enterprise. Its starting capital was Ma and his relatives' savings. Prior to Kwan's joining the company on January 8, Ma had served a dual role as CEO and acting COO. During the operation of the company at its infant phase, Ma assigned his long-term followers and friends at the key positions of the company. With Kwan joining the team, Ma partly transferred his control to a

professional manager, trying to establish Alibaba's image as a public and global company. Adding to his own celebrity status, Ma has hired several web stars, including John Wu, the chief designer of Yahoo's search engine, as his chief technology officer. Wu joined Alibaba to develop the company's e-commerce software and technology platform and had attracted a team of Silicon Valley's leading technology professionals to join Alibaba's new R&D Center in Silicon Valley (John Wu, Chief Architect of Yahoo's Search Engine, Joins Alibaba.com As Chief Technology Officer. 2000, www.alibaba.com).

In addition, Ma has attracted such heavyweights as Masayoshi Son, the high-profile boss of Japan's Softbank, and Peter Sutherland, a former boss of the forerunner to the World Trade Organization, to his board (<http://www.alibaba.com/aboutalibaba/overview.html>).

Ma liked to show the international side of Alibaba. When asked how he evaluated his personnel's English ability, Ma said that was really, really important. He indicated that Alibaba was an international company, and almost all Internet companies in the future would be international. So as international companies they had to use English as an international tool to communicate. He has instructed director-level people in his company to speak English. For the management, he said, this is the skill they must have (Dubosky 2000, cited at www.alibaba.com).

Ma said, "Chinese companies grow old, but they do not grow big" (Robinson 2000, cited at www.alibaba.com). He insisted that Alibaba would be aided by "western operational methods," which included stringent corporate governance guidelines. Like Zhi-dong Wang, the founder of SINA, Ma also showed his worries about the

disadvantages of the traditional Chinese companies and insisted on the importance of the introduction of Western management cultures to Chinese companies. However, Ma continued to focus on his primary role as the company's CEO. He firmly grasped control in his hands and developed a theory of management called "the model of oriental wisdom plus Western management", which might be able to explain how he played a balance between internationalization and localization.

Business model:

Alibaba's vision is to become the number one destination for buyers and sellers in small- and medium- sized enterprises (SME's) to find trade opportunities, promote their businesses and conduct transactions online. Its main feature is a business-to-business web site where buyers and sellers of everything from bamboo toothpicks to farm tractors can find each other and trade, albeit offline. It operates three inter-linked web sites: an English site for the international trade community, a site for the domestic China market in simplified Chinese characters, and a global Chinese site in complex Chinese characters serving businessmen in Taiwan, Hong Kong, South East Asia and across the globe. Sites in other languages will be launched around the world in the near future according to the business development plan (<http://www.alibaba.com/aboutalibaba/overview.html>).

It mostly introduces not big firms but small mom-and-pop concerns, "shrimps" rather than "whales," as Ma likes to say (Doebele 2000, cited at www.alibaba.com). But there are concerns that Alibaba's site lacks depth. It is "a mile wide and half an inch deep," contends Merle Hinrichs, chairman of Hong Kong-based Global Sources, Alibaba's main competitor (The Jack Who Would Be King, *the Economist*, Aug 24, 2000, cited at www.alibaba.com).

Alibaba also has its share of skeptics. There is a question mark over Alibaba's revenues: so far it has virtually none. An American medium raised a question in its coverage about Alibaba: Can Ma combine idealism with making money? Ma's answer to the question about Alibaba's zero revenue was "you have to suffer." He said, "You have to cultivate the market before you harvest." He added, "The Internet is such a new field and we saw its potential but we need time to figure out the way to profits." He explained that they need to build on their service - the service they give now, they don't think they can charge money for the service they give now (The Jack Who Would Be King, *the Economist*, Aug 24, 2000, cited at www.alibaba.com).

He predicted that Alibaba would become a dominant force of US\$6.8 trillion a year in the global import-export market. Forbes magazine estimated that there are about 400,000 exporters in China plus perhaps another million that would like to start exporting. FORBES figures that about \$470 billion a year is spent just servicing world trade--phone bills, invoicing, sales calls, and overseas travel. If Web sites like Alibaba can cut that bill by even 20% -- and that may be conservative--there is a potential savings pool of nearly \$100 billion from which it can draw revenues as profits (Doebele 2000, cited at www.alibaba.com).

Referring to the obstructions in the real world on Alibaba's way, one thing Ma could not deny is that most Chinese companies are not used to doing business online. He indicated that many Chinese SMEs were reluctant to make the move to e-commerce because they feared their technical skills would let them down (Hou 2000, cited at www.alibaba.com).

Ma said he needs more time to nurture a friendlier marketplace. He thought there were a lot of chances. The Internet has just started. He made a metaphor about the development of the Internet: "if you imagine that the internet age is a 3,000 meter race, USA has only finished 100 meters, Asia maybe 30 and China might just have done 5 meters. There is still a long way to go" (The Jack Who Would Be King, *the Economist*, Aug 24, 2000, cited at www.alibaba.com).

On the other hand, according to a report, although Ma talked with passion about how his web site would benefit when China joins the World Trade Organization, he became strangely silent when the subject of censorship was raised. Ma is aware of the unease that his government's pronouncements have caused, but he believes its stance will soften. He says a recent ruling allowing two of China's biggest Internet companies--SINA and Netease--to list on NASDAQ encourages him. When pressed about the government's cautious attitude to the Internet, Ma chooses his words carefully "The situation in China today is not that bad," he insists. "Foreign firms can invest, but it has to be step by step. It is changing and I do not envisage any problems." (Robinson 2000, cited at www.alibaba.com)

As Wang Zhidong, the founder of SINA, Ma also emphasized the importance of interaction between the government and the industry". The Internet is so new to any government and especially to the Chinese government. We are educating our market, but we should have patience to educate the government as well," he says. "You should respect government," he adds later, although that did not prevent him from registering Alibaba in Hong Kong when it first began making ominous noises about foreign investment last August. On some occasions,

he was a little more candid "I have had more troubles than anyone could imagine," he says at one point, referring to the administrative battles he has fought with the government since he first started toying with the Internet five years ago (Jack Ma Talked About the Successful Experiences of Alibaba.com. *Excitement Net*, 2000, translation).

Chapter 5: Interview results

The basic information provided by the secondary resources depicts the backgrounds of these four companies. The interview results enrich the pictures and contain abundant insights that helped the formation of findings and conclusion in this thesis.

The founders of the four companies:

Most interviewees confirmed SINA's leading position in the industry and their respect for Wang Zhidong, the founder of SINA.

As a graduate of Beijing University, which is commonly evaluated as the best university in China and the cradle of the Chinese elite, Wang Zhidong does not have a Western educational background, which is highly valued by foreign investors, but he has created an international Chinese web site originating from a local base. Therefore, in some interviewees' eyes, SINA is the pride of Zhong-guan Valley in light of its commercial success. More radically, some of the interviewees think all modern Chinese intellectuals should be proud of SINA's international reputation growing from unique Chinese origins.

Mr. Xie, General Manager at the China subsidiary of a renowned IT multinational company, praised Wang as the outstanding representative of Chinese local entrepreneurs. According to another interviewee, Mr. Chang, elected member of the Chinese National Youth League and General Manager of a Chinese Internet startup, Wang represents the elite class of China, which emerged and was formed under the education and the influences of Chinese local cultures.

However, in contrast to the respect shown by most interviewees towards Wang, Mr. Xiao, a former government official connected with Ministry of Information Industry (MII) and Chairman/President of a Chinese Network Technology Ltd, showed disdainfulness towards Wang. Xiao had been working for the government for seven years before he started his own business. He was in charge of proposing plans and blueprints to key policy makers in MII. After a long time working inside the policy-making department of MII, Xiao felt it was the time to take advantage of his personal connections to the government in terms of establishing his own business.

He called Wang “a small Dao Ye” which means an unimportant person doing fraudulent buying and selling in China. He predicted the failure of Wang in terms of successfully running SINA in China, because, he said, Wang did not have special connections to the power center. Xiao listed two reasons to explain why he did not think too much of SINA and other Internet companies. First of all, those companies lacked strong support from the government, which was holding a watching attitude in terms of policy making involving the Internet industry; thus, the companies were not able to access telecommunication resources that were still controlled by the nation, or more accurately, by the government. Secondly, Wang, as well as the founders of other three companies, did not originate from the high-ranking class in China and did not establish inside connections with the government, which meant they could not attain information about governmental policy making in advance. Therefore, SINA and other Internet companies were in a weak position of begging for the resources that were essential for their development and of passively waiting for the government judgements on their operations. Compared to these four companies, Xiao did think that in light of his special

work experiences for the government, his business had a unique advantage in the cutthroat competition of the China Internet industry.

In contrast to this opinion, Xie indicated that in the new economy, the privileged access to the power center of the government and the national telecommunication resources could not guarantee an enterprise's success in the competition, because along with the gradual maturing and completing of market systems in China, a fair, transparent, competitive environment is gradually being established. Furthermore, he indicated that compared to Xiao, the founders of the four companies are more open-minded and have more space to develop in a coming new market system.

Some interviewees praised Zhang's (the founder of SOHU) international background. Mr. Hao, a manager in a USA based international IT company, said that SOHU's reputation was pretty much established by its founder. SOHU is almost the symbol of the Chinese Internet industry so that nobody will be willing to see the possible failure of SOHU because the name of Zhang is almost equated to the Chinese Internet industry and his failure would destroy the belief of investors in the industry.

There was also another tone, which viewed SOHU as not being qualified to be a leader of the industry. These interviewees thought what Zhang was skillful at was just making up his and the company's images through the media, because his background, characterized by his studying at MIT, was a big plus for him, greatly attracting Chinese society's attention.

Ms. Xia, General Manager of the China branch of an USA-based large communication group, revealed that the board of SOHU suspected Zhang's leadership ability and tried to find somebody to replace him. She claimed that there was a trust crisis

in regards to Zhang's existence on the board. She counted the success of Zhang as a matter of luck and indicated that he did not have any background in business and in Internet technology.

Mr. Shi, Vice President of Business Development at a Chinese dot com, thought that Zhang lacked local experience. He sharply criticized the fact that although Zhang grew up in China, he did not really practice in the real Chinese context. He indicated that the reputation of SOHU had been established through media reports and its strength was not proportional to its reputation.

Most interviewees thought that the abundant experiences of Wang in local business operations bestowed Wang advantages in the competition, especially in the competition with SINA's main competitor SOHU. They emphasized the strong local background of Wang rather than emphasizing the Western education background of Zhang. They believed that Wang learnt a lot from his business practice in Zhong-guan Valley.

Mr. Miao, a senior consultant in the IT field, indicated that limited by China's slow economic development, Zhong-guan Valley was an immature copy of Silicon Valley in the USA. That did not seem to be a proper environment for technical skills to grow because people wanted to gain wealth rather than develop their talents. He analyzed that as a traditional Chinese intellectual, Wang held the dream of being understood and respected by society, as in the Chinese saying: "shi wei zhi ji zhe si," meaning intellectuals are prepared to die for people who are deeply appreciative of their talents. However, through working in Zhong-guan Valley, Wang also realized that being ignored

and unfairly treated was inevitable in an immature market environment that lacked transparency, equality and quantity measurement.

Regarding the present Chinese market situation, a chief engineer of a high-tech company in Zhong-guan Valley said that in China, creating a good environment was much more important than inventing a new technique. Mr.Xian, a senior vice-president of a portal conveyed that in China different situations are usually mixed together, meaning there were a lot of political and human affairs penetrating into the technological field which made doing business harder. He concluded we should not hold any expectations for the older systems. In Wang's case, as a technical genius contributing to software product development for the companies he was working for, his right to participate in fair allocation of commercial benefits was not effectively protected by the present system. Hence, every time he resigned from his work, he always had to give up his copyright of his products and could not take away any shares promised to him. The entire environment characterized by the immature market system and the remaining planned economy still greatly affected business operations even in the high-tech field. That might be why Wang finally decided to dedicate himself to managerial work instead of technical work. As an employee of SINA said, Wang dedicated himself to paving a way for his dream by looking for a balance point between the needs of learning from outside of China and the limits brought by the Chinese system.

Although there were always rumors about Zhang being replaced, the fact is that Zhang has been the Chairman of the Board of Directors, President and Chief Executive Officer of SOHU since its founding in 1998. One explanation provided by Ms. Wen, General Manager of the Shanghai branch of a well-known interactive TV, was that the

board needed Zhang as a symbol of SOHU because in the public's opinion, his name was equal to SOHU and Zhang was an example of success combining Western and Chinese local backgrounds. He was favored by the Western world, fitting into its value system while normal Chinese admired him because of his profound Western educational background. His being favored by the Western world helped him with fundraising abroad and helped him to build SOHU's leading and advanced image in the industry. Meanwhile, he was an ideal choice for Western investors who invested in China because he was assumed to understand Chinese society.

The interviewees' comments on the founders of Chinese Internet companies reflect diverse opinions. Most of them insisted that localization was the paramount factor in terms of successfully running a business in China while a few of them considered internationalization as the premise of business successes. Therefore, while Wang Zhidong was critiqued for his pure local background, he was also praised for his ample experiences in a local environment. While Zhang was respected with his profound Western education background, his lack of practice in China was also questioned.

A few of the interviewees expressed that they were not familiar with Ma, the founder of ALIBABA. He seemed to keep a low profile in the industry. Two of the interviewees recalled when they saw Ma for the first time, he was still working for a department of the government. Their impressions about Ma were that he was an unimportant figure; thus, they showed surprise about the overnight success of Alibaba and the rapid building of Ma's reputation in overseas media. Mr. Lee, Deputy Chief of Internet department of China's biggest national paper, described Ma's high profile as a

phenomenon resembling a flower, which grew in the inside yard but whose fragrance was sensed from the outside.

As for Wang Juntao, the founder of 8848, most interviewees knew him through his celebrity among Net surfers. They have read that famous post on the Internet authored by Wang. On October 31, 1997, the Chinese national football team lost to a foreign team in Jinzhou County of Da Lian City in northern China. At 2:15 am of November 1, referring to the loss, Wang posted a comment titled "There are no tears for Jinzhou in Da Lian tonight" by the name of Old Fig Tree on the Sports Saloon of a web site. Within 48 hours, 20,000 people had read this post of 3,000 characters and many readers were moved to tears by it. What nobody knew at that time is that two years later in 1999, Wang founded 8848, an e-commerce web site.

The role of capital in these four companies:

Since the intense involvement of foreign capital, especially venture capital in the Internet industry, has been a controversial phenomenon, the role of capital in these four companies was a main question in the interviews. Most interviewees showed their insightful opinions about it through analyzing the concrete performances of these four companies. First of all, all interviewees admitted the importance of foreign capital for the founding and development of these four companies. Furthermore, they even agreed to apply this conclusion to the whole Internet industry in China.

Huang, director of strategy of a high tech company, said that his company had to look for investments outside of China because the capital support from the government was very limited, and there was not a system of venture capital in China. In addition, the Chinese financial industry had designed its lending system mostly on benefits for state

owned enterprises while the Chinese existing stock markets were set up in favor of large and medium sized state owned enterprises.

A former employec of SRS described the company's failed efforts to obtain loans from the Chinese banking system. In 1996, SRS applied for a loan valued at 21 million Chinese Yuan, (Chinese monetary unit) which was supposed to be used for a technological project operated by the company. Having gone through tedious formalities, its application was approved by several related departments of the Chinese government but finally refused by the bank. The bank asserted that the secured credits of SRS were not sufficient because SRS only had human resources in the software field and did not have any fixed tangible assets. Partly imposed by the limits of the Chinese capital system, partly encouraged by the successful applications of western venture capital in high-tech field, SRS started its fundraising abroad.

On SOHU's case, Miao had a similar opinion. He indicated that no other industries in China were engaged with venture capital as closely as the Chinese Internet industry was. There was no concept of how to evaluate the value of knowledge-based high-tech companies. The Chinese banks did not want to risk investing in companies that did not have any fixed assets such as equipment and real estate. He even radically expressed that there would be no Chinese Internet industry without the injection of foreign capital. For example, he said the entry of foreign investments was very essential to SOHU, which could not get funds from the national capital market. In other words, SOHU would not exist and develop without foreign capital. Mr. Huang agreed with the significance of foreign capital for the industry, but he indicated that SOHU's case was different from SINA's case. SINA originated from SRS, a software enterprise. The

injection of the foreign capital into SINA only helped its further expansion in the Chinese Internet industry because the establishment of SINA was through the merger with SINANET, not purely through the support of foreign investors.

While fully confirming the positive role of foreign capital in the industry, the interviewees also expressed their concerns about the decisive position of foreign capital in the operations of these four companies. As a means of looking for funds, going to NASDAQ trading has been on the priority lists of the companies.

Among these four companies, almost all interviewees took 8848 as the main example of being pushed by the influence of capital. They believed everything 8848 had been doing was focused on the single goal of going to NASDAQ trading. When they were asked how they felt about the restructuring of its share system, the swings of its business models and the turbulence in its management team, most interviewees thought those actions were taken to fulfill this goal.

Mr. Du, columnist for *Chinese Internet Weekly*, said that after the restructuring of the share system of 8848, Wang's share equity had also decreased to the point where Wang was not able to keep a seat on the board of the directors. Wang started to lose control of the company and foreign capitalists took over the company. Du sarcastically commented "Capital kicked out the founder."

Du also quoted similar stories in SINA's case. Wang Zhidong was also forced by the power of foreign capitalists to step down. Du took the formation of the "dream team" as a gesture to please Western investors who have more faith in a management team having strong western backgrounds.

Miao analyzed that for Wang, the fact that James Sha replaced his co-workers with a group of professional managers from Silicon Valley had unusual negative meanings. Among the management members who were replaced by Silicon Valley's professional managers, Jiang Fenglian was the main co-founder of SINA; Mark was the first American whom Wang hired to support the company's internationalizing process; Mao Daolin was from Huadeng Group, a major investor of SINA and Yan Yuanchao Yan was Wang's long time co-worker. Their removal meant Wang's loss of control in the company. He concluded that this turbulence happening within the management team of SINA was another story of capital kicking out the founders.

8848's reorganization of capital and businesses has been a heated topic in the industry and there have been various conjectures around the real purpose of its reorganization. The interviewees also offered their opinion about this issue.

Dr. Kuang, Assistant Professor of Communication College of People's University of China, conjectured that the pressure for the reorganization came from the investor side because the investors urged 8848 to begin NASDAQ trading which required a clear business model from 8848. Mr. Mao, ex-director of marketing of an e-commerce company revealed that according to the plan, after the reorganization, 8848 would go in two directions in order to reach the stock market quickly. 8848 would face two different capital markets. The old 8848 would still pursue NASDAQ trading while the new 8848 would aim at the national second stock market, which was said to be in preparation.

According to a senior executive in 8848, the swings of the business models also showed 8848's being eager to please NASDAQ. At the end of 1999, when 8848 earned its reputation in the B2C field among the Chinese customers, capitalists of Wall Street

avored the B2B model. He said 8848 was trying hard to enter B2B business section but it did not have a very good sense of direction of what B2B exactly meant. It tried many ways including web auctioning and e-shopping in which 8848 rented space on its web site to business bodies.

Shi indicated that it was even hard to count the number of times 8848 had readjusted its business model to the taste of the foreign capital market. Shi emphasized the side of pleasing capitalists in 8848's efforts while reluctantly admitting that those readjustments also had something to do with fitting into the Chinese e-commerce environment. However, he questioned the frequent changes of 8848's business model. He said that B2B was the essential component of future development for any kind of enterprise, but it was also supposed to progress step by step. Why did 8848 not even give itself time to experiment with every model?

Referring to the conflicts within the management team of 8848, Mao said there were two sects forming in 8848. One consisted of the employers from Federal Software joining 8848 and led by Wang. The other group consisted of the people joining 8848 from Microsoft. He offered an inside story to prove the contradiction between these two sects with the company. In February 2000, 8848 assigned an individual from Wang's side as general manager in charge of establishing a Shanghai branch. After three months of hard work, he was laid off because 8848 cancelled the plans to establish the branch. However, not long after, the Shanghai branch was developed again and the position of general manager was assigned to a person who followed Tan to join 8848 from Microsoft.

Dr. Kuang commented that such conflicts were not unusual in IT and Internet companies. He said that so called international team members who could speak English

very well and pleased overseas investors faced difficulties in handling their relationships with local employers. Even though Tam came from Microsoft China and was working in Mainland China, he still faced barriers in communicating with the local team in 8848, because he was nurtured by the multinational company's culture and management style, which were entirely different from local companies. Furthermore, he indicated that it was not a personal struggle between Tam and Wang but rather a contest between the influence of capital and Wang's personal will.

Mr. Wang, a main investor at one portal, said that everything 8848 had done so far was meant to please foreign investors. He also said it was probably the time for 8848 to think about business from their own long-term development perspective, because after all, foreign investors would leave China after they made profits from their investments.

In Alibaba's case, Mr. Xian, said that although Ma showed his tough attitude to potential investors and his relatively low passion for overseas stock trading, what it had been working on was still the direction of overseas stock trading and NASDAQ was on the top of its priority list.

Xian explained the pressure from foreign investors in the companies. He said that investors in Internet companies were gambling on the prospects of future profits and so are the starry-eyed venture capitalists who put money into China. At the same time, investors in a China-based Internet company are taking a double risk due to China's immature market environment and ambiguous government regulations. So, most investors were eager to be paid off through stock markets as soon as possible. Under this pressure he said, the first goal of Alibaba was still NASDAQ trading.

About the strong will of foreign capital in the operations of the Chinese Internet companies, the newest evidence was the resignation of Wang Zhi Dong, the founder of SINA and the symbol of the Chinese Internet industry. According to rumors, due to the divergence with the board on the issue of merging with China.com, Wang resigned from all titles that he had in SINA. The official explanation provided by the company at the press conference was that Wang's decision was based on his personal interest in career development. However, the widely disseminated rumor was that Wang did not agree with the merger deal with China.com, which was favored by the board. The board thought Wang hindered the benefits of investors and the mission of Wang as the founder of the company was supposed to have already been accomplished, therefore, it was time for a successor to take further responsibilities.

Some interviewees mentioned that the Chinese second stock market was said to be in preparation. Dr. Kuang thought the establishment of the national second stock market was supposed to relieve the urge of the Chinese Internet industry for foreign capital, but on the other hand, he showed a conservative estimate of the capability of the stock market. He predicted that in a long time, the industry would still have to be tied with the foreign capital, therefore, conflicts between two sides, Chinese operators and foreign investors, will continue.

The connections of these four companies with the Western world:

Miao said that international connections were a common feature of the four companies. He explained this point with SOHU. The founding of SOHU obviously copied its American counterparts. Like SINA, which established content construction as the direction of its business through the merger with SINANET based in the USA, SOHU

was also a result of being inspired by American cases. SOHU was a complete copy of Yahoo. SOHU itself was not ashamed of admitting this point. On the contrary, it took advantage of the similarities to Yahoo to convince users of its strength and reputation as Yahoo's counterpart in China.

Dr. Kuang held a similar stand on this issue. Chinese Internet companies have been greatly engaged in connections with their American counterparts in terms of using their models and experiences for reference. Against the claim of Wang Juntao, that the model of 8848 was established with the Chinese realistic situation in mind, Dr. Kuang still attributed its success to copying Amazon.com. He said that it seems common that the Chinese Internet industry is a result of following the American Internet industry. Most players believed that copying models and using the experience of Western countries for reference was the best way of becoming successful. Furthermore, he indicated that in the Chinese Internet industry, any implications of connections with the American technology, American capital and famous American figures were good materials for publicity. The Internet is a state of the art technology originating in the USA and it is open globally, correspondingly, it bound the Chinese Internet industry with international society to a large degree that did not happen to other industries. Therefore, Chinese Internet companies actively implied their connections to the USA in order to build their reputation and image in the industry. He used Charles Zhang's taking advantage of the image of Nicholas Negroponte for SOHU's publicity as an example. Zhou, an employee of SOHU, admitted that SOHU would not catch so much attention from the Western world and the Chinese media without the symbolic meaning of Nicholas Negroponte's investment

because Nicholas Negroponte's investment did not just mean money, but also meant accompanying sophisticated technology and management means.

However, both Miao and Kuang emphasized the significance of the international connections for the development of the Chinese Internet industry. Even though Miao did not fully agree with Zhang Zhaoyang's claim that SOHU was the first one introducing the concepts of Web sites, venture capital, banner advertisements and search engines into China, he did agree that those concepts came from the Western world and helped the establishment and rapid growth of the Chinese Internet industry.

At the same time, the interviewees also raised the concerns about exactly following the American way in a Chinese context. Miao explained that American experiences were generated from hundreds of years of practice in and improvement on the market economy, but they could not be unchangeably applied to the Chinese environment that is new to market economy and under a communist dictatorship. Under these circumstances, some American experiences should be tailored to China's unique environment.

Shi also indicated the specialty of the Chinese market. He said that the most difficult problem was the lack of the mature market system in China so that 8848 had to take part in the market environment construction in order to smoothly promote its own business in e-commerce. He expressed that the success of e-commerce in China would be decided by multiple factors including payment means, the credit card system and delivery systems etc. That was not something that could be accomplished by 8848 alone; it needed the cooperation of various industries and the construction and allocation of social resources.

Hao mentioned the same issue from another perspective. He cited a report which claimed that the amount of 30,000,000 Internet users would allow the Internet industry to have enough chance to make profits, and indicated that this amount was not suitable for analyzing the prospects of the Chinese Internet industry, because Chinese net surfers do not possess the same consuming ability as the American surfers do.

The relations of these four companies to the government:

All interviewees were asked about the role of the government in the industry and some offered very insightful opinions. All of them agreed that the subtle relations with the government were the main local characteristic different from the American context.

All interviewees said that they check out news on SINA's web site every day. The first exposure of most interviewees to SINA was through its news product. As a deputy chief of the Internet department in one main national newspaper, Lee obtained some inside resources in terms of SINA's relationship with the propaganda department of the government. Personally, Lee thought that SINA represented China's Internet industry's relation with the government for the following reasons: first, SINA was founded at the phase when the application of the Internet was at its mature stage in China. Compared to other Internet companies established around the same period, SINA was built on a reputation as a leader in the Chinese Internet industry. Accordingly, it receives more attention from the government. It caught a lot of attention from the public not just as a successful business sample of Chinese Internet companies, but also as the weather vane predicting the intentions of the government. How it is being run between the clear restrictions and ambiguous permission of the government is an important perspective to see the government's role in the development of the Chinese Internet industry.

Secondly, the main product of SINA was news that was strictly controlled and closely monitored by the government. The information flow over the Internet was and still is the biggest concern of the government. SINA is largely engaged in this sensitive field. Therefore, it unavoidably encounters the supervision and intervention of government.

Lee revealed that even though SINA captured the attention and monitoring from the government, basically, it had already established a positive relationship with the government. For example, he said, SINA's news license is No.7. No.6 was issued to the Internet department of the People's Daily. Licenses numbered from 1 to 5 are not issued to media. Order has a very important meaning as an indication of importance in the Chinese culture. Being able to gain the license right after the People's Daily, which is the most important national medium, was strong proof of SINA's good relationship with the government.

Referring to the lack of the knowledge of the government about the industry, Lee recalled the process of establishing the Internet department for the newspaper he was working for. He said, that was 1997 and nobody in the government had any idea which department should be in charge of his application.

No interviewee was surprised by the topic regarding the gray area existing in the operations of the industry. Every interviewee knew SINA and SOHU are foreign companies in a legal sense. They said the government must have known it as well and it was an open secret. As for the question of why they were not punished by the government, Shi explained that the strategy taken by them was that they never admitted they were pure ICPs. According to the China Telecom Law, foreign investments are

allowed to participate in the technological section of telecommunications such as investing in Internet software production. Theoretically, foreign investors can invest in technological services provided by Chinese ICPs, thus it implied a way for Chinese ICPs to receive foreign investments. SINA followed this way to avoid the government limits on ICP section.

Huang, an insider in the company, confirmed that the ICP business and SINA's capital relevant to ICP were not included in the capital traded on NASDAQ; therefore, theoretically, the capital operation of SINA was legal. A senior executive of the company attributed the survival of SINA to the ambiguity of relevant laws and regulations.

Xiao said that players in the industry knew the rules of the game, which were not to be publicly against government rules. The government knew which kinds of tricks Chinese Internet companies used to avoid the direct conflicts with the government, but it retained space for itself to deal with those actions at a proper time. He also indicated that this time might not even come, but it might come at any time. It depended on the government's unpredictable policy-making process. Chang, a founder of another Chinese Internet company, complained that he always felt a potential threat, which was like a sword hanging over his head.

Some interviewees held an optimistic attitude to the government's policy making. Miao commented that SINA's successful debut was good news because it established a precedent for the industry, which was bothered by the lack of explicit governmental policies relating to concrete operations of the industry. Even before the day when SINA was officially listed on NASDAQ, the government attitude to Chinese Internet companies going on the international stock market still remained unclear so most Chinese Internet

companies chose to postpone their plans of going on NASDAQ. Therefore, SINA's successful debut on NASDAQ and the tacit approval from the government would encourage other companies.

Miao also optimistically predicted that China would have to open its Internet value-added field to foreign investors after it was accepted into the WTO. Subsequently, as part of the Internet value-added field, the ICP section would be opened. However, Wu Jichuang, the minister of MII, declared that the permission for participation of foreign investors in the value-added field would still be conditional even under the circumstance of China being accepted into WTO (Chen, 2000, translation).

On the contrary, Shi expressed his disbelief in the government. He did not think the government would allow the industry freedom and he predicted that the government would continue its control on the industry and it was very possible that the government would crack down on those companies which did not comply with its rules.

Chapter 6: Analyses and Conclusions

Analysis:

1. The Chinese Internet industry is in its infancy.

The case studies show that these four Internet companies were founded in the same period from 1998 to 1999. During the span from 1998 to 1999, these four companies commonly accomplished the switch from preparation to founding to full operation in the Internet industry.

Although with very high growth rates and striking performance, the fact is none of these four companies are making profits from business. They have been continuously in a deficit since their founding and they do not really have an explicit blueprint for how to earn money from the commercial application of the Internet. As for their prospects, the companies refused to provide a timetable for making profits.

In the industry, there is a theory to explain this situation. It is called “enclosing lands as much as possible before the horse died.” It means that the raised funds should be used to expand businesses as much as possible in order to make more profits in the future.

No matter how confident the CEOs of these four companies appeared while facing such huge deficits and vague profit making prospects, the facts are that they are still groping in the dark without knowing the right business models that can lead to profits. 8848 frequently changed its business models. SINA earns money from its original software business rather than from Internet content providing. The revenue from online advertising counted too much in SOHU’s revenues and online advertising market in China is almost saturated. What Alibaba is now providing just trade leads. It is playing an

agent role between export and import enterprises, but it is not important enough to become an essential part of business exchanges among enterprises so that it could charge enterprises for its services.

The lack of dominant players is a sign of an immature market. As the *Review's* e-business survey indicated, more than 70% of the 4,846 people who responded to the survey said they simply did not have a favorite B2B site in their industry.

2. A new type of entrepreneur is emerging.

The analyses of the founders of these four companies showed that all of them gained high recognition in Chinese society. Along with the Internet becoming the center of society's attention, these founders were pushed into the spotlight of media, symbolizing rapid success and pioneers of the most fashionable profession. As a reporter recalled, even taxi drivers knew Zhang Zhaoyang (Ma 2000, translation). They also have obtained attention internationally.

As the leaders of the enterprises of the new economy, they also caught the attention of the government with their commercial success and their bold exploration in the new field. Zhang became an example for the government to use to attract the return of overseas Chinese. Zhu Rongji the Prime Minister of China, told Wang Juntao, the founder of 8848, that he had known 8848 and was interested in the path of its development in e-commerce field. Yun Ma was invited to lecture government officers on e-commerce (Tao 2000, translation). These four founders represented the emergence of a new type of entrepreneur. Some people called them "the third generation in Zhong-guan Valley" (Ma 2001, translation).

As the cradle of the Chinese information industry and the area where most Chinese high-tech companies are located, Zhong-guan Valley is the symbol of the Chinese information industry. Compared to previous entrepreneurs in the Chinese information industry, the so called third generation of Zhong-guan Valley is represented by young entrepreneurs in their 20s or 30s who started their undertakings in the Internet field and cooperated with foreign capital. They could be categorized into two kinds according to their education background. One is the returning Chinese overseas students represented by Zhang Zhaoyang. Another kind is the young domestically educated elite such as Wan Wang Zhidong, Wang Juntao and Mayun.

The experiences of these four founders showed that their common characteristic is that they have skyrocketed to the upper class of the society. They acquired their reputation through the Internet, the modern profession that they are working in. Wang Zhidong and Zhang Zhaoyang collected wealth rapidly through share issuing. Even though 8848 and Alibaba have not been listed on stock markets yet, the possibilities of the rapid increase of their founders' wealth have been discussed by industry observers. They collected a great deal of capital, talents, strength and attention in a very short period compared to previous entrepreneurs who had to work very hard to reach the peak of success.

Another characteristic as the new type of entrepreneurs, is that they skipped the hard phase of primitive accumulation of capital and established rapidly growing enterprises by cooperating with capitalists. These four companies, from the beginning of their founding, have continuously gained support from capitalists. What they needed to

do was just provide good ideas and investors provided the management resources for them.

As new entrepreneurs, they reflect more characteristics of private entrepreneurs. They do not have complicated government backgrounds and founded the companies with the support of private capital. Even though maintaining a good relationship with the government is still an important issue for running their businesses, they are more independent than previous hi-tech companies such as Legend Group, Beijing University Square Group and Stone Groups. As the leaders in the information field, the latter three originated in governmental institutes. For example, Beijing University Square Group was the subsidiary enterprise of the national Beijing University and the establishment and development of Legend Group was tightly connected with the personnel and resources of the Chinese National Science Institute. In contrast, the four founders of these four companies were businessmen who did not have intricate connections to the government and national resources.

Compared to Dr. Chen Zhangliang, another example of a returning outstanding overseas Chinese students, the successful experience of Zhang Zhaoyang has more personal color while Dr. Chen was offered an important position at the Beijing University and shaped by the government propaganda as an outstanding example of returning overseas Chinese students.

Within this group of new type of entrepreneurs, Zhang Zhaoyang and Wang Zhidong representatively symbolized two types of Internet entrepreneurs. Zhang's type is called "hai gui pai," meaning people returning to China after taking education in the West world; Wang's type is called as "tu sheng pai," meaning people having never lived abroad.

However, despite the differences in their backgrounds, there are more international characteristics in these four entrepreneurs than in past entrepreneurs. Compared to previous entrepreneurs, they are more connected to international society. The connections to international society are also reflected by their close cooperation with foreign capital from the very beginning of their undertakings.

3. Capital played an important role in these four cases.

The most obvious common characteristic reflected by these four companies is the important role played by foreign capital during the whole process of their establishment and development. It even could be concluded that they would not exist without the influence of foreign capital. These four companies received the support of foreign capital from the very beginning. They showed that foreign venture capital played a key role during their development. They tailored the companies' structures, management teams and business models according to the requirements of foreign investors. The case of 8848 especially showed the control of capital. In a positive way, the involvement of foreign capital in the Chinese Internet companies sped up the internationalization of the Chinese Internet industry and pushed the owners to reform the companies in terms of fitting to the international standards of the Internet industry.

The strategies and business models used by the companies also reflected the conflict between internationalization and localization caused by the influence of foreign capital. Since most investors are Westerners, they were eager to be rewarded through issuing shares so they could leave the Chinese market with profits when unexpected problems such as government interference. Under these pressures, all of these four companies were looking forward to listing on NASDAQ as soon as possible. For these

four founders, they expected to raise more funds through NASDAQ and for investors; overseas stock markets especially NASDAQ were the main systems for them to be rewarded. Within China, while there are stock markets for state owned companies there is no stock market for start-up companies. The influence of capital caused the conflict between the founders rooted in China and investors who wanted to make money in the short term. This conflict was reflected by the instability of the companies' strategies and business models.

Cultural conflicts also occurred. Being between the needs for foreign capital and their roots in the Chinese market, the companies suffered from pressure caused by the conflicts between the influence of capital and Chinese cultural habits. Therefore, harmony between the two is very important for the companies' healthy development. Ma claimed his management theory was the model of Eastern wisdom plus Western rules. He did not explain what he meant by Eastern wisdom and Western rules. However, Western rules could be understood as the whole business system such as accounting and presentation, which were generated from the long practice of the Western market economy. Eastern wisdom is a very vague concept here and everybody can interpret it according to his or her own perceptions. For example, "Yi" could be a part of Ma's Eastern wisdom. Yi means the commitment and responsibility to friendship. The Chinese make their decisions according to personal feelings rather than according to objective facts. When the influence of capital affected personal relationships within the companies, which Chinese emphasize a lot, the conflicts were unavoidable.

Definitely, China has to be connected with the international society during its reform and openness process. Especially in the Internet industry, a brand new

technological and economic field, China needs more financial and technical support from the developed world. The involvement of foreign capital unavoidably caused a series of conflicts reflected in various ways such as personnel changes, strategies etc.

4. *The entire Chinese market is immature.*

The urgent need for foreign capital reflected the imperfection of the Chinese capital market. All these four companies have obtained financial backup from outside of China during the different phases of their development, and none of them gained funds from the national financial system. Conversely, their original attempts to gain support from the national financial institutes failed. For these four companies, the majority of their funds came from foreign investors, with a minimum amount from some Chinese private enterprise.

The imperfections of the national stock markets were also a barrier for the development of Chinese Internet companies. For foreign investors, the main way capitalists to gain profits from their investments is through stock markets but there is not a stock market in China to reward them. Therefore, they turned to the overseas stock markets among which NASDAQ became the first choice. On the other hand, the imperfection of the Chinese capital market determines that Chinese Internet companies have to look for capital from outside of China. In addition, at present, the government runs the limited venture capital in China. Chinese venture capital's essence of being state owned determines the lack of motivation for starting an undertaking.

For e-commerce companies such as 8848 and Alibaba, there are some problems they can not avoid while running their business. The main two are payment means and delivery systems. Whether B2B or B2C, the delivery of goods and the flow of funds

between sellers and purchasers are two essential chains. For B2C, the main problem is that in China, credit cards are not largely accepted. Most consumers do not use any credit cards and are used to cash exchanges. So, the payment means are limited for B2C businesses.

Delivery is another main problem. Chinese national post offices monopolize the delivery field but they lack efficient services. Other existing private delivery businesses do not have enough strength to accomplish efficient deliveries nationwide. At the present stage, Alibaba just plays an informant role between import and export businesses because it is hard to provide full services for enterprises under the current situation of lacking an efficient electronic banking system. Now, it is just doing basic construction work in the B2B field, still far away from providing complete B2B services to enterprises.

In the Chinese Internet industry, the potential of the market seems huge because the number of Chinese Internet users has been increasing at a rapid rate, but the unavoidable question is that the consumption abilities of those Internet user are not able to provide enough profit margin to the Chinese Internet industry.

The immaturity of the Chinese market is also characterized by its lack of transparency, equality and quantity measurement. These four cases showed that they have been treated differently from state owned enterprises. They do not have much access to national resources such as the main stock markets and banking loans and their operations are affected a great deal by China Telecom that is the monopoly state owned telecommunication enterprise which holds the right to allocate national telecommunication resources.

As for the lack of quantity measurement, it was reflected by the disturbance caused by questioning the fairness of CNNIC's statistic report. Chinese web sites were frequently involved in many scandals with published media research and ranking activities. There is not a just and scientific measurement system to evaluate the performance of the Industry.

The lack of transparency of the Chinese market was reflected by the ambiguity of regulations and laws regarding the Internet industry. That is a main issue relating to the four companies' relationships with the government. The government makes policies according to what it feels about the industry and what it wants from the industry, without actively considering the benefits to the industry. Due to the lack of knowledge about managing this newly developed industry, the policy making of the government can not direct the development of the industry, but can only restrain it from some actions that could damage the benefit of the government such as the dissemination of information related to questioning the human rights status of China. The process of policy making involved in the Internet industry is not transparent; thus, rumors and conjectures related to the government's attitude prevail.

5. The relationship between the government and the Internet industry is interactive.

As a new medium, the Internet has offered a possibility of free information flow; thus, it attracts the attention of overseas media to the reaction of the government on the Internet issue. The monitoring and censorship of the Internet by the government have always been the focus of the attention of overseas media.

The relationship of the industry with the government is presented in multiple aspects. First of all, portals are exceptionally heavily affected by the government's strict control of news publishing over the Internet. The case of SINA especially showed the potential tension with the government caused by SINA's news reports published on the Internet, because it largely engaged in this sensitive field as the most famous Internet news provider. The government required ICPs to set up self-inspection units to keep their eyes on daily news publishing and opinion flows on their web sites. In addition, ICPs are not categorized as mass media; therefore, they are not allowed to do interviews to collect news. In terms of news publishing, ICPs are essentially under the close monitoring and censorship of the government without any negotiation.

Second, at the same time, facing the explicit and strict restraints of the government on news publishing and opinion flows, ICPs' attitude is very cooperative. In order not to directly hit the sensitive nerves of the government about online news publishing, SINA has always tried to lighten its news provider image.

Third, compared to the government's clear stance on controlling information flows online, its vague attitude to some issues regarding the business development of the Internet companies troubles the industry a great deal. Therefore, both sides are making a common effort to clarify a proper stance for the government in the new economy.

Basically, the Chinese government positively embraced the new economy represented by applications of the Internet. Based on this attitude, the main two issues faced by the government are how to take advantage of the new technology as the propeller of economic development while preventing its possible negative impacts on its dictatorship. There is no space for negotiation on the political control issue on the

Internet. On the contrary, there is plenty of space for the possibilities regarding policy making involved in the Internet's commercial applications.

However, both the industry and the government do not have a clear picture of how to lead the Internet applications to a promising direction without comprising the benefits of either side. The government lacks a mature system for supervising and directing the development of the industry. For example, the emergence of the relevant regulations lagged behind the real operations of the Internet companies and there were gray areas existing in the business development of the Internet companies.

The Security Law, announced in 1997, was behind the IPO of China.com on NASDAQ trading and it still didn't answer the question of how to standardize the application process of the Chinese Internet companies, which are registered outside of China. Compared to the entry into NASDAQ trading of SINA and SOHU, the entry of China.com to NASDAQ trading was much easier because it escaped the complicated examination from the Chinese government. The announcement of the Security Law erected some administrative barriers for the NASDAQ trading of SINA and SOHU even though it did not clearly indicate what those companies should be complying with step by step during their application processes for NASDAQ trading.

The government not only lacks mature laws or regulations on the development of the industry, it also lacks explicitness on existing regulations. In the regulation that prohibited the entrance of foreign capital into the ICP business, it did not clearly indicate how the government would deal with the cases of SINA and SOHU that are theoretically foreign companies doing ICP business in China. Some executives expressed their worries about the possibility that the government would go back and deal with the gray areas

when it feels it is the time. Nobody can predict the next step of the government. This ambiguity of the government on supervising the industry could be explained as the result of its lack of knowledge of the new economy, but also could be viewed as a strategy taken by the government to deal with the industry when it is not sure how to balance its resolution of taking advantage of the Internet and the intention of controlling information flows on it.

The one way out for both the industry and the government might be well-intentioned communication. Wang Zhidong understood the relationship with the government as interactive. He asserted that he believed the welcoming attitude of the government to the new economy. Therefore, based on this belief, he thought that the development of the Chinese Internet industry was a process of learning new technology and new economy for both sides. Thus, the industry should take responsibility for providing relevant information to the government for its policy-making.

6. The Internet industry is closely connected with the entire Chinese political-economic environment.

These four case studies showed that they were closely connected with the entire Chinese political-economic environment and affected by it. While as ICPs, SINA and SOHU were obviously affected by China's political situation, the case studies of 8848 and Alibaba showed that they were more engaged with the immaturity of the Chinese economic environment.

When 8848 and Alibaba were pursuing their business development in this field, they unavoidably needed the cooperation of other social fields. At this point, the problem of the immaturity of the whole market emerged and affected the development of this

industry. The issues reflected by their experiences are still those issues met by other industries during their business operations such as the need for a banking system reform and mature capital market, the conflicts between internationalization and localization, unfair allocation of national resources etc.

The Chinese Internet industry has its own characteristics but is also a mirror reflecting the entire environment in which the Chinese reform and openness are proceeding.

Conclusion:

Through the case studies of four leading Chinese Internet companies, a bigger picture of the Chinese political- economic environment emerges. This bigger picture has the following features.

1. China is inseparable from the global community.

Even though China is still characterized by its communist political status and is still in the process of switching from the traditional planning economy to the market-oriented economy, undoubtedly, it has already been closely connected to the global environment. The features of the Chinese Internet industry especially highlight this point. As the literature review for this research shows, information technologies are shaping the economy and society in a global sense. A new phase called the “information society” or “knowledge society” or “networking revolution” or “information revolution” is coming with the unceasing development of information technologies among which the Internet is the newest and the most revolutionary one. Not being isolated from the international system any more, China was unavoidably involved in this global social and economic revolution originating in developments in communication technology. The introduction of the Internet into China and the rapid formation of the Chinese Internet industry closely followed the global trend. For the first time, China showed its ability to catch up with the global pace.

Compared to other earlier reform actions, which were focused on restructuring the domestic economic system and on redesigning the economic components that lead to a mature Western-type marketing model, the Chinese Internet industry demonstrated China’s first successful effort to simultaneously follow the newest global trend with other

developed nations. First, the Chinese Internet industry was generated by rapidly copying the models of Internet applications in the developed world, especially in the USA, without the long-term development and self-improvement process that the Western Internet industry has gone through. The four Chinese Internet companies were founded based on the models that the American Internet industry created and used. They also keep up with update in the American Internet industry. Secondly, the pattern of development that the Chinese Internet industry has gone through also fits with the ups and downs that the American Internet Industry has experienced. From April 2000, alerted by the comprehensive fall of its stock performance, the American Internet industry entered a self-inspection and readjustment period. Directly affected by the negative performance of their American counterparts, the Chinese Internet industry also entered a period of retreat. China's case also shows the leapfrog opportunity that IT provides to developing countries. When its reform and openness campaign started in 1978, China was just a country trying to switch to the industrial era from the half-agricultural phase, but now it is standing at the threshold of the information society with other industrialized countries.

The case studies also verified the close connection between the Internet industry and the government, which pays attention to the coming and shaping of the new economy. The ability to rapidly absorb the experiences of the developed countries in Internet commercial applications prove that China should be able to leap ahead when facing the opportunities brought by the information technologies.

The Chinese Internet industry is an example which demonstrates the increasingly close relationship of China with the international community. The openness to the outside and the domestic reform are the two main and interacting themes for China. In order to

reform the existing backward economic system, China has to learn from the developed ones. During interactions with the outside-developed world, how to attain advanced knowledge transfer from developed countries has been a main concern for Chinese policy makers. In the Chinese Internet industry, the import of sophisticated technologies and foreign capital especially frequent and prominent. The state of the art technological developments in the Internet field are rapidly introduced and applied in China. In addition, the closely reciprocal relationship between Chinese operators and Western investors pushed the Chinese Internet industry to a higher management level. The import of numerous international human resources is strong proof of the need for an advanced management.

The Chinese Internet industry show the unprecedented closeness between China and the outside and therefore verifies the increasing compatibility of China with the international community.

2. Localization is still a key issue in China's increasing connection to the global community.

As this research on the Chinese Internet industry shows, while China is inevitably engaged in the globalization process that is sweeping the whole world, localization is also important. The case studies presented a picture of the tremendous conflicts existing between international forces and local forces. After all, returning to China's present situation, it is still a communist country under the dictatorship of one party and it is still in the infant phase of the market economy. In addition, its unique cultural traditions also have impact on every type of operation in China.

Since high-tech companies are placed at the front line of connecting with the international society, they are required to be more compatible with international rules. Therefore, the conflicts between international forces such as the requirements of foreign capital, cultures of multinational companies and the needs for international human resources and local forces such as local market focuses, political impacts and cultural philosophies are reflected more intensely. In the eyes of foreign investors, China is a market with huge potential in light of its size and a lower starting point in commercialization of information technologies. Foreign investors also bring in their own standards and operational means. However, while injecting advanced knowledge and fresh energy into this land, they are unavoidably required to adjust themselves to the present situation in China.

As the case studies show, the practical considerations related to China's present situation have the following three aspects. One is China's political status. No matter how heatedly scholars and observers argue whether what is happening in China is reform or transformation, the fact is that the Chinese government controlled by the communist party, is still firmly in charge of the country. As a characteristic of dictatorship, control of information flow is a reality in China and censorship of disseminated information is still very active. Therefore, the Chinese Internet industry has to face potential political conflicts with the government. It is an inevitable issue especially for Internet Content Provider (ICP).

The second aspect of China's present situation is its economic development level. As the literature review indicated the present situation of the developing world in the information age is different from that of the developed world in terms of economic

strength. Still in the process of evolving to a mature market system, China is not offering an ideal environment for the new economy. In the developed countries such as the USA, Internet applications are established on a stronger economic base which can smoothly provide support from other industries for the Internet industry. In contrast, the development of the Chinese Internet industry is limited by multifaceted external factors. As the cases of 8848 and Alibaba show, factors such as existing delivery channel construction, the banking system and so on have greatly restrained the development of e-commerce in China.

As the findings also indicated, even with the injections of the newest technologies, sufficient funds and sophisticated management knowledge, the Chinese Internet industry is still troubled by the immaturity of the market environment as other industries are. For example, an issue raised by the practice of Chinese reform and openness is the relationship between state owned or state supported economic bodies and private business bodies. Observers, scholars or players have always criticized the unfair allocation of national resources between the two. For the Chinese Internet industry, the lack of access to the national stock market that is tailored for the needs of state owned or state supported enterprises pushed it to look for support from overseas stock markets. In addition, even though the absolute monopoly of China Telecom in the telecommunication field has been replaced by limited competition among four national fixed-line carriers-- China Telecom, China Unicom, Jitong and Netcom, as value-added telecommunication services providers, the Internet companies still do not have too much negotiation space to lower costs in terms of using national telecommunication resources. China's basic telecommunication resources remain controlled by a handful of state owned companies,

having a narrow grasp of the scope of competition. China Telecom could still crush Internet companies by denying access. As a vice president of one Internet company said, this is not a free economy; it is very important to manage a good relationship with the government.

The government also steps into the concrete operations of the information industries through funding or other ways. There are some industry players who have powerful state-linked backing. Specifically, in the Internet industry, the case studies also showed the unfair competition caused by the interference of the government. These unfair practices such as resources allocation are just one of the legacies of the traditional planning economy. As a subsystem of the whole society, the Chinese Internet industry was inevitably affected by the legacies of the traditional planning economy.

The third aspect regarding China's present situation is the policy-making ability of the Chinese government. The literature review mentioned a great uncertainty in Chinese policy making related to the diffusion of IT, reflecting the hesitation of the Chinese government in making decisions on how to use the new technology best without side effects because the diffusion of IT, represented by Internet applications, is a new issue for the Chinese government. The findings indicated that the issuing of regulations with respect to the Internet industry was behind the operational situation, thus the Chinese Internet industry lacked guides in running businesses. In addition, the contents of the announced regulations are vague as they do not deal with many realistic issues faced by the Chinese Internet industry. Meanwhile, there are conflicts between the regulations and their realistic application.

For China, there exists an additional consideration of effective political control on information diffusion. While facing the opportunities brought by the information technology, like all governments in the world, the Chinese government faces the challenge of proper policy making related to a new economy. At the same time, it even faces an more complicated challenge because it wishes to stay as a dictatorship which is opposite to the liberal and open essence of the Internet. This task of making proper policies for all areas of government could not be accomplished in a short time, as there are no precedents to be followed. The government and industry around the world must work together on policies that encourage the Internet's progress.

In China's case, the relationship between the Internet industry and the government verified the existence of this cooperation and also reflected a long time interactive relationship between non-state economic sectors with the government. As the literature review indicated, there exists certain privatization and liberalization in the Chinese information industries. Hence, there has always been the issue of the relationship between the non-state sector and the state sector represented by the government. In a case study about Stone Group, China's premier electronics company founded in 1983 as a collective enterprise, fundamental questions about the nature of state-non-state relations in the post-Mao era was raised. The study showed that what appears as a liberation of society pushed by the emergence of the non-state economy has actually been an incorporation of society, albeit under grossly altered terms (Kennedy, 1997). However, after the Tiananmen Square democratic demonstration in 1989, Stone Group stepped back from the independence/political and social activism it displayed in the 1980s (Kennedy, 1997). A

similar conclusion could be drawn from this study regarding the Chinese Internet industry.

Both the literature review and the case studies indicated that there is one thing for sure to be strictly controlled: the unwelcome information flows through new information technologies, especially through the Internet.

However, the flexible, though ambiguous attitude of the government to the Internet industry still provides space for corporation between industry players and policy makers. Compared to Stone Group, the Internet industry showed less interest in political activism and more attention to profit making. They keep a very positive attitude to communication with the government in order to gain assistance from policy makers. They didn't put themselves on the waiting and receiving side in terms of their relations to the government.

Consequently, China's present situation has made localization of the Chinese Internet industry unavoidable. On one hand, localization means flexibility, which is the ability to understand the Chinese way of doing and thinking things. The case studies also showed the great flexibility of these four companies. On the other hand, localization also means more considering the needs of Chinese users and the present situation of the Chinese market.

Clearly, operators who focus their businesses on China have to take China's present situation into their account. Localization is a very imperative issue for succeeding in China for every industry. In the Internet industry, the conflicts between internationalization and localization may have been more intense because of the short history and intense development of the industry.

3. A networking revolution in China is required by the new economy.

As quoted in the literature review, the proposal for a World Bank Group Strategy indicated that the impacts of IT on society are far-reaching and comprehensive. The literature review also mentioned that in the most recently published final report for World Bank and InfoDev (the Information for Development program), “networking revolution” is used to define the core characteristic of the coming information society: a combination of powerful technological, regulatory and demand-side developments is accelerating the development of “networking.”

Since the impacts of IT reached various aspects of the society in a global sense, correspondingly, a networking revolution of the present social system is required in order to have IT’s advantages realized to the fullest. Specifically referring to China, the case studies showed that the characteristics of the Chinese Internet industry have implications for the whole economic-political environment and reflect an urgent need for a comprehensive reform related to multifaceted fields. For example, weak network services and infrastructure have greatly hindered the development of the industry. An inadequate legal and commercial framework also affects the situation of the Chinese Internet industry.

Since the development of the Internet industry is not isolated from the whole environment and it needs the cooperation of various social, economic, and political fields,

a comprehensive networking revolution involving various aspect of the society will be necessary for the positive and continuous development of the Internet industry itself.

As a single case, China's situation reflects the common ground where the developing countries are facing the new challenges of the phase of society. Exciting opportunities and sincere challenges come to the developing countries at the same time. Specifically, in China's case its political status makes the prospects of the new phase of society unpredictable. The new phase is welcomed and viewed as a positive force in the nation. Meanwhile, its rapid formation and development are ahead of the government's understanding of its functions and are beyond the government's ability to properly handle it. This imbalance raises many challenges for the Chinese government in the future such as general policy making and developing the matching social, economic, and political systems customized for the needs of the new phase of the society.

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Appendix

Interview questions:

1. Questions related to the four companies:

- A: How do you comment on the advantages and disadvantages of SINA and SOHU in terms of their competitive relationship?
- B: Wang Zhidong has mentioned the term “game rules” on various occasions. How do you understand its connotation?
- C: Do you think SOHU and SINA copied models of their American counterparts?
- D: Zhang Zhaoyang said that he felt sad for Chinese Internet companies, which had to pursue NASDAQ trading. How do you understand his feelings about this subject?
- E: How do you comment on the leading ability of Wang Zhidong and Zhang Zhaoyang?
- F: How do you think about the dismissal of SINA’s dream team?
- G: What do you think about the profit points of these four portals?
- H: Some people argued that 8848 was a typical case in the industry, which was controlled by the influence of foreign capital. How do you think about this point?
- I: What are your comments on the split of 8848?
- J: Ma Yun claimed his management philosophy was the model of Eastern wisdom plus Western management styles. How do you understand it?

2. *Questions related to the Chinese Internet industry:*

- A: How do you view the role of the government in the industry?
- B: What do you think about the regulations and laws on the Internet?
- C: What do you think about the involvement of foreign capital in the industry?
- D: What are your comments on the conflicts existing within management teams in the industry?
- E: What obstacles exist in the development of the Chinese Internet industry?
- F: What is the position of the industry in the relationship with the government?
- G: Once foreign Internet companies such as Yahoo and MSN are allowed to enter the Chinese market, what is the position of the Chinese Internet industry in terms of the international competition?