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A KNOCKOUT COMBO


Alibaba & regulator go toe to toe with fake goods producers

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AUD3.00
GBP1.20
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EDITOR'S DESK

A Reality Check For Alibaba

A report issued by the State Administration for Industry and Commerce (SAIC) on January 23 showed that Alibaba-owned Taobao.com, China's largest consumer-to-consumer platform, exhibited the worst performance of the six online shopping sites examined. A quality check conducted between August and October last year showed that only 37.25 percent of the sampled goods from the platform were authentic.

After the report was released, Taobao published an open letter on its official website, accusing the SAIC of violating relevant regulations, being too biased in enforcing the law and following inappropriate supervisory processes. Such accusations have resonated among the public.

Fake products are prevalent on e-commerce platforms both in China and abroad. The country has laws and regulations that expressly forbid the sale of fake goods and e-commerce websites also have their own supervision systems in place. Alibaba itself harshly penalizes vendors found to be selling fake goods online.

However, the nagging issue of fake products has remained unresolved on Taobao.com. Lax supervision on the part of the government and the e-commerce website in question may offer an explanation. Industry and commerce authorities, which are responsible for supervising the processes involved in online shopping,

have failed to adequately enforce the regulations on punishing the selling of substandard and counterfeit goods. They often pass the buck when dealing with consumers' complaints.

Furthermore, owners of e-commerce platforms tend to put economic interests first. In order to keep online vendors happy, Taobao.com blocks customers from commenting on goods which have been returned owing to quality issues. One consumer who filed an application for return of the goods bought on Taobao.com was forced to solicit an assessment of the product within a mere 48 hours from a licensed third party. Such requirements are almost impossible to fulfill, given the tiny window of time allowed, the expense incurred and the inadequate availability of such assessors. Faced with these conditions, consumers more often than not find themselves left with no option but to relinquish their rights.

The SAIC report signals the beginning of tightened control over e-commerce platforms in China. Under pressure from consumers, Taobao.com has also promised to strengthen penalties for vendors selling unqualified products. It is hoped that the government and online shopping platforms can join hands to achieve substantial results in the new round of measures designed to crack down on fake products. ■

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THEATER THAT TRANSCENDS BORDERS

Students from China's Central Academy of Drama stage a performance in New Delhi on February 2 during the 17th Bharat Rang Mahotsav.

The annual international theater festival, hosted by the National School of Drama in India, is being held from February 1 to 18 with the theme of Breaking Borders.

Artists from 12 countries are participating, with 150 performances being showcased to theater lovers in Indian cities such as New Delhi, Agartala, Jabalpur, Aurangabad and Panaji.

This represents the sixth consecutive year in which China has taken part in the event.



ZHANG GUOJUN

Wading Through the Wetlands

A child observes birds at Minjiang River Estuary National Wetland Park in Fuzhou, southeast China's Fujian Province, on February 2, World Wetland Day.

Rural Medical Insurance

Medical insurance subsidies for China's rural residents will increase this year, the National Health and Family Planning Commission said in a circular on January 30.

Under the new rural cooperative medical program, the annual government grant for each rural resident will rise from 320 yuan (\$51) to 380 yuan (\$61) this year, according to the document.

Rural residents will each pay a 120-yuan (\$19) premium in 2015, 30 yuan (\$4.78) more than they did previously, bringing the total financing for each person to 500 yuan (\$80).

The government will also take measures to make sure the program's reimbursement rate for outpatient and hospitalization expenses stay at around 50 and 75 percent, respectively.

China launched the rural insurance scheme in 2003 in a bid to ensure that the country's vast number of rural resi-

dents have access to affordable medical treatment and to reduce illness-induced poverty.

More than 800 million people have joined the new rural cooperative medical program, official figures show.

To reduce risks and ensure fairness, the government will use the fund to buy insurance for those with serious diseases and penalize those who abuse the fund.

Cordially Invited

Journalists from China and abroad are being invited to cover the country's two major political meetings in Beijing in March.

The Third Session of the 12th National People's Congress (NPC), the country's top legislature, will open on March 5.

The Third Session of the 12th National Committee of the Chinese People's Political Consultative Conference (CPPCC), the top political

HANDIWORK

Volunteer Zhou Li (right) instructs a girl to cut a window grille in Shiyantun Village, Rong'an County, Guangxi Zhuang Autonomous Region, on February 2



XINHUA

advisory body, will open on March 3.

The general offices of the NPC Standing Committee and the CPPCC National Committee announced on February 1 that a media center for the two meetings will open from February 27 at the Media Center Hotel in Beijing.

Radio Coverage Expands

The Guangzhou Coast Radio Station in south China's Guangdong Province on February 1 launched a maritime information service on a trial basis, covering the Xisha, Zhongsha and Huangyan islands in the South China Sea.

According to the Navigation Guarantee Center of the South China Sea, which is affiliated with the Ministry of Transport, the station will broadcast navigational and meteorological warnings and forecasts in English six times a day, with a radio coverage of around 500 sea miles.

As one of the five Navtex (Navigational Telex) radio stations in China, the Guangzhou facility is in charge of broadcasting maritime safety information to waters that include areas south of the Taiwan Straits and the South China Sea.

Navtex is an international automated system for distributing navigational warnings, weather forecasts and rescue notices to ships. It is also a component of the Global Maritime Distress and Safety System.

Senior Care

Beijing has passed China's first local legislation on home-based care for the elderly, stipulating that children are obliged to support their aged parents.

The bill was passed at the annual full session of the Beijing Municipal People's Congress on January 29 and is scheduled to take effect on May 1.

Under the regulation, children and other caregivers should offer economic and practical support as well as "spiritual consolation" to the elderly.

It also stipulates that the government should offer subsidies and old-age service facilities for the elderly with special difficulties, such as those living on a low income, suffering from disabilities or who have lost their only child.

The legislation defines the scope

of responsibilities for the family and the government. It also includes provisions concerning such areas as construction of old-age service facilities in communities and medical and health services.

About 96 percent of elderly people in Beijing rely on home-based care, and the rest live in nursing institutions.

China now has about 200 million people aged 60 and over. The number accounts for some 14 percent of the total population, and is expected to surge to 400 million in 2050. Over 90 percent of the aged people choose home-based pension support nationwide.

Circuit Courts

The Supreme People's Court (SPC), China's highest judicial body, has inaugurated two circuit courts in its latest efforts to reform and branch out so as to bring justice to the doorsteps of ordinary people.

The first Circuit Court of the SPC, covering the provinces of Guangdong and Hainan, and Guangxi Zhuang Autonomous Region, was inaugurated in Shenzhen, Guangdong Province, on January 28. It was followed by the inauguration of the second one based in Shenyang, capital city of Liaoning Province, on January 31, which has jurisdiction over the three northeastern provinces of Liaoning, Jilin and Heilongjiang.

The circuit courts primarily handle major administrative, civil and commercial cases in their regions of jurisdiction that will be heard by the SPC. Both courts began taking cases from February 1.

The establishment of circuit courts

“As a significant step forward in judicial reform, the circuit court system could pioneer institutional changes for wider and deeper reform.”

Ma Huaide, Vice President of the China University of Political Science



Ethnic Stars

Actress Soinam Zholgar and actor Lhawang Norbu pose in front of a poster of film *Tibet Sky* (or *Phurba & Tenzin*), China's first film with dialogue in the Tibetan language, before its screening in Tibet on January 31.

of the SPC according to a legal reform package adopted at the Fourth Plenary Session of the 18th Communist Party of China Central Committee in late October 2014 is part of a reorganization designed to better allocate workloads across the country's court system.

Subsistence Allowances

Nearly 71 million poor people, or 5.3 percent of China's 1.3 billion population, enjoyed government subsistence allowances in 2014, Dou Yupei, Vice

Minister of Civil Affairs, announced on January 30.

The number includes 52.09 million people who enjoyed rural subsistence allowances and 18.8 million who benefited from urban subsistence allowances.

The government allocated nearly 154 billion yuan (\$24.56 billion) for these purposes last year.

To ensure fairness, Dou said the ministry would establish a system to verify the financial status of households and hold accountable those who abuse the fund.

New Bio Lab

Researchers take part in a drill at a newly completed high-level biosafety laboratory in Wuhan, central China's Hubei Province, on January 30.

The lab, the first in China, will be used to study Class-IV pathogens, the most virulent viruses that pose a high risk of person-to-person infections through the air.



Agricultural Modernization

China will step up reforms and innovation to speed up agricultural modernization in 2015, according to a key policy document released on February 1.

As the Chinese economy, under the “new normal,” shifts from high-speed to medium-to-high-speed growth, continuing to consolidate the position of agriculture as the foundation of the economy and further increasing farmers’ income have become priorities, said the document.

The No.1 Central Document refers to the first major policy document of each year released by the Central Committee of the Communist Party of China and the State Council.

The document listed five aspects and 32 points for detailed government work on reforms and tasks related to the “three rural issues,” agriculture, rural areas and farmers.

The document highlighted the

challenges facing China’s agricultural sector, including surging production costs, shortage of agricultural resources, excessive exploitation and worsening pollution.

According to the document, China will strive to transform the development model of agriculture, boost policies that benefit farmers, push forward the building of a new socialist countryside, deepen rural reforms and strengthen the rule of law regarding rural issues.

This year’s document put more emphasis on “strengthening reform and innovation,” compared to the 2014 one, Zhu Lizhi, a research fellow with the Chinese Academy of Agricultural Sciences told Xinhua News Agency.

Falling PMI

Chinese manufacturing activity continued to wane in January as a key index dropped below the 50-point mark for the first time since October 2012, marking increasing downward pressures on



MORE CONVENIENT TRAVEL

A girl uses one of the cloud service machines at Zhengzhou East Railway Station, central China’s Henan Province, on February 2

the economy, official data showed on February 1.

The manufacturing purchasing managers’ index (PMI), a key measure of factory activity in China, posted at 49.8 in January, down 0.3 percentage points from December 2014, according to the data jointly released by the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing.

A reading above 50 indicates expansion, while a reading below 50 represents contraction.

The reading, falling for four consecutive months, surprised the market as many institutions had forecast the PMI would rebound slightly.

In addition, China’s service sector activity also dropped in January. The PMI for the non-manufacturing sector retreated to 53.7 in January from 54.1 in December, according to statistics from the NBS.

5G Technology

China Mobile, the country’s largest 4G mobile network operator, has begun development on the next generation of mobile Internet following the success of 4G, a senior executive of the company said on January 31.

The move suggested the company is trying to maintain its leading position in an increasingly heated competition among the country’s sole three telecom service providers.

China Mobile outperformed its two rivals, China Unicom and China Telecom, in the 4G race after getting official approval to launch services based on TD-LTE standard by the end of 2013, nearly half a year ahead of the latter two.

China Mobile had 90 million 4G subscribers last year with 240 million cell phones sold and 700,000 base stations built, data from the company showed.

The other two operators did not release relevant data but media reports said even their combined figure cannot compete with China Mobile.

Banking Deal

The Industrial and Commercial Bank of China (ICBC) announced on February 2 the acquisition of a 60-percent stake in



Energy Transport Corridor

A train runs across the Yellow River bridge along the Huangling-Hancheng-Houma Railway in Yuncheng, north China’s Shanxi Province.

A section of this railway, starting from Yumenkou of Shanxi Province to Xiayukou, northwest China’s Shaanxi Province, came into service on February 2.

Pot Culture Economy

A farmer takes care of celery in a greenhouse in Jimo, east China's Shandong Province.

Approaching the Lunar New Year (falling on February 19 this year), the potted lettuce, celery and Chinese chives grown through the soilless culture technique are quite popular in the market.



LIANG XIAODONG

charges enterprises the comprehensive logistics fee for carrying large commodities.

The rate change aims to make the railway cargo pricing mechanism more flexible and to encourage more social capital inflows into railway construction and will not impact ticket prices, according to the NDRC. (\$1=6.12 yuan)

Illegal Trading Punished

Eleven fund management companies were penalized for insider and rat trading, the securities regulator announced on January 30.

Five fund management companies, including China AMC and HFT Investment Management Co. Ltd., have been prohibited from handling public fund registration for three to six months, while another six firms were asked to rectify their practices by the China Securities Regulatory Commission (CSRC).

The securities regulator launched a crackdown, focusing on 15 fund management companies, last December.

China's assets management sector saw impressive growth in 2014, with total business scale reaching 10 trillion yuan (\$1.63 trillion), up 101 percent.

The CSRC will continue to conduct regular checks to increase risk awareness and guard investors' interests, according to the announcement.

Standard Bank Plc.

Based in London, Standard Bank Plc is the international commodities and foreign exchange arm of Standard Bank Group (SBG), the largest African banking group by assets.

ICBC Chairman Jiang Jianqing noted that the liberalization of China's capital market and the development of offshore yuan business, as well as the acceleration of overseas investment, have combined to drive demand for global business.

"The acquisition of Standard Bank Plc is important for ICBC to proactively deal with this demand," Jiang said in an official statement.

By leveraging the two global networks and resources, the joint venture could become a global market platform that satisfies the strategic goals of both.

ICBC is China's largest commercial bank in terms of assets. It purchased a

ICE WORLD

Tourists take photos at the Sun Island Scenic Area in Harbin, capital of northeast China's Heilongjiang Province, which sees a winter tourism boom each year



WANG JIANWEI

20-percent stake in SBG in 2008 and an 80-percent stake in Standard Bank Argentina in 2012.

More Elastic Pricing

China lifted basic freight railway rates by 0.01 yuan per ton each kilometer and allowed an upper floating range of 10 percent at most, the country's top economic planner announced on January 30.

The adjustment from the previous 0.1451 yuan per ton each kilometer to 0.1551 yuan took effect on February 1 while the new floating range will be implemented on August 1. It is up to the railway cargo enterprises to set the specific price, according to the National Development and Reform Commission (NDRC).

Preferential freight rates for fertilizers and phosphate ore have also been scrapped and the government no longer

Solar-Powered Ambition

Hanergy Holding Group Ltd., the world's largest thin-film solar power company, will launch as many as five models of solar-powered cars in October, its chairman announced on February 2.

Hanergy is cooperating with three overseas and two domestic partners on the vehicles, Li Hejun, Chairman of Hanergy, told a press conference. Hanergy announced in late January that it had acquired Alta Devices, an American competitor, with charging stations for Tesla in Beijing and Shanghai.

The new models will have a range of 80 km to 100 km when fully charged, he said.

"There are currently only 400,000 electric cars in the world, but the market is expected to hit 10 million by 2020," said Li.



JAPAN

Protesters stage a silent rally near Prime Minister Shinzo Abe's official residence in Tokyo on February 1, mourning the death of a second Japanese hostage, Kenji Goto, who was beheaded by the Islamic State group



THE UNITED STATES

Groundhog Day celebrations are held at Dupont Circle in Washington, D.C. on February 2, where the famous groundhog Punxsutawney Phil predicted that the United States will face another six weeks of winter weather



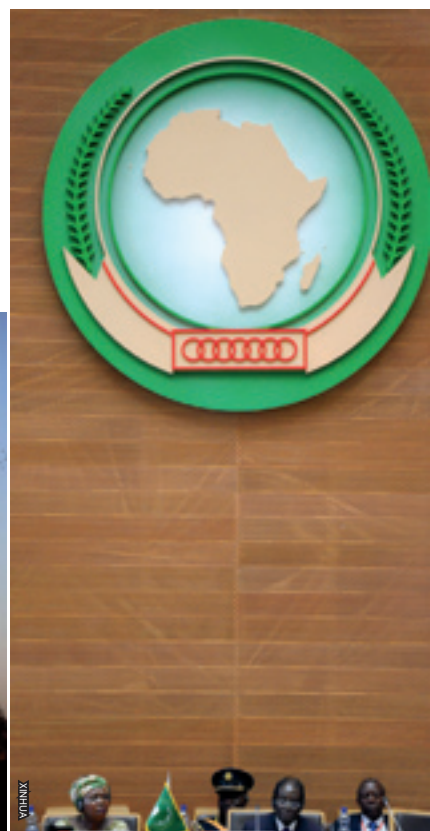
BRAZIL

Salgueiro Samba School dancers perform during their rehearsal at Sambadromo in Rio de Janeiro on February 1, ahead of parades set to take place on February 15-16



ISRAEL

A flock of starlings fly in synchronous motion against a sunset over the northern Israeli Negev desert on February 2



ETHIOPIA

The 24th African Union Summit concludes at its headquarters in Addis Ababa, capital of Ethiopia, on January 31 after deliberating on the Adoption of Agenda 2063, an action plan to foster a prosperous and peaceful Africa



UKRAINE

Ukrainian soldiers ride an armored vehicle to Debaltseve, Donetsk region, on February 1, when battles raged between government forces and pro-Russian rebels following the collapse of ceasefire talks

↓ CHINA'S EMILY DICKINSON

Yu Xiuhua, a disabled rural poet, was elected vice president of the writers association of her hometown, Zhongxiang, central China's Hubei Province, in late January owing to the popularity of her poetry on the Internet.

Yu, 39, was born in a small village of Zhongxiang. She suffers from cerebral palsy, caused by a lack of oxygen during her delivery. Known as China's answer to U.S. poet Emily Dickinson (1830-86), Yu has written more than 2,000 poems despite a lack of formal education in the craft. Yu became popular recently with her poem, *Crossing Half of Big China to Accost You*.

Some consider Yu's poem a rare example of modern poetry that expresses enthusiasm for rural life, while others have questioned the poems' artistic value, believing that the poet shot to fame simply because of her physical condition. In spite of the divided opinion on her works, Yu will see two collections of her poems published in February.



National Security Matters

Oriental Outlook January 8

According to an annual report compiled by the Beijing-based University of International Relations, new measures were taken to strengthen national security last year. For example, China passed the Counterespionage Law on November 11, 2014. Replacing the National Security Law, the Counterespionage Law includes new measures that grant greater power to national security departments.

Traditional security threats remained prominent in 2014. The problem of corruption, which concerns political security and represents a significant traditional threat, has been listed in the report for three consecutive years. The Ministry of Public Security launched its Fox Hunt campaign last year, which expanded the country's anti-corruption efforts abroad and attracted attention worldwide. In addition, territorial disputes in the South China Sea indicate that China is facing unprecedented threats in terms of maritime security.

The security of the people is being accorded utmost importance. For example, the problem of smog has entered the list of the 10 most important security events over the past two years. Smog harms people's health, which in turn, it could be argued, jeopardizes national security. The disappearance of the MH370 flight, which carried 154 Chinese on board, also made an appearance on the list for last year.

The report called on the government to pay greater attention to national security given the increasingly complex challenges in this sphere.



Looking Deeper Into The Palace Museum

China Newsweek January 26

This year marks the 90th anniversary of the establishment of the Palace Museum. The complex, first built in the Ming Dynasty (1368-1644), functioned as the imperial palace of the Ming and Qing (1644-1911) dynasties. It was turned into a museum in 1925. It's the world's largest wooden-structure palace complex and the only museum in the world that attracts in excess of 10 million visitors every year.

The museum will open more sections to the public in 2015, including the Palace of Benevolent Peace and Donghua Gate. The area open to the public is envisioned to increase from its present 52 percent to 65 percent of the whole museum, and is further expected to reach 80 percent by 2020.

The museum, which occupies 1.12 million square meters, has 35 departments and 1,500 formal staff members. All of its treasures and relics are taken care of by particular departments. There are three kinds of exhibitions in the museum: those that display palaces and halls

"China will continue to face frequent trade friction."

Sang Baichuan, a professor at the University of International Business and Economics in Beijing, discussing the country's harsh international trade environment in a recent interview with *China Daily*

"China has accelerated railway construction to fulfill its annual targets in 2014 and this construction drive will continue into 2015."

Sheng Guangzu, General Manager of China Railway Corp., announcing on January 29 that China put a record 8,427 km of new railways into operation last year



as they were in ancient times, permanent exhibitions and themed ones.

By the end of December 2010, the Palace Museum had finished an audit of its collections, the fifth in its history. The project took seven years in total. There were altogether 1,807,558 antique pieces registered in the museum, 600,000 of which were ancient documents, accounting for the largest category among the items.

Prison Deaths

Beijing Youth Daily February 2

The news that a total of eight prisoners serving their terms in a prison in Ganzhou, east China's Jiangxi Province, dropped dead from 2008 to 2014 shocked many. To make things even worse, the prison refused to provide surveillance videotape footage to the families of the deceased.

One cannot help but wonder why eight people would have lost their lives in one single prison within a six-year time span. What has happened? Although prisoners have been deprived of such rights as personal freedom owing to the crimes they committed, their right to life is protected by the law. The truth behind their deaths should not be obscured by the high walls surrounding the prison.

Most of the eight prisoners in question died a sudden death. Some ex-convicts have said they have seen prison staff bully and beat prisoners and that the problem of overwork is endemic. Some Chinese prisons can be seen as functioning in much the same manner as a factory. The prison guard occupies the twin roles of law enforcer and manager of the factory, while prisoners could be construed as the factory's workers. Under such a system, it's hard to guarantee that the prisoners' rights will be effectively safeguarded.

The Department of Justice of Jiangxi Province has established an investigative team to look into the case and has promised to reveal the team's findings to the public. It is expected that the truth will surface soon.



NEW ENVIRONMENT SUPERVISOR

Environmental scientist **Chen Jining** recently came into the limelight following his promotion from president of Tsinghua University to Party chief of the Ministry of Environmental Protection.

Chen was born in Lishu County, northeast China's Jilin Province, in 1964. He studied at Tsinghua University from 1981 to 1988, obtaining a master's degree in science. He went on to earn a PhD from Imperial College London. Chen joined the Tsinghua faculty in 1998 as vice dean of the Department of Environmental Engineering. In 2012, he rose to the position of president of Tsinghua University.



As an owner of more than a dozen patents and registered environmental software products, Chen has served as a member of the National Environmental Advisory Commission and as deputy chairman of the Science and Technology Committee of the Ministry of Environmental Protection.

Media reports speculate that he is likely to succeed retiring Zhou Shengxian to become minister of environmental protection.

"The RMB breaking into the top five world payments currencies is an important milestone."

Wim Raymaekers, head of banking markets at the Belgium-based Society for Worldwide Interbank Financial Telecommunication, commenting on the RMB's rising status in the global banking market

"When the West labels Chinese aid and infrastructural projects in Africa as neocolonial, it is a question of sour grapes."

Munene Macharia, a lecturer of international relations with the Kenya-based United States International University, refuting accusations from Western media in a recent interview with Xinhua News Agency

孤儿保障大行动

Safeguarding Orphans' Health Program



每50元善款即可为一名孤儿提供一年期、保障额度为100,000元，
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COVER STORY

FIGHT AGAINST FAKES, NOT AGAINST EACH OTHER

After a public spat over a quality inspection report, Alibaba and the commerce watchdog join hands

By Zhou Xiaoyan

As Jack Ma, founder and Executive Chairman of Alibaba, breezily discussed building his company from the ground up during a panel discussion at the World Economic Forum's annual meeting in Davos, Switzerland, little did he realize that storm clouds were gathering on the horizon.

On January 23, the Internet impresario, who founded his company from his apartment in 1999, told leading figures in business and politics of his plans to take Alibaba beyond China and turn it into an e-commerce platform serving 2 billion customers worldwide.

On the exact same day, the State Administration for Industry and Commerce (SAIC), charged with maintaining market order in China, released the result of an inspection, accusing Alibaba of having exhibited the worst performance among all e-commerce websites inspected in curbing sales of fake products in its customer-to-customer marketplace Taobao.com.

Facing these abrupt allegations, Alibaba fought back tooth and nail, resulting in a four-day public spat with the industry regulator. Both sides suffered great losses after



E-COMMERCE GIANT: A bicycle goes past the logo of Alibaba in front of its headquarters in Hangzhou, capital of east China's Zhejiang Province

with its \$25 billion listing on the New York Stock Exchange last September, making Ma China's richest man overnight.

However, for years, Alibaba has faced complaints that it failed to stamp out sales of counterfeit goods on its e-commerce websites.

According to a report released by the SAIC on January 23, less than 40 percent of surveyed commodities sold on Taobao.com were authentic. After being named and shamed as the online shopping site with the most fake goods

in China, Taobao fired back by issuing a statement saying the company was unfairly treated.

Facing Alibaba's challenge, the SAIC released a document titled White Paper on Administrative Guidelines for Alibaba, accusing Alibaba of irresponsibly allowing fakes to be sold on its platform. It also said SAIC officials held a meeting with Alibaba's top managers in July to discuss the issue, but chose not to disclose that information because it didn't want to disrupt Alibaba's pending IPO.

In response, Alibaba said the company

did not request the replacement of the white paper, nor has it ever requested the SAIC to delay publication of any report.

The two sides finally buried the hatchet on January 30 when the head of China's commerce regulator met with Alibaba's chairman Jack Ma to exchange opinions on joint efforts to fight fake products. The two sides agreed that they will enhance communication and explore a model for managing the online market. The SAIC also claimed the white paper it released earlier only contains meeting minutes and does not have legal validity.

The four-day war of words, combined with the fact that Alibaba missed its revenue estimates and reported a 28-percent drop in net profits in the fourth quarter of 2014, has caused the market capitalization of Alibaba to shrink by more than \$30 billion in two days ending January 29.

That, however, is only the start of Alibaba's troubles, as Alibaba has undergone a lengthy audit by lawyers.

At least five U.S. law firms have launched investigations against Alibaba on the claim of protecting Alibaba's investors. Hao Junbo Law Firm, a Beijing-based law firm, is gathering victims of the stock plunge in an attempt to file a class-action lawsuit against the e-commerce giant.

Hao Junbo, head of the firm, told *Economic Information Daily* that Alibaba had not fulfilled its obligations in information disclosure as it knew about the white paper but chose not to share that information with investors.

the dispute, with the stock price of Alibaba plunging and the SAIC's credibility being greatly undermined. The dispute, however, is definitely good news for customers as it brought the government's resolution to crack down on fakes and protect consumers to the forefront. As Alibaba and the SAIC finally made peace, the two sides decided to focus on the solution rather than fighting.

Everyone loses

Headquartered in the eastern city of Hangzhou, Alibaba completed the world's biggest IPO

Alibaba-SAIC Dispute Blow by Blow

● January 23

The SAIC's sample test showed that only 37.25 percent of surveyed commodities sold on Taobao.com were authentic, lower than a 58.7-percent average of major online shopping platforms and much lower than 90 percent for JD.com, and 85.71 percent for Tmall, a business-to-customer online marketplace of Alibaba.

● January 27

Taobao accused the SAIC of unfair treatment over its random quality inspection by issuing a letter on its official Sina Weibo. Taobao questioned the poll's sampling method and its test standards, claiming that the regulator released the survey results to the public without giving Alibaba a chance to first appeal.

Later that day, the SAIC issued an immediate response, stressing that all of the activities they conducted were in line with the law.

● January 28

The SAIC released a document called the White Paper on Administrative Guidelines for Alibaba to the public, accusing Alibaba of allowing illegal operations to flourish on its online shopping websites and urged the company's executives to overcome their arrogance.

Later that day, Taobao posted a response on its official microblog, saying the company will file a complaint against Liu Hongliang, Director of the SAIC's Department of Market Regulation, claiming that he drew inappropriate and non-objective conclusions after the investigation.

● January 29

Three vendors on Alibaba's Tmall.com platform voiced strong protests against the SAIC report, saying their stores had been frozen by Tmall since the SAIC report and they had not received any report or evidence from the SAIC showing what they had done wrong. In an online statement, they pledged to use administrative litigation to protect their legitimate interests if the SAIC refuses to respond.

The stock price of Alibaba plunged 8.78 percent.

● January 30

The two sides finally made peace when the head of China's commerce regulator met with Alibaba's Chairman Jack Ma to exchange opinions on joint efforts to fight the sale of fake products.

The SAIC said the white paper it released earlier is only a meeting minutes report and does not have legal validity.

The stock price of Alibaba decreased 4.36 percent.

(Compiled by Beijing Review)

He also said the SAIC has no right to determine whether the white paper has legal validity or not. Hao said several dozens of investors who had suffered losses of over \$50,000 had already answered his call.

Zhang Yuanzhong, a partner of Beijing-based Wentian Law Firm, told *The Beijing News* that the content of the white paper can still be used as evidence against Alibaba, despite the fact that the SAIC claims it does not have legal validity.

"If what the white paper said did happen before Alibaba listed in the United States, Alibaba may face harsh penalties for their suspected involvement in a false statement and a fraudulent listing."

The SAIC didn't walk out of the public spat unscathed, either.

Wang Jingbo, a professor at the Research Center for the Governance of Law under the China University of Political Science and Law, said the SAIC should notify business owners of the results of the inspection and give them 15 days to appeal before disclosing the information to the public.

"According to media reports, many online vendors claimed they didn't receive any notices from the SAIC, nor were they informed of their legitimate right to appeal. If that's true, it's a clear violation of the procedure law," Wang said. "Also, the administrative guidance for Taobao is a non-compulsory guideline for businesses or citizens that suggests that they correct their wrongdoings. Therefore, the document can't be given the title of white paper. That title is too misleading."

Qi Aimin, Director of the Intellectual Property Center for Concerted Innovation at Chongqing University, said the sampling method of the inspection is questionable.

"SAIC selected only one sample from one website and drew the conclusion that the authentic rate was zero percent, while it selected three products from another website and claimed its authentic ratio was 100 percent. Among the 92 total samples, 51 are from Taobao.com, which is clearly biased," Qi said.

"It's inappropriate for the SAIC to release the meeting minutes of an indoor meeting under the name of white paper," Qi said. "The SAIC claimed it didn't disclose the information because it didn't want to disrupt the IPO of Alibaba. The withholding of information is against the law."

Ala Musi, Deputy Director of the Policy and Law Committee of China E-Commerce Association, said Chinese laws don't have a clear definition of "authentic products."

The SAIC's category of unauthentic products include shoddy, refurbished and all unauthorized products. But some unauthorized products are genuine products. That's too large a category, and the definition is different from customers' idea of fakes, he said.

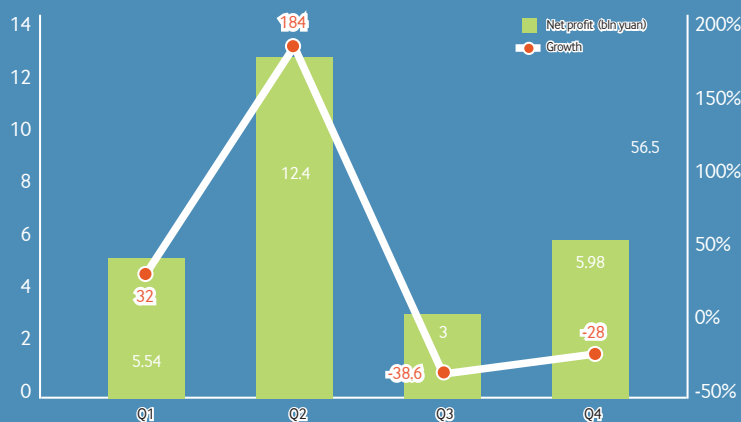
"In addition, Taobao is a customer-to-customer platform and it's questionable to compare it to those business-to-customer marketplaces. It's just like comparing products sold by street vendors to those sold in shopping malls. This kind of false categorization could be very misleading and hurt the development of e-commerce industry," he said. "If there has to be a comparison, Taobao should be compared to its American peer Ebay."

Focusing on the real problem

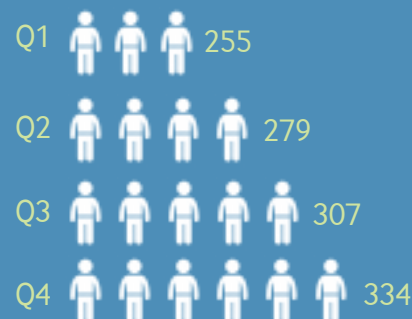
It's widely anticipated that the dispute between Alibaba and the regulator may bring about some change to kick-start a tougher anti-counterfeit campaign by both the government and the industry.

During the meeting with Alibaba leaders, Zhang Mao, Minister of the SAIC, reaffirmed Alibaba's positive efforts in safeguarding consumer rights, purifying the business environment and promoting self-discipline.

Net Profit and Year-on-Year Growth of Alibaba, 2014



Alibaba's Active Users, 2014 (Unit: million)



(Source: Alibaba Group)

Zhang Mao said the SAIC should find new methods of supervision and set up a mechanism for communication and interaction in an effort to promote the healthy growth of Internet economy.

Alibaba's founder Ma said online shopping is a new and rapidly growing sector in China, which should be further regulated and improved.

"Alibaba has always been engaged in combating fake products. Next, Alibaba will actively cooperate with the government, devote more capital and technology to fighting fakes, and further expand its professional team put together for this purpose," Ma said.

Ma also said that Alibaba would reinforce routine online inspection and sampling tests while making joint efforts with law-enforcement departments.

To this end, Taobao has organized a 300-member "special force" to combat fakes and is recruiting the best talent from society to cooperate with government departments, intellectual property owners and ordinary consumers both online and offline to root out the problem of fake products that has

long plagued the company.

According to Alibaba, the company now has over 2,000 employees dedicated to protecting consumer rights and combating fakes.

On the other side of the equation, in order to intensify supervision over third-party e-commerce websites, the SAIC is accelerating the construction of a monitoring system over them. It's expected that the system will be put into use within half a year.

Qi, the expert on intellectual property from Chongqing University, said supervision over product quality is first and foremost the responsibility of government departments.

"There should be a law to specifically regulate how much responsibility e-commerce websites should shoulder in combating fakes. E-commerce websites should have limited responsibilities and the task shouldn't fall on them alone. Otherwise, their development would be greatly hindered," Qi said.

Wang Chunhui, Director of the Institute of China ICT Development and Strategy with the Nanjing University of Posts and Telecommunications, agreed with Qi, saying that fake products exist both online and offline.

"As a third-party platform, Taobao has the obligation to combat fakes. But only doing that online is not enough, because even if fakes are cleared from Taobao.com, they can still be sold on other online platforms or in brick-and-mortar stores," Wang Chunhui said.

"If factories that produce fakes are not closed, the source of fake products will still exist and they will always find a way to reach customers," Wang Chunhui said. "Therefore, combating fakes online is a systematic project and industry regulators should bear the primary responsibility."

He Bing, Deputy Dean of the Law School of the Beijing-based China University of Political Science and Law, said Alibaba and the SAIC have a lot to work with hand in hand.

"Alibaba doesn't have the right to enforce the law, but it can report information about fake products being sold on its online marketplaces to law enforcement agencies, and the latter have to act swiftly after receiving tips," He said. ■



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