

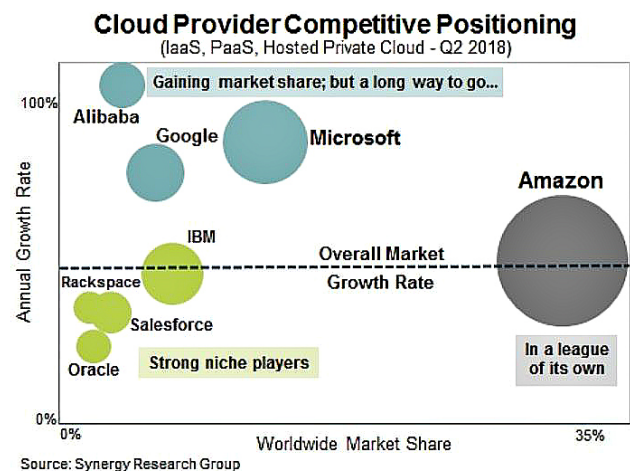
## How Alibaba Uses Blockchain to Compete in the Cloud

**Foreign companies can use emerging tech to build a reputation as a strategic partner in solving local problems.**

There is a lot of excitement about big Chinese tech companies. The world looks in awe as Baidu, Alibaba and Tencent (the “BAT”) go from success to success in China. In recent years, some of these big Chinese tech companies have been entering foreign markets, particularly in Southeast Asia. The most prominent examples have been Tencent’s WeChat, Alibaba’s investment in Lazada’s Southeast Asian e-commerce business, and Bytedance’s successful TikTok and Musical.ly apps in the United States and elsewhere. Most recently, big Chinese tech firms have moved into corporate technology solutions for multinationals, an arena that American (Microsoft, IBM, Amazon, etc.) and European (SAP, Siemens, etc.) providers have dominated thus far, thanks to their massive technological capabilities and strong customer relationships.

Cloud services is one industry where big Chinese tech companies are keen to make international inroads. Comparing the worldwide market share of the biggest cloud players, Amazon is in a league of its own with a market share of **33 percent**, but Microsoft, IBM and Google are also doing well. So well in fact, that some may say complacency has crept into U.S. tech, resulting in a monolithic approach: A strong salesforce goes after the juicy multinational accounts of this world, offering generic solutions with a tiny amount of customisation. Meanwhile, Alibaba’s market share is a single digit

(4 percent), but it is growing the fastest, powered by an entrepreneurial mindset.



For geographical, cultural, and strategic reasons, Chinese firms have always had an eye on the

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Southeast Asian market. Alibaba in particular has shown a keen interest in the region. Just think of Lazada, the Singapore-headquartered e-commerce retailer in which Alibaba has **invested** US\$2 billion since 2016. More recently, Alibaba, through its Ant Financial (formerly Alipay) subsidiary, has leveraged blockchain to get into the global remittance business, currently worth US\$600 billion. My case study, “**Alibaba and Blockchain**”, examines the lessons we can learn from the use of this much-hyped emergent technology by big Chinese tech.

### **Making lemonade with lemons**

Many years ago, Alibaba co-founder Jack Ma had **promised** Filipino friends that they could one day use a service like Alipay to send money home and save on banks’ high remittance fees. While his original idea was to acquire MoneyGram and overhaul it, he had to come up with another plan after the Trump administration **nixed the deal**, citing national security reasons. Ma turned around and told the CEO of Ant Financial that they would just have to build something better than MoneyGram. In June this year, Alibaba, in partnership with Standard Chartered and Globe Telecom, launched GCash, a blockchain-based app that allows Filipino workers in Hong Kong to send money home quickly, securely and cheaply.

Blockchain is a distributed ledger, which means it is a way to permanently record transactions on a shared network, using a consensus process to do away with the need for third-party verification. Its association with cryptocurrencies such as Bitcoin – and by extension the dark web in early years – hasn’t done it any favours in terms of public relations, but many companies are paying close attention to its development and potential for disruption.

For instance, while blockchain could indeed disrupt traditional proprietary clouds, the GCash app illustrates how the technology could be complementary to the cloud services of big tech companies. For instance, an enterprise on Alibaba Cloud may be able, one day, to offer blockchain-based payments in supply chains or commerce with the simple flick of a switch. Compared to regular payment solutions, blockchain-based services could prove advantageous in terms of speed, security and costs. A semi-public blockchain could leverage the distributed computing power of a proprietary cloud. The central challenge is creating an ecosystem that encourages third parties to use the system and enables them to find the right business model to make it profitable.

### **How GCash creates value for all stakeholders**

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A key lesson is that Alibaba created value because it focused how the technology could be used to solve a local problem (the high cost of remittances) while cutting out the dominant middlemen, i.e. MoneyGram and Western Union. Its initial target market is the 200,000 Filipino workers in Hong Kong, who remit more than US\$550 million per year to their families. With fees reduced by about half, they stand to save US\$20 million per year, aside from the convenience of not having to queue at a physical counter. Looking ahead, the service also fits the profile of Alibaba’s home customer base, as more and more Chinese are travelling or living overseas.

GCash offers Alibaba a wide array of opportunities. First, it allows Alibaba to build capabilities and experiment with a new cross-border technology. There are precious few examples of such blockchain applications deployed at **scale**. With an early solution, Alibaba puts a stake in the ground, which could give it a first-mover advantage in the future.

The partnerships with Standard Chartered and Globe Telecom that were necessary in this first GCash launch are also a demonstration of Alibaba’s willingness to collaborate effectively with large corporations. Ironically, multinationals in foreign markets may offer more alliance potential than companies in China where BAT are already quite powerful. GCash acts as proof-of-concept, demonstrating that at least two different types of major partners – a bank and a telco – can successfully participate in a system designed and operated by Alibaba.

Most importantly, GCash is an opportunity for Alibaba to build its reputation as a problem-focused partner capable of managing strategic alliances with multinational companies. It is probably not an accident that it chose a sympathetic market as its first test case: A large percentage of the Filipino workers targeted are poor foreign domestic workers. This could allow Alibaba to reap excellent public relations value, combating the negative image that many Chinese tech companies face when going abroad.

As Ma **said** when he accepted an honorary doctoral degree from the University of Hong Kong earlier this year, “real businesspeople make money by solving social problems for others”. If the big Chinese and Western tech companies are to become a true force for good, they might as well achieve this by using technology to solve problems for us all.

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