MA VS. MA

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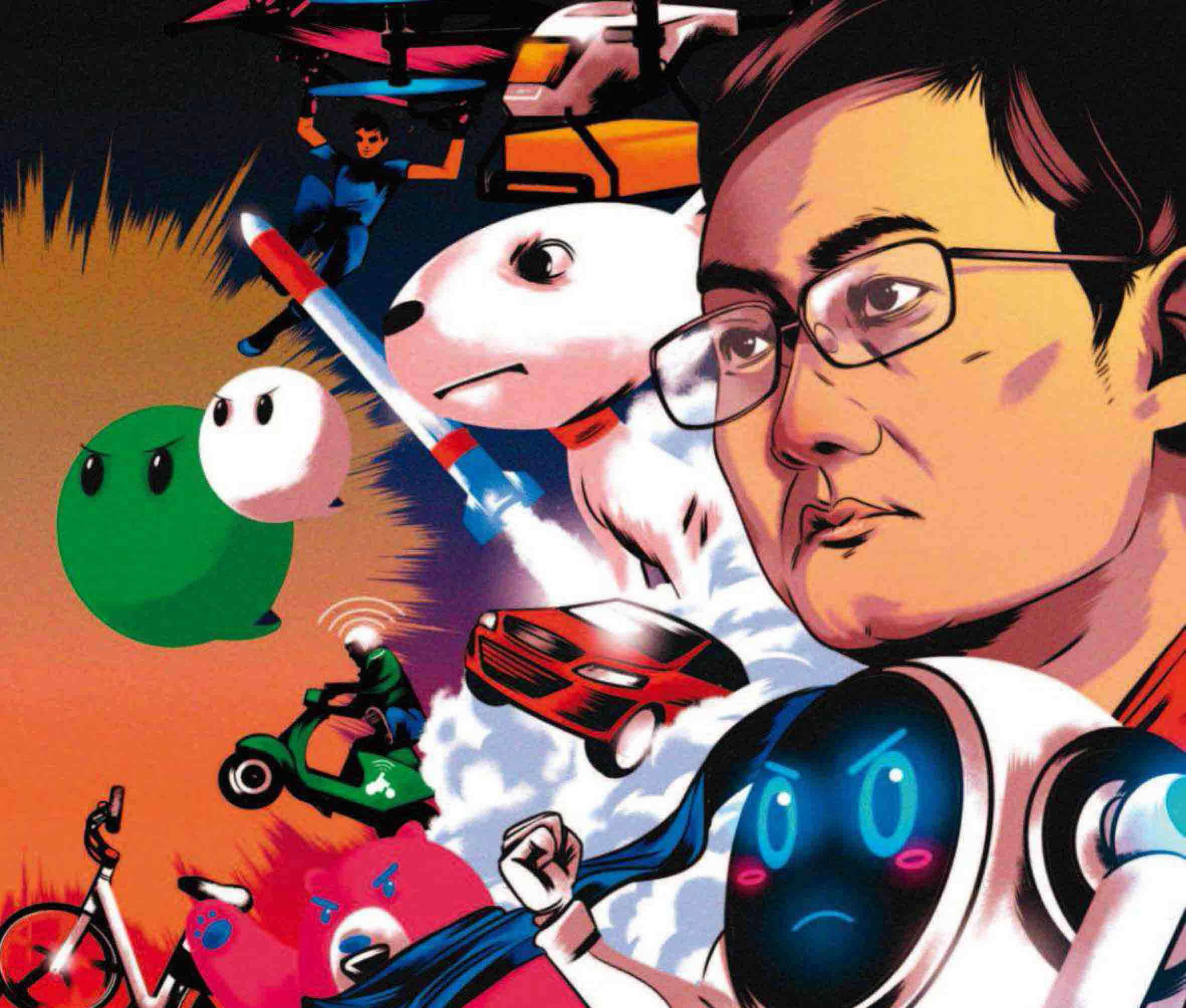

JACK MA OF **ALIBABA** AND PONY MA OF **TENCENT** BUILT TECH EMPIRES THAT DOMINATE CHINA'S DIGITAL ECONOMY. IS THE WORLD BIG ENOUGH FOR BOTH OF THEM? **BY ADAM LASHINSKY**

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THERE'S SOMETHING IRRESISTIBLE about a clash of titans. The fate of the world hung in the balance during the Cold War standoff between the U.S. and the U.S.S.R. Coke vs. Pepsi once mattered mightily. Ali-Foreman defined a pugilistic era. And then there's the celebrity spat pitting Taylor Swift against Kanye West. (Look what he made her do.)

For sheer global commercial stakes, however, these epic clashes have nothing on the battle between the two heavyweights of the Chinese Internet industry, Alibaba and Tencent. Both have market capitalizations that hover around half a trillion U.S. dollars. Both command sectors of the rapidly growing Chinese digital landscape: Tencent owns the leading gaming and messaging platform, while Alibaba rules e-commerce. Both are aggressive investors inside and outside China. Each is the pride of their not-quite-first-tier hometowns: Alibaba of the ancient city of Hangzhou near Shanghai and Tencent of shiny-new Shenzhen across the border from Hong Kong. Finally, both touch an astounding percentage of the world's most populous country: Alibaba's various online marketplaces count 552 million active customers; Tencent's WeChat messaging service recently surpassed 1 billion accounts.

IMAGEINGCHINA

For all these similarities, Tencent and Alibaba are sharply distinct companies, as different in culture, style, and approach as Apple is from Google. The duo sprang from the same era, the late 1990s, when China was discovering the Internet, and for years they built giant businesses more or less out of each other's way. Yet as they've grown, each inevitably has begun to encroach on the other's turf. Tencent, for instance, is investing in retail and financial services, sectors that are Alibaba's strength. Alibaba in turn sees an opening in Tencent's domain, particularly by offering mobile-messaging tools to its vast network of small-business partners.

There's one last unavoidable comparison between the two combatants. Their top leaders share a surname, though Alibaba's Jack Ma and Tencent's Pony Ma aren't related. As the Chinese character for Ma signifies a horse—the genesis of "Pony's" English nickname—the contest between the two stallions of the Chinese Internet literally is a two-horse race. And the trophy they're racing for is nothing less than the No. 1 position in a digital economy that's growing faster and evolving more dynamically than any other nation's.

SHARING THE LOVE
Left: Pony Ma, Tencent's CEO, hands out "red envelope" financial gifts to Tencent employees. Above: Jack Ma, Alibaba's executive chairman, takes part in an annual group wedding at Alibaba's Hangzhou headquarters.

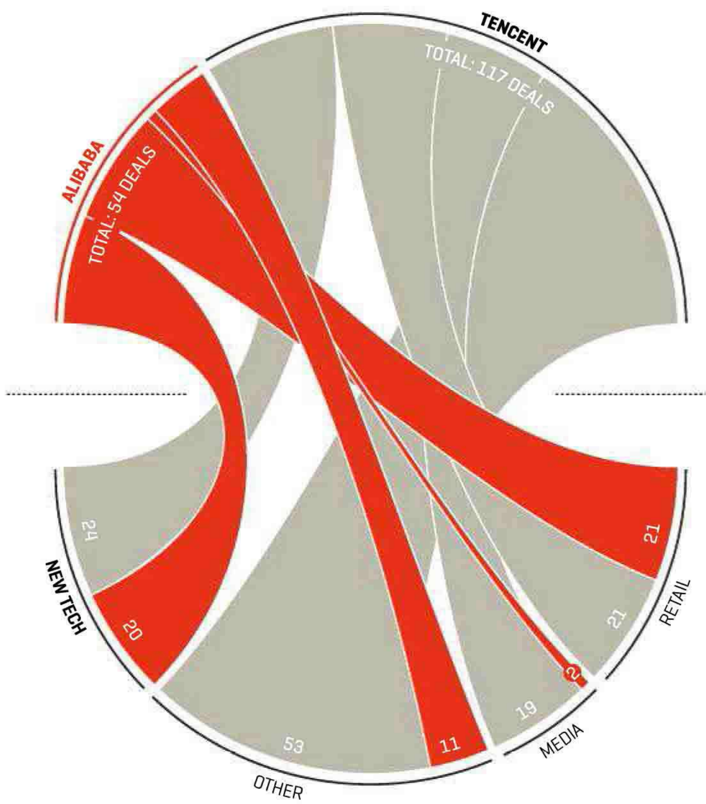
The two men, who've known each other for years, are quick to profess mutual respect. But as their rivalry heats up, those assertions are increasingly a prelude to damning the other with faint praise—or worse.

Huateng "Pony" Ma, a reserved engineer who rarely speaks to Western media, lashed out at Alibaba at the *Fortune* Global Forum in Guangzhou, China, in December, for example. Ma, who is 46, compared his nemesis to a greedy landlord because Alibaba's market-leading Taobao e-commerce site charges merchants listing fees. "Our position is not to compete with our partners but to enable them," said Ma, speaking in Mandarin through an interpreter. Alibaba, he noted, can raise the rent on its tenants whenever it wants, whereas "Tencent doesn't have a mall where we rent the shops to vendors." Instead, he argued, WeChat offers a "decentralized" platform that partners can use to sell things independently from Tencent, with "no rental fee."

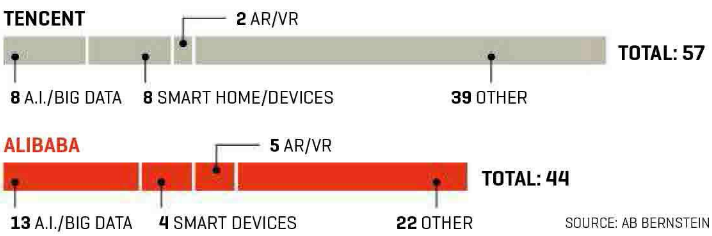
An Arms Race in Shopping Tech

Alibaba and Tencent have made dozens of investments in smaller tech and retail players—with many focused on A.I., virtual reality, and other tech that can enhance shopping. The goal: to dominate both off-line and online retail for China's fast-growing middle class.

M&A AND INVESTMENT ACTIVITY SINCE JAN. 1, 2017



BREAKDOWN OF NEW TECH DEALS, JAN. 2008–MAY 2018



SOURCE: AB BERNSTEIN

Months later, 53-year-old Jack Ma, a globe-trotting business celebrity with a gift for gab, returns the volley without mentioning his competitor by name. Tencent has a reputation as a company adept at wringing profits out of its platform. "Culturally, we are very different," the Alibaba founder says, speaking expressively in English, during a recent interview at Alibaba's headquarters in Hangzhou. "We're more idealistic. We want to do something good, while making money. We trust people more than our products."

There are limits to this archenemy motif. Alibaba and Tencent attack the market differently, in ways that have often allowed them to grow without butting heads. Alibaba's is largely a strategy of buying controlling stakes in businesses that are a fit with its commerce platform; Tencent takes hundreds of minority stakes in an array of businesses to win over partners and gain access to their technology. What's more, the competition is hardly a zero-sum game, thanks to the rapidly expanding Chinese middle class.

Still, the companies can and do play hardball. In an economy in which e-commerce is dominant in ways unthinkable in the U.S., each company stymies the other's payment service on their main platforms. And when Tencent and Alibaba sign on investment bankers, they reportedly make it a condition that the bankers work exclusively for them. (Many companies impose such restrictions, but they have greater consequences coming from Tencent and Alibaba given that the two also are major venture capital investors and the prohibitions could impinge on work with the companies in which they invest.) Even if the world is big enough for both of them, Tencent and Alibaba increasingly are in conflict. "Until recently, everyone played in their own sandbox," says Deborah Weinswig, New York–based CEO of the China-focused retail consultancy Coresight Research. "Now the sand is starting to spill over."

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HANGZHOU is famous for its bucolic West Lake, and for being the terminus of a canal from

Beijing that a millennium ago made it one of the richest cities in China. Today, it is best known as the place where Jack Ma and 17 friends started Alibaba in the drab Hupan apartment complex in 1999.

Alibaba maintains the Hupan site in its original state, but not as a museum. Instead, the company uses it as a history-steeped new-business incubator. A short drive from Alibaba's massive headquarters, a campus of steel-and-glass buildings that wouldn't be out of place in Silicon Valley, the Hupan apartment is stuck in China's pre-glamorous phase. A baby stroller and laundry drying on clotheslines sit outside the building, presumably belonging to people who, unlike Alibaba's employees, actually live in the complex. Up a short flight of stairs, 40-some engineers are crammed into a four-bedroom apartment, where photos of the founding Alibaba team adorn the walls. A whiteboard bears a famous quote from late paramount leader Deng Xiaoping. "Development is the absolute principle," it states, scribbled there by another paramount leader, Jack Ma himself.

The fledgling business enlivening the apartment today is called DingTalk, and its placement in this grimy flat—a dilapidated microwave and spaghetti-wired server rack attest to its startup authenticity—is purposeful. DingTalk is meant to take on Tencent's category-leading WeChat messaging service, you see, and its leaders have been bestowed the ultimate privilege of incubating a business here. The apartment is a "holy space," says Chris Wang, head of global business development for DingTalk, noting three illustrious businesses that preceded DingTalk here: Alibaba itself, originally a website that matched vendors with suppliers; Taobao, its main retail platform, which dominates Alibaba's business today; and Alipay, the payment product that became Ant Financial Services, a multibillion-dollar operation in its own right.

At first blush, the similarities between DingTalk and WeChat are striking. Users can employ it to send messages, make phone calls, and exchange contact information, just like WeChat. Yet the guts of DingTalk, a series of low-cost Slack- and Skype-like "enterprise communications and collaboration programs," reflect Alibaba's commercial orientation. Alibaba's mission, any employee can tell you,

Chess Pieces in Southeast Asia

The markets of the Association of Southeast Asian Nations (ASEAN)—home to 640 million potential customers—have become the first battleground outside China for Alibaba and Tencent. **By Clay Chandler**

REVVING UP Motorcycle drivers for Grab and Go-Jek in Jakarta, Indonesia.

ALIBABA and Tencent each collect only a small fraction of their revenue outside China. But their overseas competition is heating up in Southeast Asia, where each has spent billions to secure major stakes in top startups.

MORE E-COMMERCE
Alibaba made the first major Chinese investment in the region's tech sector in 2016 when it bought a 51% stake in Singapore-based **Lazada**, Southeast Asia's largest e-commerce platform; it has since bought most of the rest of the company. In February, Alibaba installed Lucy Peng, a past leader of its mobile payment affiliate Ant Financial, as Lazada's CEO. Lazada has been overhauling its business model to mimic Alibaba's, connecting shoppers to outside vendors and outsourcing delivery; it now boasts 560 million customers.

Analysts had expected **Tokopedia**, Indonesia's biggest e-commerce firm, to team up with Tencent. But in August, thanks partly to the intervention of SoftBank founder Masayoshi Son, an early Alibaba backer, Alibaba swooped in with a $1.1 billion funding round.

A GAMING-PLUS PLAY
Tencent owns 40% of **SEA**, a Singapore-based gaming-app company that raised more than $1 billion in an October listing on the New York Stock Exchange. Tencent has encouraged SEA to broaden its platform into e-commerce and financial payments. SEA has also invested heavily in its mobile e-commerce platform, Shopee.com—which ranks as a top five retailer in all the region's major economies.

UP FOR GRAB(S)
Tencent's other major investment in Southeast Asia is **Go-Jek**, an Indonesian startup that began as a motorbike-on-demand service and has expanded into ride hailing for four-wheeled vehicles. Tencent, which led a $1.2 billion funding round for the venture last summer, has encouraged Go-Jek to transform its app into an all-purpose platform similar to Tencent's WeChat.

Go-Jek's nemesis is **Grab**, the Singapore-based venture that dominates ride hailing in the region. Alibaba has reportedly been in talks for a stake in Grab, but other funding rounds have made headlines. In June, Grab secured a $1 billion investment from Toyota, valuing the company at more than $7 billion and making it the region's most valuable startup.

In March, Uber said it would sell its operations in Southeast Asia to Grab for $1.6 billion and a 27.5% equity stake. Immediately afterward, Go-Jek announced plans to expand into four markets where Grab operates—Thailand, Vietnam, Singapore, and the Philippines—and Tencent reportedly has offered Go-Jek an additional $1 billion as fuel for the fight.

DIMAS ARDIAN—BLOOMBERG/GETTY IMAGES

is to “make it easy to do business anywhere.” DingTalk’s goal is to provide WeChat-like functionality to small businesses, and then to upsell them typical business-software fare like customer-relationship and cloud-storage tools. “Small and medium-size enterprises need something very low cost,” says Wang. “We at Alibaba have access to great technology” that smaller companies lack.

After years of teaching businesses how to use technology, selling it to them directly is a major new thrust for Alibaba. It made significant investments in selling cloud-computing rental services, for example, and now it’s the leading provider in China, reaping $2.1 billion in revenue last year from that business. (Amazon began implementing a similar strategy in the U.S. around the same time.) And two years ago, Alibaba started pursuing a “new retail” concept of providing technology and services to traditional retailers, including grocers, department stores, and even mom-and-pop bodegas.

The “new retail” push aims to digitize the most mundane businesses. On a lazy afternoon in late May, Huang An, who with his father runs a small market in Huangzhou near Zhejiang University, proudly demonstrates what he has learned as a guinea pig for Alibaba’s “integrated retail program.” He and his dad have rebranded their shop, about the size of a typical 7-Eleven, the Tmall Weijun Supermarket, Tmall being Alibaba’s online emporium for higher-end brands. The program brings this small operator modern tools like inventory-management software and sensors to monitor foot traffic as well as camera-generated heat maps to show where customers are spending their time. “I don’t need to second-guess my judgment anymore because now it is based on data,” says Huang, who manages that data on a desktop computer as well as on his mobile phone.

The Alibaba-affiliated store is just one part of the conglomerate’s so-called online-to-offline strategy. Alibaba has taken stakes in an electronics chain, Suning, and a Costco-like hypermart, Sun Art. It has opened its own line of grocery stores called Hema, where affluent shoppers can choose a live fish from a tank and have it prepared for lunch. And it has bought outright Ele.me, a leading food-delivery service. Each is a customer for Alibaba’s cloud and other technology services, as well as a way to expand the customer base for the market-leading Alipay. “We always focus on commerce,” says Daniel Zhang, Alibaba’s CEO. (Jack Ma is executive chairman, having given up the CEO role five years ago.)

“UNTIL RECENTLY, EVERYONE PLAYED IN THEIR OWN SANDBOX. NOW THE SAND IS STARTING TO SPILL OVER.”

Commerce, in fact, is the glue that holds together Alibaba’s disparate parts. It began Alipay as a way to let merchants collect from shoppers on Taobao. Now Alipay is part of Ant Financial, which recently raised $14 billion, thought to be the largest venture capital investment ever. Alibaba co-opted “Singles Day,” an unofficial holiday that celebrated unmarried adults, creating what Americans would call a “Hallmark holiday” by turning it into a nationwide orgy of e-commerce. Singles Day in 2017 rang up total sales of $25.3 billion—that’s almost $6 billion more than Americans spent online over the entire five-day Thanks-

and really create exponential value. Whereas if you just make a financial investment, you're counting an internal rate of return. You're not creating real value."

IF HANGZHOU is one of China's oldest big cities, Shenzhen, the home of Tencent, is one of its newest. Once a small town on the way from Hong Kong to Guangzhou (formerly Canton), its fortunes changed in 1980, when central planners declared Shenzhen one of China's first special economic zones. Factories flooded in, then "makers" who tinkered on the world's next-generation gadgets, and finally global technology companies including drone star DJI and controversial smartphone maker ZTE. Today, Shenzhen is a massive city with broad, tree-lined boulevards and scores of skyscrapers, including the nearly 2,000-foot-tall Ping An Finance Center, the fourth-tallest building in the world. The building's observation deck offers a stunning view of distant Hong Kong as well as the Pearl River Delta, an expanse that local boosters like to call the Greater Bay Area.

Tencent occupies several Shenzhen skyscrapers, including its just-opened headquarters that join two towers in a single lobby. The twin towers also are connected by an aerial bridge, and they offer the latest in urban-workplace comfort. Facial-recognition sensors grant workers access to elevators. A running track and swimming pool high in the sky are among the many amenities. The vibe in Tencent's lobby is cosmopolitan and stylish, in pointed contrast to the suburban-nerd atmosphere at Alibaba's campus.

Tencent began life in 1998, and its first product, a messaging service for personal computers called QQ, was a copy of ICQ, the Israeli messaging service that also was the basis for AOL's Instant Messenger. Tencent quickly got a rap as a copycat, but it excelled at innovating on top of what it borrowed. QQ offered games, phone calls, and other Internet services embedded within the messaging platform, and Tencent made money by selling

giving weekend shopping period. Alibaba also stitched together an alliance of shipping companies to form a China-wide delivery giant called Cainiao, in which Alibaba has steadily increased its ownership stake. Its goal, as dictated by Jack Ma, is to be able to deliver merchandise anywhere in China within 24 hours, no small feat, and globally in 72 hours, also a stretch goal.

These disparate but coordinated parts encapsulate Alibaba's commercial worldview, and also its view of how it matches up—favorably, if it does say so itself—with Tencent. "They don't operate anything outside of China," says Joe Tsai, Alibaba's U.S.-educated vice chairman and Jack Ma's longtime finance and strategy lieutenant. "They kind of want to take the shortcut approach by sprinkling some investments in these countries. Only when you operate can you generate synergies

FRENEMIES, THEN FOES Jack Ma (left) and Pony Ma at the 2013 launch of ZhongAn, an insurance venture in which Alibaba and Tencent invested. Today, the companies avoid backing the same projects and often invest in rivals in the same industry.

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"virtual goods" within its games, like adding "energy" to make a game last longer. When the era of the smartphone hit, Tencent proved adept at competing against itself: A contest among several internal teams begat WeChat—and the group responsible for QQ did not win.

It is difficult for those outside China to appreciate the ubiquitous power of WeChat. Tencent ingeniously appropriated an older technology, the two-dimensional QR code, in empowering WeChat to utilize a smartphone's camera to scan all manner of information. QR codes are how people in China exchange their contacts or download coupons. Once Tencent added WeChat Pay in 2013, the codes became a convenient way to exchange money too. Says Pony Ma: "We have transformed WeChat from people-to-people connections to people-to-service connections."

Indeed, with WeChat recently having surpassed 1 billion accounts—some users have more than one—the service is becoming something akin to a digital operating system for the entire economy. This isn't an accident. In 2014, WeChat offered a digital product called a "red envelope" that mimicked the centuries-old custom of giving gifts of money at the Chinese New Year. The feature went viral, and by the end of last year, 800 million users had linked WeChat to their bank accounts. "Now everywhere in China, in parking lots, farmers' markets, even at temples, and beggars on the streets, they all accept WeChat Pay with a simple scan," boasts Pony Ma.

The shrewd adoption of technology to cultural norms shows how both Tencent and Alibaba have moved well past copycat status. "Their success is due to their ability to be culturally innovative," says Tricia Wang, a New York–based sociologist turned consultant who studies social digital behavior in China. "They got to where they are by hijacking the culture," she says, citing Tencent's red envelope success as well as Alibaba's Singles Day stratagem. "They did a culture graft in the same way horticulturists perform grafts on plants." This agility also has put the companies on a collision course. In 2014 Alipay powered 81% of online payments in China, per iResearch data. And while the mobile-pay market has grown some 16-fold since then, Alipay's share has shrunk to 54%, while WeChat Pay now commands 38%.

It's also no coincidence that Tencent has identified as its next big thrust the online-to-off-line retail market that Alibaba also covets. Tencent calls its efforts "smart retail," compared with Alibaba's "new retail," and Tencent's offerings are centered around two features unique to WeChat. One is the "official account," a kind of template for brands and other businesses to reach consumers through WeChat. The other is the "mini-app," a lightweight application inside WeChat that requires less development effort than a built-from-scratch app and doesn't require consumers to download anything.

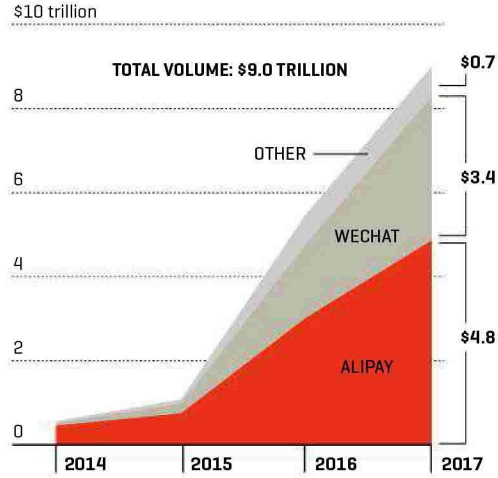
Introduced only last year, mini-apps have taken Chinese e-commerce by storm. "Because of mini-apps, WeChat is starting to see this explosion of social commerce that is changing the face of China," says Weinswig, the retail analyst. (This is an area America's social media giants have attempted to exploit, with little success.) Weinswig says total 2017 retail sales were up 10.2% in China, compared with 4.2% in the U.S., and that WeChat added about as many mini-apps in a year as Apple's online store added apps in its first four years.

Like Alibaba, Tencent has invested in retailers and service providers. The two most prominent are publicly held JD.com, Alibaba's biggest e-commerce competitor, and Meituan Dianping, the food-delivery foe of Alibaba's recently acquired Ele.me and a hot IPO prospect. Tencent frames its interest in retailing not as an attack on Alibaba as such but rather as a logical progression of its business. "Retail is 40% to 45% of the GDP of China," says Davis Lin, Tencent's strategy chief and head of its "smart retail" effort, in an interview in Shenzhen. (The comparable figure in the U.S. is only about 26%.) Retail "is related to every bit of a user's life," Lin goes on, evoking Tencent's mission of "enhancing the quality of human life through Internet services." Many of WeChat's services are free, making payments a key gateway to cashing in on all this activity. "We've been able to climb to where we are in roughly four years, which took Alipay more than 10 years," says Lin, referring to the number of users on WeChat Pay. "Now it's a real competition."

The Battle for Mobile Money

China's consumers are far more comfortable than most with cashless commerce, and its mobile payment market accounted for $9 trillion worth of transactions last year.

CHINA MOBILE PAYMENT TRANSACTION VOLUME



SOURCE: IRESEARCH GLOBAL

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FOR YEARS ALIBABA and Tencent were rivals only in the sense that both were successful and prominent examples of the Chinese Internet phenomenon. At first they weren't even that successful. "We were little brothers in the Internet industry playground," Pony Ma reflects, compared with the leading "portals" of the late 1990s. "We were second- or even third-tier companies."

Over time, the two probed the other's perimeter, to relatively little effect. Alibaba, for instance, launched a gaming division and a social network, neither of which caught fire. Tencent built an e-commerce site, called Paipai, but eventually sold it to JD.com. The rapid rise of WeChat, however, made Tencent a societal phenomenon, and in 2013, Jack Ma publicly urged employees to band together to "kill penguins," an unmistakable swipe at Tencent's flightless mascot. (Corporate China loves its animal-themed standard-bearers: The mascot of Alibaba's high-end shopping site is the Tmall Cat, its Hema grocery store's logo is a lovable-looking hippo, and Ant Financial's namesake is self-evident.)

Jack Ma was right to be concerned about WeChat. Tencent launched its red envelope program in early 2014, and suddenly Alipay had a credible competitor in mobile financial services. The Alibaba executive chairman, writing on an Alibaba social media site, labeled Tencent's action a "Pearl Harbor attack" that had been "beautifully planned and executed." That led to skirmishes in market segments like payments, retail, cloud computing, artificial intelligence, health care initiatives, and more. Pony Ma says he has counted more than 10 areas "where we fight Alibaba fiercely." Perhaps too many. "Every now and then I say, 'Really, this area too?' It bothers me sometimes."

Tencent's chief may be bothered, but his counterparts at Alibaba seem downright agitated. Joe Tsai, the vice chairman, doesn't mince words about his rival. He calls out Tencent's games for being addictive, as have government agencies in China. "Think about it," Tsai says over breakfast in Los Angeles. "They

PONY MA ▲ Shek O		**JACK MA** ▲ Victoria Peak
2009	YEAR BOUGHT	2015
8,000 SQUARE FEET	SIZE WHEN BOUGHT	9,900 SQUARE FEET
$7,625 PER SQUARE FOOT	COST	$19,500 PER SQUARE FOOT
19,600 SQUARE FEET	SIZE POST-RENOVATION (EST.)	12,400 SQUARE FEET

Ma vs. Ma in Hong Kong: a Luxury Real Estate Rivalry

The digital-economy billionaires bought huge homes in historic neighborhoods. Who made the better bet? **By Clay Chandler**

IT'S A TASK that vexes every self-respecting Chinese billionaire: finding a suitable mansion in Hong Kong. The former British colony is small, and the stock of magnate-worthy residences hasn't kept pace with the ranks of rich mainland buyers.

The two Mas have risen to the challenge in different ways, with each owning multiple residences, including one vast trophy home. In 2015, Hong Kong's *South China Morning Post* identified Jack Ma, Alibaba's co-founder and executive chairman, as the buyer of 22 Barker Road, atop Victoria Peak, home to Hong Kong's elite since the colonial era. The *Post* said Jack had purchased a 9,900-square-foot, four-story house for a jaw-dropping $193 million, or $19,500 per square foot, which at the time made it Hong Kong's most expensive residence per square foot. (Jack has declined to comment on reports that he was the buyer; Alibaba Group now owns the *Post*.)

Jack's Peak property includes a 20,000-square-foot garden and killer views of Victoria Harbor. As of mid-June, that was almost all it included: Workers had razed the 1940s-era house to the foundation, presumably in a prelude to a rebuilding project.

Pony's trophy purchase is on the Shek O peninsula, in a neighborhood even more exclusive than the Peak. A 40-minute drive from the central business district, most of Shek O is a protected park; it's famed for its beaches, craggy cliffs, and the spectacular vistas from its "Dragon's Back" hiking trail.

Tencent's CEO bought 13 Big Wave Bay Road from a Hong Kong shipping tycoon in 2009. It's one of about 20 mansions surrounding a golf course at the peninsula's southern tip. The course is part of the Shek O Country Club, a historic and exclusive private club. Since the 1930s, Shek O Development, a secretive private company, has leased the land on which the luxury properties are built. Houses there cannot be sold, renovated, or even painted a different color without the entity's permission.

Pony paid $61 million for the home, and won approval to redevelop and more than double the size of the 8,000-square-foot house. Analysts estimate that when the renovation is done, his property will have quadrupled in value.

The only drawback: The development company's rules could make it hard to sell. Pony's property may be bigger and worth more on paper than Jack's, notes Bruce Li, associate director at Asia Pacific Properties, but "if a seller can't get approval from the Shek O shareholders, all that means nothing." Indeed, Pony's presence there may suggest he's in Hong Kong for the long haul.

FROM LEFT: EAMON BARRETT; MARTIN CHAN—SOUTH CHINA MORNING POST make a product that's addictive, that is not terribly healthy for kids. How's that different from a cigarette company?" (Tencent's reach in gaming is global: Tsai notes that his son has become an avid fan of the virally popular "battle royale" game *Fortnite,* published by North Carolina's Epic Games, in which Tencent holds a 40% stake.) Tsai surmises that Tencent's pivot to retailing is connected. "They probably came to an existential realization and said, 'Wait a minute, we're in the wrong business.'"

Tsai may be misinterpreting Tencent's motives, but regardless, he thinks Alibaba holds the stronger hand. "Tencent has woken up and decided that they also want to become somebody in e-commerce," he says. "But we've been doing this for the last 19 years… It's not just about developing an app or a product for users. It's about creating an ecosystem and also the supply chains for the merchants."

Ecosystem is the operative word, and both companies can have sharp elbows when protecting their platforms. Each has invested aggressively in newfangled app-driven services like bike sharing and ride hailing, the better to lock in users to their ecosystems—and their respective payment services, key features, in a country where consumers are more than happy to forgo cash when they shop. (If you want to use Alibaba platform partner Ofo, for example, it is relatively inconvenient to pay with Tencent's WeChat Pay; using Alipay is a hassle when renting with Mobike, the bike-share contestant in Tencent's camp.) The two have effectively created "walled-garden" versions of the Internet, argues Tom Birtwhistle, a consultant with PwC in Hong Kong who has studied both companies extensively. "Consumers are blocked from traversing the two Internets." You can't move easily, for instance, from WeChat to Taobao. That's a far less genteel approach than Silicon Valley's titans take with one another: Apple hosts apps from Facebook and Google, for example. Those Western companies, argues Birtwhistle, may be "frenemies, but they've assembled together to form an integrated online experience." Not so Tencent and Alibaba.

On rare occasions, the two invest together, as they did in 2013 by starting an online insurance company, called ZhongAn, with insurer Ping An (whose CEO also is named Ma). Indeed, if history repeats, it's possible that many of the companies' jabs and feints at each other's properties will amount to just that. "Internally, Tencent people hold Alibaba in high regard," says one former Tencent insider. "They all buy on Taobao." What's more, Tencent would have to invest heavily and in a new way to match the physical logistics prowess of Alibaba and its Cainiao affiliate. "WeChat is positioned to be an important entry point, but no more," says the insider. At the same time, as it focuses on business applications like DingTalk, Alibaba understands it can't challenge WeChat's dominance in consumer messaging. Acknowledges Daniel Zhang, Alibaba's CEO: "Even I use WeChat."

"INTERNALLY, TENCENT PEOPLE HOLD ALIBABA IN HIGH REGARD," SAYS ONE FORMER INSIDER. MEANWHILE, ALIBABA'S CEO ADMITS, "EVEN I USE [TENCENT'S] WECHAT."

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THE AREA WHERE the Tencent-Alibaba battle is most obvious is in their respective investment strategies. The two have been such assiduous dealmakers that the astute Hong Kong–based Bernstein analyst Bhavtosh Vajpayee counted 280 Tencent deals over the past three years and 174 for Alibaba. "Who can possibly fathom everything Alibaba and Tencent have invested in already?" Vajpayee writes in a report to clients. Branding the deal-crazy companies "shopaholics," he wonders if they "have a record of their doings, [as] investments and stakes can get lost in the crevices somewhere, given the sheer numbers involved."

The two have clearly divergent styles. Alibaba tends to take large or controlling stakes, reflecting what Joe Tsai calls the company's "operating mindset." That's been the case in Southeast Asia, where it took control of e-commerce site Lazada and installed Lucy Peng, an Alibaba cofounder and longtime executive, as CEO. Tencent, in contrast, favors multiple small stakes, such as its 5% share of U.S. gaming giant Activision Blizzard. And when it does take control, it typically leaves management in place. At Riot Games in Los Angeles, for example, Tencent invested alongside the company's venture capitalists when it licensed Riot's popular *League of Legends* title. Later it bought the company outright—but didn't mess with how it's run. "They were self-aware that it would destroy a lot of value if we had reported to some SVP of such and such," says Marc Merrill, Riot's cofounder.

Being hands-off doesn't mean Tencent always plays nice. Imitation is ingrained in its culture, and Tencent doesn't shy away from simultaneously licensing the products of its partners and creating similar offerings. "Tencent is both an investor and a competitor," says Jeff Smith, co-founder and CEO of San Francisco startup Smule, whose mobile apps allow a community of 50 million users to play and sing more than 20 million songs a day, often with each other. "Their views on the realpolitik of building successful technology companies reflect our own," says Smith, citing the storied QQ-versus-WeChat competition. The entrepreneur calls Tencent a "great partner," including, for example, the access Smule gets to Tencent's content distribution network, a service that competes against Google and Amazon. Tencent, in turn, benefits from its broad investing by keeping close tabs on smart technology and talented people, even without owning their companies outright.

Investment styles also inform the companies' search for growth outside China. Their home country accounts for the lion's share of overall revenue for both companies. But both have set their sights on Southeast Asia. Tencent owns a 40% stake in the publicly traded Singapore gaming company SEA and has reportedly been considering other large investments. Alibaba, given to grand strategic goals, has said it wants to serve 2 billion customers and will make Southeast Asia its first major expansion area. "These economies are very similar to how China grew up," says Joe Tsai, citing youthful populations, high levels of mobile-phone penetration, and an underdeveloped retail sector. "These are very similar characteristics that we see in China, without the existing baggage of traditional industries," says Tsai. (See "Chess Pieces in Southeast Asia.")

When the two Chinese giants might attack the more-developed U.S. market directly has been a perennial discussion point among their Silicon Valley counterparts. The short answer is not soon—a conclusion that may serve as some consolation for U.S. executives smarting at their near-total exclusion from the Chinese market. Despite having made many investments in U.S. companies, each has been swatted away from deals deemed sensitive on national-security grounds. Earlier this year, the intergovernmental Committee on Foreign Investment in the United States blocked Ant Financial's attempt to buy U.S. remittance company MoneyGram. In a less closely watched move, CFIUS also nixed an investment by Tencent in Here Technologies, a Dutch digital mapping company with significant operations in the U.S.

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ONE OF THE HALLMARKS of the Chinese Internet powerhouses is that they simultaneously move incredibly quickly and plan for the very long term—a tiring pace that demands a lot of the two horses who lead them. Jack Ma exudes that dual sense of urgency and long-range planning. His office complex is tucked away in a corner of the Alibaba campus, across a small bridge from the chockablock buildings where his employees work. He has designed his compound in the fashion of the classical gardens of Suzhou, a treasured, ancient spot near Hangzhou. But the eclectic look of Ma's corporate hideaway reflects his man-of-the-world sensibilities, with various cultures represented inside its walls.

On a smoggy day in late May, the Alibaba founder chooses to meet in his Japanese sitting room, with tatami mats, low-slung chairs, and traditional Chinese instrumental music playing softly on wall speakers. Two bowls of cherries and two cups of steaming tea are set down before he arrives. Ma's mind is very much on the future. He relates that a fellow Chinese corporate mogul has recently told him he's tired, and asked Ma how he keeps going. "I work hard because I'm prepared for the day when I leave this company and I can enjoy a peaceful life," says Jack Ma. "I won't have to come back to do something, like fix the kitchen," he says. "In the meantime, this is the thing that drives me and so many of my associates: We always want to do good things for society."

At the conclusion of this meeting, Ma hops in a car to go to an Alibaba auditorium to greet hundreds of new employees. He warns them that life at Alibaba won't necessarily be easy. "It takes a year to even figure out what's going on," he cautions. "And you're not a true 'Aliren'"—the Alibaba analog to "Googler"—"before three years of service." He tells the recruits Alibaba is idealistic, pragmatic, and optimistic, but that it's not for everyone. "There's still time to leave," he deadpans to hearty guffaws in the room.

The years of entrepreneurial battles are catching up with Pony Ma as well. At the *Fortune* conference in Guangzhou, he addressed criticism about the addictive and omnipresent nature of products like Tencent's games by acknowledging society's over-attachment to their phones. "Even I get a bit anxious sitting here while my phone is offstage," he said. He allows that just recently his eyesight has gotten worse, which he attributes not so much to the onset of middle age as to too many hours spent staring at his phone. "I wish the next-gen instant-messaging platform would not be such a burden on your eyes," he said. "If there's a brain wave that can transmit the message to my consciousness, that would be perfect."

Give him time, and it just might happen. Wait a little longer, and Alibaba just might launch a brain-wave platform, too—with a cuddly critter for a mascot. ■

Additional reporting by Eamon Barrett and Kurt Zhong