

**TITLE: The Google factor<sup>1</sup>***Can China advance without the help of foreign IT Firms such as Google?*

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A decade ago, the overall volume of online commerce in the People's Republic of China, the world's most populous country, amounted only to an insignificant \$US 9.3 billion. In 2008, that amount had increased to over \$US 290 billion, while the total number of online shoppers had reached 63 million. Now, with over 350 million active Internet users and with 800 million more still left out, China is, potentially, the most important digital market-place in the world, arguably the promised land for any IT firms worldwide. Not surprisingly, in recent years, leading international corporations such as the American-based Yahoo!, Google, Microsoft, and eBay have steadily increased their presence in the Chinese market. Meg Whitman, former CEO of the world's leading Internet auction company, eBay, talking to *Business Week*, explained in one sentence how crucial is China for leading IT firms: "Whoever wins China, will win the world".

*To win China*, however, has proven to be quite an impossible task to accomplish. Their efforts notwithstanding, in fact, none of these corporations have been able so far to achieve a dominant position in that market. In the hope of changing this disappointing trend, many IT firms have increased the number of partnerships with local companies; and, to safeguard their businesses and their large investments, all of them have signed what many consider a Faustian pact with the Chinese authorities: they all have agreed to comply with the rules set by Beijing in matters of Web censorship and data-flow control. Such compliance has proven crucial to help the government hold a much criticized tight grip on the portion of the Internet that falls under China's jurisdiction; that is, Western-based IT firms have been instrumental in helping the authoritarian government of Beijing in its routine infringement of its people's human rights. In the last decade, notwithstanding the international outcry of many NGOs and politicians in the democratic West that have denounced such conduct as ethically shameful, not much has changed in the way in which Western companies operate in China - at least until recently.

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<sup>1</sup> *Forthcoming*, in *China Ethos*. China Media Ltd. Website: <http://www.chinaethos.co.uk>.

At the start of 2010 the California-based company Google Inc. decided to break free from the moral excessive weight represented by the Chinese authorities' rules in matter of censorship. In the Internet world, Google is not a company like any other; in fact, it's the company that more than any other in the last decade has influenced our relationship with the Internet. Arguably, since 1998, the complex algorithm created by Larry Page and Sergey Brin that allows Google's search-engine seamlessly sift through the chaos of information disseminated through the web, increasingly, has made the life of millions of web-surfers worldwide much easier. For its "uncanny knack for returning extremely relevant results" (as *PC Magazine* once put it), the search-engine has become so dominant of the market that nowadays, when we look for something in the web, we no longer *search*, we *google* it. Google's refusal to comply with China's authorities is therefore something that cannot be discarded as inconsequential. In fact, at a closer look, such refusal is anything but insignificant. Potentially what I call the *Google factor* can have long-term crucial implications on China's approach to the Internet and its economic development.

### **The Google factor**

*Don't be evil* is the unofficial motto of Google Inc. Coined during an employee meeting in 2001, that motto does not however appear in any official documents of the company, except for a short reference in the introduction of the *Google Code of Conduct (GCC)*. In spite of this, for better or worse, those three words have remained in the years the defining tag-line of Google's many enterprises. For Google's funders *Don't be evil* is much more than a catch-phrase. As it is explained in the *GCC*, "it's about providing our users unbiased access to information, focusing on their needs and giving them the best products and services that we can. [...] It's built around the recognition that everything we do in connection with our work at Google will be, and should be, measured against the highest possible standards of ethical business conduct."

Given such standpoint, it is not surprising that every now and then, in the past, the distant echo of that motto has come back haunting the company's business strategies. In January 2006, for example, Google was heavily criticised for censoring the newly launched Chinese version of its popular search engine (Google.cn). The new search

site was set up to filter data and return only search results that were in accordance with the authorities' list of forbidden keywords and banned sites. Google's main aim was to avoid what they had suffered four years earlier, in 2002, when its main portal, Google.com had been blocked by Beijing for a whole week for it searches had returned unapproved content. Complying with the Chinese laws in matter of censorship was indeed a logical choice to avoid any further troubles with the government, safeguard Google's business and its share-holders dividends; nevertheless, it was in total contrast with the company's motto and code of conduct. When the news of a censored Google broke, many commentators reminded Google's founders the three-word motto and asked them to explain what had happened to it. It took them exactly four years to give a proper answer to that question.

Last January 12, after being one of 20 US companies that had fallen victims of a sophisticated cyber attack originating from China, an attack that allegedly aimed at stealing data from human rights activists' email boxes and corporate secrets from Google employees accounts, Google's management announced a new approach to China: "We have decided we are no longer willing to continue censoring our results on Google.cn, and so over the next few weeks we will be discussing with the Chinese government the basis on which we could operate an unfiltered search engine within the law, if at all. We recognise that this may well mean having to shut down Google.cn, and potentially our offices in China."

Three months later, in March 22, after failing to reach an agreement with Beijing on the issue, David Drummond, a Google Senior VP, and the company's Corporate Development and Chief Legal Officer, announced that effectively from early morning that day, Google had stopped censoring its search services on Google.cn.

The Internet war between China and Google has officially started. Google stopped censoring its results and diverted all its traffic going to google.cn to its Hong Kong servers; Beijing has retaliated by blocking access to the Hong Kong based Google.com.hk. Shareholders and business partners are worried that this war means the end of Google's Chinese adventure. This is however a short-sighted take on the matter. The implications of Google's move go well beyond the impact on its business

revenue and they might well be crucial for China's future relationship with the Internet.

Comprehensibly, at a first sight, Google's decision might seem to be of very little significance. At the end, many think, it will be business as usual for China and for the other companies that are still working there. Google's announcement is nothing but a misfire that will eventually open up more space for its direct competitors and at the same time leave Google relatively unscathed. Some pundits, like Michael Arrington from Techcrunch.com, called Google's new approach to China nothing more than a PR stunt, one that will have little effect on the company's revenue, but one that will certainly help rise the quality edge of Google's corporate social responsibility in the public eye. China's market in fact represents only 5% of Google's business's revenue. Since 2006 the company has struggled to reproduce in China the dominance it has secured in other markets: its efforts and investments notwithstanding, Google.cn has not been able to acquire more than a 25% share of the Chinese search-engine market; the Chinese-based search engine Baidu controls in fact over 50 percent of that market, and since Google's announcement, Baidu has seen its shares price rise more than 50% in value.

Pundits like Carrington are wrong: a 25% share of a promising and important market is never neglectable; true, Google may never achieve full dominance in the Chinese market, but, as the overall profits from advertising services in China continue to rise, Google's share of that market will certainly mean a considerable increase of the company's annual gross. It is not by coincidence that companies like Microsoft, who hold no meaningful share of the Chinese search-engine market, are already lurking in Google's shadow. Microsoft is trying to push its own search engine (Bing.com) in the spot that will be potentially left free by Google.

What is clear at this point is that Google's decision to stop censoring its searches has given new life to an old yet never silenced debate: how far should companies go to make a profit? For Google obeying to China's diktats is clearly too much. The debate has had worldwide resonance and its echo could as well have severe consequences for Beijing. As noted by John Pomfret from the pages of the *Washington Post*, Chinese officials are worried that Google's move might spur an anti-government sentiment

similar to the one that was at the basis of the 1989 students' protest. Google in fact is already embedded in the lives of its Chinese users, millions use its many services: Google Translate for instance is fundamental for trading companies' customer relationships; and more than 12 million Chinese use Google Maps. Reportedly even government officials (hundreds of them) have Google mail accounts.

Moreover, the Mountain View firm has obviously succeeded in shifting the debate about companies complying with China's authoritarian regime from being a mere business matter to a serious issue of corporate social responsibility: business is not just about money, but it is also about where and how you make that profit.

How influential will Google's example be, at this stage, is difficult to say. In any case, this is, potentially, a seriously damaging situation for the public image of those Western companies still cooperating with Beijing. Until January every firm operating in China was following the same strategy: they all complied. Everyone had its hands dirty, but no one was guilty. But Google's recent refusal to comply with Beijing's diktats has sent out an important message and changed the context of the game, while putting more pressure on those other corporations that do business as usual. Users, NGOs, and politicians will no longer ask now: why are all of you complying with China? They will ask: why are you not doing like Google?

Microsoft for instance has been heavily criticized in the US Congress for the company's stand of China. At a Congressional hearing held by the Executive Commission on China (March, 24) the Democratic party Sen. Byron Dorgan, praised Google's saying that it was "a difficult decision to make, but it was the right decision." While the Republican Senator Chris Smith, echoed Dorgan's words on Google's decision and at the same time attacked Microsoft for its behaviour: "They need to get on the right side of human rights rather than enabling tyranny, which they're doing right now".

To this we should add that Google is moving along the line traced by the Obama's administration in matters concerning freedom of expression on the Internet. Recently, US Secretary of State Hillary Clinton has said that the her administration is "supporting the development of new tools that enable citizens to exercise their right of free expression by circumventing politically motivated censorship". And referring to

Google she welcomed the fact that “increasingly, U.S. companies are making the issue of information freedom a greater consideration in their business decisions. I hope that their competitors and foreign governments will pay close attention to this trend.”

The US position in the matter could not be clearer: “We stand for a single Internet where all of humanity has equal access to knowledge and ideas.”

China, on the other hand, sits on the opposite side of that spectrum. The Internet serves the Chinese government as an important tool for propaganda, censorship, and political control; but much of China’s effort to control and exploit the Internet is sustained by foreign technology. Thus, how far China can go in sustaining its technological advancement and its authoritarian regime without the help of such foreign companies? If all the foreign companies working in China refuse to comply, can China shut them all out? Won’t that mean for China to cut itself out of the global Internet? And the billion-dollar question is indeed: Can China face that possibility?

I have some doubts about that.