GOOGLE’S PROBLEMS IN CHINA: FINDING THE RIGHT APPROACH

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By

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ABSTRACT

China's economy has grown consistently over the last 30 years at unprecedented rates, which has made it one of the most sought-after venues for investment by multinational corporations. With this, more Chinese have the means to purchase Internet access and devices. At the same time, Google has grown into one of the largest multinational companies in the world, and entered China in the early part of 21st century seeking to continue its growth. Rather than finding success, Google faced an array of problems. Why was Google not able to sustain a dominant market share of Chinese Internet users when they were able to do so in other countries? Could Google comply with the democratic principles of freedom of speech while operating in China? This thesis explores the failure of Google's approach to China, and whether there are any solutions that Google could use to address both the moral and the business aspects of the difficulties it has faced in China.
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INTRODUCTION

Every corporation needs to take into account how its decisions affect its customers, partners, the government, and society as a whole. The effects of corporate decisions can be best illustrated by the decisions of the biggest corporations, such as Google.

One of the more difficult decisions Google had to make was to decide whether the firm should enter China to do business. From a business perspective, Google entering China required little thought. Everything made sense. China had the world's largest population, and only half of them were online. The growth of China's Internet market was tremendous, and it appeared that Google could capitalize on it.

However, businesses are held morally responsible as well. How does Google, which claimed to be a supporter of free speech, enter China if it were to be compelled to censor information from its customers? How does Google justify their decision to enter China while the US government and Americans back home protest this decision?

Because Google was not able to answer the moral questions before entering China, it faced problems that
could not be addressed, which ultimately led to its retreat from China.

This thesis will discuss the reasons why Google entered China, the problems it faced, the moral issues its management was not prepared to answer, and possible solutions for Google to use in the future.
CHAPTER I

THE BEGINNING: GOOGLE ENTERS CHINA

Google’s decision to enter China required little thought, but critical thinking would be necessary in developing an effective strategy for China’s unique environment. China offered Google everything they could have ever dreamt of: a booming economy, large population, growing Internet usage, and an adaptation to modern technologies. Google’s decision to enter China made sense, their approach did not.

China’s Economy

Perhaps the most attractive element in investing in China was its economic growth over the last 30 years. China was once a closed-off country, but that all changed with the Reform and Opening Up Policy of 1978 and their accession to the World Trade Organization (WTO) in 2001. Both of these actions by China made it possible for Google to enter the Chinese marketplace.
The Reform and Opening Up Policy of 1978

Prior to 1978, China had been an isolated country. Slow economic growth and poverty motivated China to change its economic strategy. Communist leader Deng Xiaoping envisioned great economic growth by allowing foreign investors and their advanced technologies into the country.
Figure 2. Former Chinese Leader Deng Xiaoping


Under the leadership of Deng, his Reform and Opening Up policy established four Special Economic Zones (SEZs) that offered foreign businesses incentives for investing in
China. The four SEZs were established in “…Shenzhen, Zhuhai, and Shantou in Guangdong province and Xiamen in Fujian province.”¹ The Open Door policy enticed foreign companies to invest in China with attractive tax incentives.² In the beginning, most of foreign investment came from Chinese companies in Hong Kong and Taiwan. Later, many Western businesses would begin to invest in China.

The Open Door policy proved to be a success and China’s economy produced impressive results for over three decades. China experienced a large influx of foreign capital. Low production cost and a large market potential added more attractiveness to foreign business. By the year 2000, China had become the second largest recipient of Foreign Direct Investment (FDI) with an inflow of $41 billion, $346.6 billion in FDI stock, and more than 203,208


foreign firms in the country.\textsuperscript{3} China’s Open-Door policy “brought about dramatic expansion in foreign trade and foreign direct investment.”\textsuperscript{4}

**Table 1. Foreign Direct Investments in China**

<table>
<thead>
<tr>
<th>Year</th>
<th>World Rank</th>
<th>Inflow</th>
<th>Stock</th>
<th>Foreign Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2</td>
<td>$41 Billion</td>
<td>$346.6 Billion</td>
<td>203,208</td>
</tr>
</tbody>
</table>


The Open Door policy boosted China’s Gross Domestic Product (GDP) for decades, which made China the fastest growing economy in the world. China’s GDP grew at nearly 10 percent for the next thirty years.\textsuperscript{5} From 1990 to 2000, China demonstrated robust economic growth with merchandise export growth of 15% per year, export value of $249.3


\textsuperscript{5}J. Agarwal and T. Wu, “China’s Entry to WTO: Global Marketing Issues, Impact, and Implications for China.”
billion, merchandise imports of 15% per year, import value of $225.1 billion, and a trade sector consisting of 43.9 percent of its GDP.\(^6\)

<table>
<thead>
<tr>
<th>Period</th>
<th>Export Growth</th>
<th>Export Value</th>
<th>Merchandise Import</th>
<th>Import Value</th>
<th>Trade Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-2000</td>
<td>15% annual</td>
<td>$249.3 Billion</td>
<td>15% annual growth</td>
<td>$225.1 Billion</td>
<td>43.9% of GDP</td>
</tr>
</tbody>
</table>


Without the Open Door Policy of 1978, Google would not have entered China. The Open Door Policy was the reason for foreign investment and long-term economic growth. China’s welcome to foreign companies and robust economy were two of the most compelling reasons why Google entered China.

World Trade Organization

In 2001, China joined the WTO which continued the economic success of the Reform and Opening Up Policy. Both the Reform and Opening Up Policy and WTO accession shared the vision of encouraging foreign investors to enter

\(^6\)Ibid.
China. China’s WTO accession made it more attractive to invest in China during the Information Age. China’s entrance to the WTO meant that it would follow the same procedures, rules, and system as other WTO member countries. China’s accession to the WTO continued its economic growth, and ensured the confidence in foreign investors. Google now had another reason to enter China in the Information Age.

Figure 3. China Becomes a Member of the WTO

Source: Figure courtesy of www.dw.de 2013.
By entering the WTO, China agreed to the principles of the trade administration system that consists of uniformity, transparency, and judicial reviewability:

...this means that China must ensure that the provisions of the WTO Agreement are applied uniformly through its entire customs territory, including at the sub-national level. Second, China will make its laws and regulations affecting foreign trade readily available to other WTO members, individuals and enterprises, thus ensuring transparency. Third, China will make its trade administration actions subject to prompt judicial review. China has agreed to establish independent tribunals, contact points and procedures for the prompt review of all administrative actions by the Chinese Government with respect to trade-related laws and regulations.⁷

In addition, China "...agreed to significant reductions in tariff and non-tariff barriers over the coming years"⁸ which pleased many foreign investors.

Joining the WTO meant that China would bring its market of a "...billion people into the global trading system."⁹ China’s transformation into a more market-based economy presented the possibility of China becoming:

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⁷Ibid.

⁸Ibid.

the biggest market for American industrial and consumption products in the coming decades. In addition, by importing lower-cost materials, parts and equipment from China, U.S. firms can obtain a comparative advantage in production to compete in today’s global market. Acknowledging this potential, many American companies are eager to enter trade relations with China.\textsuperscript{10}

China’s accession to the WTO answered the question whether it could sustain economic growth at a high level for a long period of time. The results China enjoyed after joining the WTO were remarkable.

China’s economic success continued into the 21\textsuperscript{st} Century with the WTO accession. Evidently it is noted:

\begin{quote}
. . . China promised further economic reform and opening-up, establishing a trade policy system in line with international rules and advancing the healthy development of its national economy and foreign trade. The value of its imports and exports have increased 4.8 times from US $509.7 billion to US $2.97 trillion, lifting China’s share of global trade from 4 percent to 9.7 percent. Since 2005 net export’s contribution to China’s economic growth has remained at around 20 percent, adding two percentage points to the country’s year-on-year growth rate.\textsuperscript{11}
\end{quote}

\begin{thebibliography}{11}


\end{thebibliography}
China’s accession to the WTO continued their economic growth dating back to the Open Door policy with the same vision in mind, “attract foreign investment.”

Table 3. WTO Accession Economic Impact

<table>
<thead>
<tr>
<th></th>
<th>Before Accession</th>
<th>After Accession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports and Exports Value</td>
<td>$509.7 Billion</td>
<td>$2.97 Trillion</td>
</tr>
<tr>
<td>Share of Global Trade</td>
<td>4%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>


Like the Open Door Policy impacted China’s economy in the late 20th Century, so did China’s accession to the WTO in the beginning of the 21st Century. Both events were major reasons why Google could and would enter China.

China’s Population, Internet, and Technology

China’s booming economy was a major reason why Google entered China, but there were other relevant reasons. China had the largest population in the world, Internet use in China showed that it was growing, and evidence showed more Chinese were using advanced technologies like PCs,
laptops, tablets, and smart phones. All of these reasons made Google’s decision to enter China a non-trivial one.  

**China’s Population**

Google’s interest in entering China was no different than many other foreign businesses that entered China in the late 20th Century. There were two compelling reasons why China was perhaps the best country in which to invest in the 21st Century. China had the largest population in the world with an estimated 1.3 billion people.¹²

**Figure 4. China Population Trend**

Source: Table from www.quorumlogic.com 2012.

Not only was the population in China large, but there was a huge market in China where businesses could produce

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products and services at a lower cost with adequate
quality. The second reason why China attracted so many
foreign companies, like Google, was that China’s consumer
market was growing, due to its booming economy and
technology usage. As more and more Chinese became
wealthier, more Chinese had the means to purchase computers
and Internet service. The upward trend of Chinese Internet
usage paralleled the upward trend in the Chinese economy.

Figure 5. Chinese Internet Users

China has become the most sought after market for foreign businesses, especially for tech companies, like Google.

Population and Internet Use in China

It was not a coincidence that as China’s economy grew, so did the number of Chinese Internet users. Personal computer usage and Internet accessibility were higher in wealthier nations than in third-world countries. The growing number of Chinese Internet users was a major reason why Google was attracted to China. It was reported that there were about 538 million Internet users in China as of 2012\textsuperscript{13} and there will be 718 million Chinese Internet users by 2013 accounting for 52.7 percent of the entire Chinese population.\textsuperscript{14}


China’s economic growth over the last decades was just one aspect that attracted so many multinational corporations (MNCs), such as Google.

Since 2008, 215 million new web users came from China which amounted to a third of all new web users worldwide. In China, there is a triple digit growth rate in Third Generation “3G” mobile technology, meaning that more Chinese Internet users were accessing the web through cell phones and laptops on wireless networks.

Source: Table from www.wikiinvest.com 2013.

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Figure 7. One Billion Mobile Subscribers

1.1B Global Mobile 3G Subscribers, 37% Growth, Q4 – @ Only 18% of Mobile Subscribers

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>3G Subs (MM)</th>
<th>3G Subs Penetration</th>
<th>3G Subs Y/Y Growth</th>
<th>Rank</th>
<th>Country</th>
<th>3G Subs (MM)</th>
<th>3G Subs Penetration</th>
<th>3G Subs Y/Y Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>208</td>
<td>64%</td>
<td>31%</td>
<td>16</td>
<td>Canada</td>
<td>16</td>
<td>62%</td>
<td>34%</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>122</td>
<td>95%</td>
<td>9</td>
<td>17</td>
<td>Taiwan</td>
<td>14</td>
<td>48%</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>57</td>
<td>6%</td>
<td>115</td>
<td>18</td>
<td>South Africa</td>
<td>13</td>
<td>21%</td>
<td>40%</td>
</tr>
<tr>
<td>4</td>
<td>Korea</td>
<td>45</td>
<td>85%</td>
<td>10</td>
<td>19</td>
<td>Turkey</td>
<td>13</td>
<td>20%</td>
<td>62%</td>
</tr>
<tr>
<td>5</td>
<td>Italy</td>
<td>44</td>
<td>51%</td>
<td>25</td>
<td>20</td>
<td>Portugal</td>
<td>13</td>
<td>78%</td>
<td>10%</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>42</td>
<td>53%</td>
<td>25</td>
<td>21</td>
<td>Vietnam</td>
<td>12</td>
<td>11%</td>
<td>358%</td>
</tr>
<tr>
<td>7</td>
<td>Brazil</td>
<td>41</td>
<td>17%</td>
<td>99</td>
<td>22</td>
<td>Mexico</td>
<td>11</td>
<td>11%</td>
<td>55%</td>
</tr>
<tr>
<td>8</td>
<td>India</td>
<td>39</td>
<td>4%</td>
<td>841</td>
<td>23</td>
<td>Malaysia</td>
<td>10</td>
<td>27%</td>
<td>7%</td>
</tr>
<tr>
<td>9</td>
<td>Germany</td>
<td>38</td>
<td>36%</td>
<td>23</td>
<td>24</td>
<td>Sweden</td>
<td>10</td>
<td>73%</td>
<td>25%</td>
</tr>
<tr>
<td>10</td>
<td>Spain</td>
<td>33</td>
<td>57%</td>
<td>21</td>
<td>25</td>
<td>Philippines</td>
<td>10</td>
<td>11%</td>
<td>45%</td>
</tr>
<tr>
<td>11</td>
<td>France</td>
<td>30</td>
<td>45%</td>
<td>35</td>
<td>26</td>
<td>Saudi Arabia</td>
<td>10</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>12</td>
<td>Indonesia</td>
<td>29</td>
<td>11%</td>
<td>27</td>
<td>27</td>
<td>Netherlands</td>
<td>9</td>
<td>44%</td>
<td>34%</td>
</tr>
<tr>
<td>13</td>
<td>Poland</td>
<td>28</td>
<td>57%</td>
<td>17</td>
<td>28</td>
<td>Egypt</td>
<td>8</td>
<td>10%</td>
<td>60%</td>
</tr>
<tr>
<td>14</td>
<td>Australia</td>
<td>22</td>
<td>76%</td>
<td>21</td>
<td>29</td>
<td>Austria</td>
<td>7</td>
<td>58%</td>
<td>24%</td>
</tr>
<tr>
<td>15</td>
<td>Russia</td>
<td>17</td>
<td>6%</td>
<td>45</td>
<td>30</td>
<td>Nigeria</td>
<td>6</td>
<td>6%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Global 3G Stats: Subscribers = 1,038MM  Penetration = 18%  Growth = 37%

Source: Table courtesy of www.engadget.com 2012.

The fact that the number of Chinese Internet users was growing and amounted to only half of China’s population was a major reason Google wanted to enter China. The Chinese economy had been growing consistently for over 30 years at a nearly astronomical 10% growth rate. Whether China can sustain a growth rate this large will be left for further debate, but few question that China’s economy will continue to grow into the 21st Century.
Google’s Wrong Approach

Google entered China with the great enthusiasm and urgency, which caused them to be unprepared for the unforeseen challenges. Google took an approach to China similar to a software development process called Agile. In Agile, a quick prototype of a software product is produced and implemented, and then revisions would be made periodically. This approach did not bode well for Google in China because, unlike technology, human values issues arise, which have more complexity than a software product. Perhaps, Google should have adopted what is known as a traditional approach, in which a complete plan is developed, involving many potential issues may arise. This traditional approach would have made Google more prepared to address the complex human values issues.

Before Google entered China, they clearly understood that they were about to enter a country with very different circumstances than in the United States. Dr. Larry Brilliant, the head of Google’s philanthropic site Google.org, expressed that the opportunity in China was tremendous, but China was a large and “unusual” business partner with unusual pressures with which Google was not
familiar. Google decided to enter China, knowing they were entering cloudy waters, and what followed would be a series of challenging events that would have been hard to predict even with a better understanding of China’s environment.

Google China

In 2005, Google created the company Google China that would be headed by former Microsoft executive Kai-Fu Lee.

Figure 8. Google China Executive Kai-Fu Lee


Microsoft sued Google and Lee for the acquisition, but later settled in a confidential agreement. In that same year, Google China developed a Chinese-language interface for Google’s main site Google.com. The following year, the Chinese version site Google.cn was created. Google.cn was a censored site that followed all Chinese censorship regulations. The censoring by Google raised questions about the company’s core values.

It seemed that Google’s plan for China was to run their business and search engine the same way they did in the US, the only difference being that it would be in Chinese and they would censor their site. Unfortunately, success for Google in China to levels they had experienced elsewhere in world would require more sophistication to address unique differences in government, laws, and culture.

Kai-Fu Lee would leave the Google China to start a venture fund while Google and the Chinese government were jousting over Internet censorship in China. At the time Lee left, Google was losing market share to the domestic
and most-used search engine in China, Baidu.\textsuperscript{17}

\textbf{Figure 9. Baidu: China’s Leading Internet Website}

\begin{center}
\includegraphics[width=\textwidth]{baidu.png}
\end{center}

Source: Photo from www.nytimes.com 2013

Google’s decision to enter China made sense. China had a booming economy, Internet use was growing, and more Chinese had access to modern technologies. Their plan for China was too simple to address the complex issues dealing with the differences between a Western company and an Eastern country.

Prior to entering China, Google had high expectations of succeeding in China’s booming market for Internet companies. As Google entered China, they experienced unexpected problems that Google was not prepared to solve. Some of the problems Google faced were: criticisms from the US government and its citizens, poor service to their Chinese users, and a loss of market share to their Chinese competitors. Understanding what problems Google faced and why they occurred is vital in forming possible solutions to those problems.

Criticisms of Google in China

Google’s decision to enter China was not a popular one. Google faced negative sentiment from the US Government for enabling a dictatorship in their censoring desires. At the same token, China became displeased with Google lack of understanding of their censorship policies. Privacy advocates closely monitored Google’s activities and expressed openly their dissent when discovering the company’s method of using customer information for profits.
US Government Criticism of Google in China

The US government was certainly not a fan of Google entering China. Although US-Sino relations were civil at the time, there was still little trust between them in respect to the freedom of speech and censorship issues. The topic of American companies entering China in the early part of the 21st Century, to build China’s technological infrastructure, stirred up questions of whether these companies were doing more harm than good. The debate became important enough that in February 2006, the US government held a hearing with major American companies operating in China; including Google and Cisco.

The hearing produced mostly negative criticism towards Google for entering China. The US government’s view was that Google entered China by placing more value on making profits than protecting citizens' right to the freedom of speech. Republican from Iowa Jim Leach expressed his discontent towards Google by going on the record to say, “That makes you a functionary of the Chinese government. .
So if this Congress wanted to learn how to censor, we’d go to you.”¹

Figure 10. Eric Schmidt Testifies Before Congress

Source: Image courtesy of C-SPAN.org 2011.

At the same hearing another Congressman expressed a different reason why he did not like the idea of Google and other American technology companies doing business in China to help build its massive computer networking system. China was a dictatorship and the sentiment was that

Google’s products enabled China to push forward their dictatorial ideals. Republican representative Christopher Smith expressed his fear, “When Google sends you to a Chinese propaganda source on a sensitive subject, it’s got the imprimatur of Google. . . . And that influences the next generation—they think, Maybe we can live with this dictatorship. Without your Lech Walesas, you never get democracy.”\(^2\)

At the same hearing, some of the companies were compared to Nazi collaborators. It was also during this time that Google’s stock price fell while protesters stood outside the company’s headquarters in Mountain View, California. Google wasn’t the only American company in China making large profits, but Google was held to a higher standard because of their stance on doing what is right or as they say “Don’t Be Evil.” In their Securities and Exchange Commission filing they stated that they were, “a company that is trustworthy and interested in the public good.”\(^3\) Taking a bold position on being the moral example can bring criticisms for actions taken that are to the

\(^2\)Ibid.

\(^3\)Ibid.
contrary to their statement. Google’s sheer size as a company just intensified any criticism, as they are constantly on the media’s radar.

Criticism by Americans

The US Government was not the only one to have negative feelings about Google in China. Americans were unhappy with Google in China as well. Pete Barlas wrote in Investor’s Business Daily that, “Google also has been criticized for such things as censoring its service in China and for digitizing copies of books online.”

Unauthorized copying and distribution of books or other intellectual property are piracy violations that may damage the owners of that property. Perhaps this was part of Google's attempt to stay competitive with Chinese Internet companies who enable piracy of intellectual properties online.

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Book publishers have raised their voice against Google for “. . .using publishers to build its search database to attract users and advertising dollars.”

Vice President for Legal and Government Affairs for the Association of American Publishers said, “Google is violating its ‘don’t be evil’ mandate. . . .If you apply that mantra specifically to the notion of don’t infringe the copyright of other persons, we believe Google has failed.”

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5Ibid.

6Ibid.
Another activity that Google partakes in is the use of email information from its customers to create, advertisements which Americans do not like. Barlas explained, “Privacy advocates have criticized Google for using software in its e-mail services that scans messages to serve up relevant ads. . . For example, an e-mail message about getting a pizza after work might include an ad for a pizza restaurant.”

The reason American critics believed Google entered China was to make a profit, first and foremost. Clive Thompson of the New York Times stated, “In the eyes of critics, Google is lying to itself about the desires of Chinese Internet users and collaborating with the Communist Party merely to secure a profitable market.”

Google also maintains a massive database of their users that American critics oppose:

Google has records of millions of consumer searches. It hasn’t shared the data with anyone. But the sheer volume of data worries some. Google should just delete that information, says Fred von Lohmann, staff attorney for the nonprofit Electronic Frontier Foundation, ‘There

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7 Clive Thompson “Google’s China Problem.”

8 Pete Barlas “Don’t Be Evil.”
is no reason to keep the data forever, which is what they are doing,’ he said.⁹

This issue of data collection is similar to the Edward Snowden NSA Whistleblower story of June 2013 where an ex-Booz Allen Hamilton System Administrator felt that the US Government had gone too far in collecting massive amounts of data in their covert operation named “Prism.”

**Figure 12. Former NSA Whistleblower Edward Snowden**

Source: Photo courtesy of TheGuardian.com 2013.

Google's decision to enter China was not a popular one. They received criticisms from many directions including Americans, as well as, the Chinese. They knew that entering China would be a challenge, but they also

⁹Ibid.
felt that entering China would be worth any obstacles or criticisms along the way. Unfortunately, criticism was not the only problem Google faced in China. China’s sophisticated censorship system seemed to have blocked Google from providing a high-level of services to its users, as Google is accustomed to do in the states.

Chinese Censorship and Google Problems

Criticism from the US Government and Americans towards Google for making the decision to enter China was only one of the many problems Google would face in China. Another problem Google experienced in China was due to Chinese censorship. What is deemed acceptable and unacceptable web content in China is not clearly laid out; everyone in China is supposed to use their own judgment. This lack of clarity has put Google in confusion.

The Chinese government censors their people in two ways: internally and externally. For those that live inside of China, they are discouraged to view or solicit any material on the web that is not favorable to the Chinese government. Harsh penalties are given to those who violate censorship regulation in China which the Chinese government uses to send a message to others. In order to
enforce internal censorship, Chinese government has 50,000 web monitors who are either employed or are volunteers. According to the BBC, 50,000 different Chinese authorities "do nothing but monitor traffic on the internet."\(^{10}\)

**Figure 13. Chinese Authorities Monitoring Internet**

Source: Photo courtesy of foreignpolicyblogs.com 2011.

For websites that the Chinese government does not allow, it uses a sophisticated censoring network known to many as "The Great Firewall of China." This massive censoring system is built with "...fiber-optic networks

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to specially configure ‘router’ switches at the edge of the network, where signals cross into foreign countries."\(^{11}\)

Ironically, these routers were built by Cisco Systems, an American company.

**Figure 14. The Great Firewall of China**

[Image: greatfirewallofchina.org]


It was not that censorship in China was the problem for Google, censorship occurs all over the world; the problem was that Google did not understand how and why China censors. This lack of understanding prohibited Google from taking measures that were acceptable to the Chinese government. It was due to this misunderstanding.

\(^{11}\)Ibid.
that China shut down Google’s site, which ultimately led Google to withdraw from mainland China.

On September 3, 2002, the Chinese government shutdown Google’s site completely. According to the case study “Google in China” by The Kenan Institute for Ethics at Duke University:

By the year 2002, Google.com’s Chinese user base mainly consisted of white collar, pro-Western Chinese businesspeople. However, in the fall of 2002, problems struck. Suddenly, in early September, computer users in China could not access Google.com. The Chinese government had blocked access to the site, and users were instead diverted to rival Chinese search sites. Two weeks later, it again became possible to access Google.com, but government censorship had been heightened, making the search engine far slower and less reliable.  

Unfortunately, a clear reason why Google’s site was shut down on this day was never found or explained; but all of the possible explanations did not bode well for Google’s relationship with the Chinese government. The co-founder of Google, Sergey Brin believed it was an attack by one of its largest rivals in China, Baidu. Another theory was that the Chinese government ran Internet security tests in

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preparation for the November 2002 political leadership change. No matter the cause of Google’s shut down in September 2002, this was another problem for Google in China. For one, Google did not know the exact reason for the shutdown. And two, Google’s reputation of being a quality search engine began to dwindle in the eyes of Chinese Internet users.¹³

So now Google faced two problems: criticisms, from all directions, and problems providing high-level of services to its Chinese Internet users. Because both of these problems were not solved, they led to a third problem. The criticisms Google received and the problems with providing reliable services led to Google's massive losses of market share to other Chinese-based Internet companies.

*Cultural Differences: Google loses market share in China*

With Google’s problem in regards to receiving criticism from all directions, Google's approach to this problems was to stick to its belief that the “ends” would justify its “means.” This is an abstract theory, but it can be simply interpreted that if Google is successful in China, everyone will be happy.

¹³Ibid.
Success did not look promising, especially after the clashes Google experienced with China's censorship system, or the so-called “Great Firewall of China.” The multi-layers of China’s censoring, monitoring, testing, and hacking activities proved to be more than Google could handle. Google retaliated and stopped censoring their search engine in China, but this only backfired. As Mark Lee of Bloomberg.com wrote, “Google Inc., which stopped censoring its China site in defiance of local rules, lost market share in the country with the most Web users for the first time in three quarters as the standoff hurt sales.”

Chinese-based tech companies have showed a better understanding of Chinese internet user preferences, which had led to their dominance of the Chinese Internet market. Take Baidu for instance: the company founded by Chinese-born Robin Li offers services that appeal to Chinese user more than Google does. As Rebecca Fannin, Contributor to Forbes.com, wrote, “Baidu, started by China-born

entrepreneur Robin Li in late 1999 just as Larry Page and Sergey Brin were cranking up Google in Silicon Valley, understands the local Chinese market better than Google’s Mountain View team.”

**Figure 15. Baidu Founder Robin Li**

Source: Photo from tech.fortune.cnn.com 2011.

In Fannin’s Forbes article, she gives a compelling example of how a Chinese-based Internet company, like Baidu, understands the wants and needs of the local Chinese

population better than Google. First, she stated that Google launched an inferior product in China out of haste, which created a bad impression, while Google’s competitor Baidu offered far better services from the beginning which started a great relationship with its Chinese citizens. Baidu earned the trust of Chinese users from the first impression, which gave them the greatest share of the market. Baidu would continue to add new features that allowed them to keep their market dominance in China.

Some of the features Baidu offered Chinese users, Google could simply not compete with. Baidu offered “community-oriented services that appealed to Chinese Internet users, including bulletin boards where leads on information could be exchanged – a service that Google China’s former president Kai-Fu Lee dismissed as having nothing to do with search. Baidu also offered instant messaging, a hit with China’s Netizens.”\(^1\) They were the first to enter the Chinese mobile market by enabling the Chinese mobile user to search the Internet. A network of advertisers in 200 Chinese cities were created by Baidu to educate businesses with the power of online advertising. At first, Baidu enabled Chinese users to illegally download

\(^{16}\text{Rebecca Fannin, “Why Google is Quitting China.”}\)
songs and movies, but later worked with labels for authorized downloads. Baidu’s search technology for the Chinese language was far superior to Google’s.¹⁷

**Figure 16. Chinese Mobile Users**

![Image of Chinese mobile users](image)

Source: Photo from wantchinatimes.com 2011.

All of these actions Baidu took, and Google did not, created the problem of Google losing market share in China. Baidu understood the wants and needs of the Chinese Internet user better than the outsider company, Google. The knowledge Baidu had of its users was used to create

¹⁷Ibid.
innovative products and services for its users. Google not having an understanding as well as did Baidu led to inferior products and services.

Conclusion

Google’s problems in China were multi-faceted. They faced criticism from the US government and Americans for cooperating with Chinese censorship. Their site was shut down by the Chinese government, and also faced multiple service issues due to “The Great Firewall of China.” They lost market share to Chinese-based Internet companies because the latter had a better understanding of the preferences of Chinese Internet users. Today, Google does not have a website in mainland China. They redirected all Chinese users to their Hong Kong uncensored website. A solution for Google within China has still not been found.
CHAPTER III

HUMAN VALUES ISSUES AND SOLUTIONS FOR GOOGLE'S CHINA PROBLEMS

Was it moral for Google to enter China? Some say it was moral, some say it was not moral, and some say something in between. For one to make a judgment on Google's decision to enter China as moral or not, a couple of factors must be considered before coming to a conclusion.

The decision to do business in China is not in itself immoral. Many firms do business in China every day, from countries all over the world, including the United States. So in order to determine whether the decision to do business in China is moral, other factors must be evaluated.

The first factor that should be investigated is what is the primary reason or reasons for that business's desire to do business in China. For example, one company could have the mindset that it wants to take advantage of the booming economy in China and will do anything to achieve large profits. This mindset could lead to an immoral decision. This company would be more likely to abide by
any Chinese regulations that run counter to what most people believe are universal human rights. Wanting to enter China just to make large profits, while willing to compromise any human value, would be considered an immoral reason to enter China.

Another example of a company that desires to enter China for other reasons could be weighed as a moral one. An example of a moral reason for entering China could be that a company wanted to provide their products and services that enhanced the quality of medical care. This company will also seek to take advantage of China's large economy for profits, but those profits are likely to be used for a moral cause. At the same time, this company would have to dance a fine line between appeasing Chinese regulations and not violating any individual human rights. This would be a scenario where a company's desire to enter China would be moral.

Using this model, the question can be asked: Was Google entering China a moral decision? The reason why this question is interesting is because it can be evaluated in both lights. And to add complexity to the question, Google had not been very clear on its intentions in China.
But from the evidence, if we wanted to argue that Google entered China for immoral reasons, we could. Obviously, Google was attracted to China's large economy and massive Internet user market that could potentially lead to record-breaking profits. But they did not claim any human value intention with their decision to enter China, other than, that they wanted to expand their business. For example, Google did not say that they also wanted to liberate more Chinese in China with their products and services.

One could add to the argument that Google's decision to enter China was immoral by citing Google's initial agreements with the Chinese government. Google signed an agreement called "The Pledge" with the Chinese government which stated that Google would abide by all the regulations set forth by the Chinese government, even if they opposed democratic values. In turn, Google began their operations in China which had an information censoring system that was not approved by many around the world, including the US Congress.

The argument that Google's decision to enter China was moral could be supported as well. When Google commenced
business in China it created new jobs. In addition, Google gave millions of Chinese more access to the Internet and exposed it to modern technology (even though the service quality was poor). Another moral effect of Google's decision to enter China was that they prevented the Chinese-based Baidu from gaining a monopoly of China's Internet search market.

The question of whether Google's decision to enter China was moral or not cannot be definitively answered. The reason why the question cannot be answered clearly is because Google's intentions and actions were not clear. Google never clearly stated exactly what their intentions were in China. Making large profits in a booming economy is obvious; asking if they had any concern about moral implications was not. By not establishing a clear stance on moral issues, Google had the flexibility to take many positions on moral issues.

For example, Google's position on censorship was never clear because they did not clearly state their stance on the issue, and their actions supported both support and opposition towards censorship in China. Google began censoring their website when they first entered China. As
they began to experience problems, they switched their position to not censoring their website until they eventually left the country. So it is difficult to define Google's stance on this human rights issue in China.

Google's decision to enter China can be viewed as a moral or immoral decision. Making a judgment on Google's decision in China would depend on evidence of their intentions and actions.

If Google claimed it wanted to enter China to expose Chinese citizens to liberating technologies, then this would be considered a moral intention. On the other hand, if Google did not claim any moral intention, and offered no evidence of moral actions, then its decision to enter China could be determined as immoral.

From the evidence, it seemed Google entered China because of China's booming economy and rapidly growing Internet user market. The potential to expand its business was astronomical. Google's management had one issue: Chinese censorship. And it was a moral issue, not a business issue. They were not prepared to handle a moral issue. So they took a cloudy stance on censorship. First they abided by Chinese censorship regulations to get into
the country. After experiencing problems, they decided that it was not worth it and left the country.

The moral solution for Google in China was to stay and comply with censorship in the short-term for long-term moral success. By taking this approach, Google would have had time to establish relationships with the Chinese government. Once trust could be built over time, Google would have a voice to influence change in Chinese censorship policies.

Solutions For Google's China Problems

The problems Google faced in China was due to the approach they took when entering the country. From the beginning, Google did not have a clear idea of what it would take to be successful in China. China presented new challenges that Google had never experienced. How was Google going to address all of the criticism they received for operating in a country that censors? How was Google going to logistically operate in China’s sophisticated censorship environment? How was Google going to compete with local competitors who know the Chinese market better than they? All of these questions were never answered by Google, which led to the problems they faced while in
China. It is time that Google change their approach with other possible solutions. This chapter offers solutions Google can take in China.

The options for Google in China are many. As Harvard Business School professor James Heskett wrote in his column “The China Dilemma for U.S. Firms: Comply, Resist, or Leave?” he wrote there are three main options for US companies in China:

For Yahoo and Google, among others, it gets even more complex. It is whether to: (1) comply with Chinese requirements that they make available information regarding individuals using their Internet sites that could endanger users’ welfare, (2) resist such license requirements, or (3) cease doing business in China.¹

**Figure 17. Harvard Business School Professor Heskett**

Source: Photo courtesy of youtube.com 2012.

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Heskett compares the situation of US companies in China with that of auto companies in South Africa during Apartheid. He makes the distinction of US companies selling automobiles in South Africa with US companies selling technology in China. He states the difference is that US companies in China are, “. . .providing utilities that handle sometimes sensitive information on a worldwide basis.”

Figure 18. Anti-Apartheid Protestors

Source: Photo courtesy of msu.edu 1977.

\(^2\)Ibid.
There are three main options for Google in China. One, they can comply with Chinese government rules and regulation while hoping for future changes. Two, they can challenge the Chinese government by resisting current rules and regulations. Three, they can withdraw from doing business in China altogether. And four, there are alternative solutions that may trump the previous three solutions.

Comply and Stay in China

Although this approach may be difficult in the beginning, in the long term it may be the best way, for Google to become successful in China. One of the problems Google faced in China was the constant disruption of its website by service blocks. The reasons or causes for these interruptions were never found. Speculation and distrust between Google and China’s government prevailed. Instead of remaining patient and working with the Chinese government, Google decided to rebel. Google stopped censoring their Chinese-version website, even though they knew that eventually their site would be shut down. Instead of working against the Chinese government, Google could have persisted in working with Chinese regulations.
Even though this would be difficult in the beginning, Google would continue to learn more about the process of Chinese censorship. At the same time, Google would have the time to learn about the wants and needs of Chinese Internet users.

In Heskett’s article, he wrote that, “Nearly all respondents to this month’s column would advise U.S. firms such as Yahoo, Google, Cisco, and Microsoft to continue to operate in China despite the government’s possible use of their content or technology to invade the privacy of its citizens.”\(^3\) There are many good reasons for Google to stay in China, despite all the criticism received.

The critics of Heskett’s column, made valid arguments for US companies to stay in China. One commenter, Sandi Edgar, said, “If Google ended its service to China, China would respond by creating its own version of Google.”\(^4\) This has already occurred. Google has since left mainland China, and Baidu has become the “Google of China.” A new problem has been birthed, a monopoly of the Chinese Internet market.

\(^3\)Ibid.

\(^4\)Ibid.
Another commenter, Jack Carpenter, suggested that it is imperative that a company establish a presence in China, and in order for that to happen, that company must accept local rules and regulations. Carpenter said, “If an organization is serious about doing business in China, it must ‘ride out’ all government restrictions. Things evolve fast in China. . . . Flexibility in building a position is necessary.”\textsuperscript{5} This suggests that Google should, at least for the beginning, abide by current Chinese restrictions in hopes of future changes.

Michael Peng, who also commented on Heskett’s article, made the point that Google’s presence in China would give them the opportunity to influence current Chinese regulations and restrictions. Peng said, “If U.S. firms choose to leave, they not only lose China’s market, but also the chance to make an impact in China.”\textsuperscript{6} China’s market for Internet users will soon be the largest in the world.

Linda Sun’s comment added another point, stating that Google in China gives them the opportunity to build

\textsuperscript{5}Ibid.
\textsuperscript{6}Ibid.
relations with the Chinese government that will increase the likelihood of influencing them for future changes. She said, “Having worked in China..., I know the best course is to comply initially to gain the trust of the authorities, and then to suggest changes and modifications.”

Heskett summarized those who were in favor of US companies compliance with current Chinese regulations:

Those defending a decision to stay say that change requires involvement and participation from the inside. Even though the process may be slow and, yes, profitable, they argue that abdication negates an organization's power to foster change. Further, if all U.S. information utilities operating in China were to take organized action, according to this argument, they would have significant leverage in forcing change.

True, change from the inside would be far more effective than attempting to influence policy as an outsider. This would mean that US companies would have to build close relations with the Chinese government which could take years to establish. Organizing together does provide a bigger voice, but first that group of US companies must

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7Ibid.

8Ibid.
have a large enough stake in the Chinese market to be relevant.

Heskett also cites other viewpoints, stating that some believe that doing business in China is the only option for US companies because it is in the best interest of company stakeholders, and that it is not US companies which are responsible for foreign affairs issues, but the US government. Heskett summarized this other viewpoint:

Others may conclude that staying is the only course of action, whether or not efforts are made to influence government policies. This line of thought holds that a management's first obligation is to its shareholders, not others with political agendas. Further, they add that it is more appropriate that the U.S. government take whatever action is appropriate, including passing legislation requiring compliance.9

Although it is easy to pass responsibility to others, such as the US government, companies have business ethics responsibilities not only to their stakeholders, but more importantly to their customers who keep them in business.

The decision to remain in China has many valid reasons. If Google remains in China, they have the opportunity to make a presence in China. They have the

9Ibid.
chance to build trust with the Chinese government in hopes of future influence. They have the opportunity to stop a Chinese Internet monopoly. And of course, what most companies are interested in, they have the opportunity to profit from the fastest and largest growing Internet market in the world.

Resist and Challenge China

Another option for Google in China was to stay and resist Chinese censorship regulations. This would mean that Google would attempt to operate their website without censorship.

Some critics of Heskett’s article were adamant in taking a stand against Chinese censorship and privacy violations. Commenter Matt Deter said, “If Yahoo and Google want to change China, they need to work against the system, not within it.”\(^\text{10}\) This approach seemed to imply that negotiations and compromises are not a better solution.

Another commenter expressed that human rights repressions are a universal issue that should not be focused just on Google in China. Commenter Suraj Babalola wrote:

\(^\text{10}\)Ibid.
I am Nigerian and have lived under a repressive regime. It is a horrible experience no human being should be subjected to, what with fear, lack of privacy, and so on. I would be very happy if both Google and Yahoo resisted these constraints. The real bottom line is people, no matter where they reside. We are all connected. Please do not limit this discussion to China. Extend it to Africa and help us rid this continent of similarly repressive policies.\textsuperscript{11}

Resisting human rights violations should not be focused just on Google in China, but all over the world.

One benefit Google would receive from taking this option of staying in China while resisting censorship and privacy intrusions is that Google would stop most of the criticisms for being in China. Heskett wrote:

Arguments for shutting down service in China include the importance of taking a stand against an oppressive government and its policies, refusing to compromise an organization's values by acceding to objectionable policies in the name of profits, and forcing a society in need of one's services to alter its views regarding privacy. To this list one might also add the reduced cost of dealing with protests and bad press resulting from a decision to stay.\textsuperscript{12}

\textsuperscript{11}Ibid.

\textsuperscript{12}Ibid.
If critics knew that Google was in China to challenge and fight against censorship and privacy injustices, they would give Google good press coverage. Google would benefit by saving time, money, and energy from not having to respond to all of the many criticisms.

Unfortunately, Google has tried this approach to no avail. Once they encountered slow and unreliable service in China, in addition to security breaches, Google stopped censoring their website. This effort was taken due to the frustration that Google was experiencing, and implied that the Chinese government was responsible. Google's site was shut down by the Chinese government, and Google had to exit mainland China. Google redirected all mainland Chinese Internet users of their site to their Hong Kong uncensored site “http://www.google.hk/.”
Cease and Withdraw from China

The option to withdraw from China distinguishes itself from resisting. Resisting, in this sense, means to stay and work against China to change their policies. Whereas, withdrawing is to remove Google from any involvement in the country. It can be said that withdrawing can also be a form of resisting Chinese censorship and privacy regulations.

In James Heskett's article, he found that 50% of the respondents advocated that Google leave China. Heskett stated, "...about half would advocate a discontinuation
of operations after attempting unsuccessfully to resist meeting government demands for private information.”

One commenter expressed that resisting and/or withdrawing is the moral thing to do, and that if you do not do what is moral, it will come back to haunt you. Commenter Nicole Herbots said, “Our truest self-interest is in the end always the ethical choice of resisting or leaving, as we will be inevitably be the next victims of the repressive policies we did not confront but ended up supporting by complying.”

One problem with Google withdrawing from China completely is that it will leave Baidu with a monopoly in China. China’s Internet market is more than $300 million, with more than 300 million users and 670 million mobile users. These numbers are growing every year, and soon will be the largest Internet market in the world, surpassing the US by far.

The larger issue with withdrawing from China is a moral one. If in fact, all agree that China’s censorship

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13 Ibid.
14 Ibid.
15 Ibid.
and privacy policies are injustices, the withdrawing has the most negative impact of all the options for Google. Withdrawing from China will only allow these policies to grow stronger without any resistance. Complying with China in the short-term, at least, gives the chance of future change. Resisting China now, at least, makes their censorship and privacy policies more difficult to implement. Withdrawing does the most harm for Google and society as a whole.

Other Options for Google in China

One of the options Google had when entering China was to give control to a local company to run their business. This strategy addresses the problem of Google not having as much knowledge of the local market as do local companies. The wants and needs of Chinese Internet users are not quite the same as those in the US. Taking on this strategy allows Google to be involved in the Chinese Internet market with greater success than going it alone. This will allow Google to be competitive in the Chinese market.

This strategy is not a new or unique approach. An example of this strategy was Yahoo! giving control to the local firm Alibaba. In 2005, Yahoo! founder Jerry Yang
gave all management control in China to Jack Ma, “...the charismatic leader of China’s e-commerce powerhouse Alibaba.”

**Figure 20. Yahoo and Alibaba Company Logos**


Yang’s decision was based on his opinion that a local company with better knowledge of the environment would have a better shot than an outsider trying to compete with local companies. Former president of Yahoo! China Zeng Ming said, “The net is about culture. You can’t have expats running it.”

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17Ibid.
In fact Google began this approach with Baidu before changing it. In 2004, Google considered taking this approach when they invested $5 million in the local powerhouse Baidu as a way to enter the Chinese Internet space. But Google wanted to do it their way, and have their own company name in China. By mid-2006, Google sold their 2.6% shares in Baidu for more than $60 million right before Google launched their Chinese version: website Google.cn.\textsuperscript{18}

Figure 21. Google's Chinese-Version Website


\textsuperscript{18}Ibid.
Rebecca Fannin, contributor to Forbes.com, wrote, “In hindsight, and given its bumpy history in China and this latest jockeying with the Chinese government, maybe Google should have pursued the go-with-Baidu strategy.”

The advantage of this strategy is that it allows Google to enter the Chinese Internet space by working with a local company which understands the environment much better than does Google. For instance, Google had problems with the Chinese government as to censorship issues. The problem was that Google did not understand how censorship was handled in China, whereas, Baidu understands what should and should not be censored. Furthermore, Google was losing to its competitors because Google did not know the wants and needs of Chinese Internet users as well as did their competitors. Therefore, Google could not offer products and services that could compete with their competitors. By joining with a local company, Google could let that company handle the Chinese government politics and the demands of the Chinese Internet market, while Google could focus on product and service development (R&D).

\(^{19}\)Ibid.
By joining with a local Chinese Internet company, Google would have addressed both of the critical problems it faced: the censorship issue and the peculiarities of the Chinese market.

**Conclusion**

Google had at least four options when entering China. It seemed they entered China without a clear strategy, which led to their problems. Out of the four options, complying now for future changes seems to be the best option available. This option could allow Google to build good relations with the Chinese government and population. This is a strategy for long-time change, and offers the better chances than do the other options.

Resisting or challenging the Chinese government on their censorship and privacy policies has proven to fail. There are many reasons why this option is not ideal. First, China is not in need of Google for their country to meet its goals. China has Baidu which has gained much success in recent years. Second, China is historically known to be one of the slower-changing countries in the world, so attempting to force change abruptly might not be taken positively by the Chinese government.
The option of withdrawing probably does the most harm out of all the options. Withdrawing from China hurts Google's image of being competitive on a global scale, and will even hurt them more in the future as China’s Internet market grows rapidly each year. Withdrawing will enable Baidu to become a monopolistic company in China, which will have negative repercussions for Chinese Internet users. And most of all, withdrawing from China gives up any chance for changing Chinese censorship and privacy policies.

The only problem with the fourth option of giving control to a local company is that Google would be just a stakeholder. Their influence in changing censorship and privacy policies would be next to none, as the power would be in the local company, which most likely would not challenge Chinese policy.
CHAPTER IV

CONCLUSION

Google entering China was inevitable. Over the last 30 years, China opened its doors for foreign investors. In turn, its economy grew at unprecedented levels. During the last 10 years, Google was growing as a company. The firm's success allowed it to expand outside the United States. The growth of both China and Google during the same time period made their meeting almost inevitable.

China opens door to foreign investors

One of the most central decisions China made in its recent history, in regards to its economic prosperity, was making the change in the late 1970s to go from a closed to an open economy. After failed attempts to grow its economy without the help of foreign investors, China decided to invite foreign investors when the government enacted "The Opening Up and Reform Policy."

This policy was the foundation of many years of economic prosperity for China. Not only did China receive monetary investment, it also received the advanced technologies of the Western world. Chinese could implement
their own versions of the same technologies for their own benefit.

In the early period of the 21st century, China fortified its commitment to foreign investors by joining the World Trade Organization (WTO). Its membership in the WTO sent a message to all foreign investors that they would abide by international standards. By doing this, foreign investors could be reassured that they had more protection for doing business with China.

Google's rise and interest in China

In the late 1990's, two Stanford Computer Science grad students turned their college project into a startup company. Larry Paige and Sergey Brin developed an algorithm that revolutionized Internet searching on the Web. This was the creation of Google.

Google's popularity began with its search engine Google.com. Its search engine was unlike others of their time that were inundated with advertisements and clutter. Google's search engine was simplistic, yet efficient. When users entered a search, the search engine retrieved the most relevant website (not the websites that paid to be at
the top of the search like other search engines commonly did).

Google's search engine rose quickly, and so they decided to introduce another product, an email service called "Gmail". They developed Gmail with the same attributes of their search engine: simplicity, efficiency, reliability. Like Google.com, Gmail's popularity grew.

Google has continued to add more products, like a video-sharing website called "YouTube." Google did not create YouTube.com, but purchased it, and then made it their own by synchronizing it with other Google products. Google today encompasses many products from a GPS mapping locator to a Cloud Data Storage Repository, and the best part is that it is all free of charge.

While Google was founded in the United States, its success could be scalable on an international level. Out of all the countries in the world, China is the most difficult to overlook. China has the world's largest population. It has one of the world's largest economies. The Chinese have shown an affinity for technology such as the Internet, laptops, and mobile phones. They have one of the world's fastest growing groups of Internet users. All
of these attributes of China make it very attractive to Google.

**Google and China Partnership**

The potential of a Google and China alliance is great. The demand for Internet technologies in China is more than in any other country in the world. No other company supplies Internet technologies better than Google. If both sides can work together, they both will benefit on unforeseen levels.

As China's economy began to grow year after year, more Chinese gained more access to modern technologies and Internet access. The Chinese market revealed that the demand for Internet technology and software was increasing. The most luring fact was that only half of China's billion people were online. This phenomenon lured many tech companies into China like Microsoft, Yahoo!, and Google.

Google in China presented a win-win situation. Google would have access to one of the world's largest markets. The potential for profits in China for Google could surpass those that they have gained in the US. By allowing Google to enter the Chinese market, China would gain the most cutting-edge technologies from the world's tech leader.
The Google-China partnership presented opportunities on a scale that was unprecedented.

Perhaps, if Google was a Chinese company or China was a democratic country the merge would have been less rocky. But because Google is a company with democratic values and China is a communist country, their differences in political ideology became a major roadblock.

Google's China Problems

In the beginning, the idea of Google in China sounded exciting. In an economic sense, China presented demand for modern technology. Google presented the capability of supplying China's needs for technology. The match seemed likely to be definite success. But this was far from the case.

Google received more criticism from the world than China did. One reason this could be was that China's rulers did not have to change their business methods by allowing Google to enter their country. China did not have to change anything. Google was forced to change. Google had to make the decision to enter China. Entering China would mean that they would have to censor their website, which was contrary to their company's core values.
One of the strongest criticisms received by Google after making the decision to enter China came from the United States Congress. More than one congressman went on the record to criticize Google for enabling a communist country to continue activities that run counter to democratic values. Censorship was a key topic. In the US, the freedom of speech is one of the highest valued rights. In China, this right was controlled and limited. Google in China would be forced to censor its website. Other congressmen accused Google of compromising human rights for the opportunity of making large profits.

Another problem Google experienced in China that was unexpected was the lack of quality services Google was able to provide to its Chinese customers. China's sophisticated Internet censoring filtration system, also known as "The Great Firewall of China", caused more issues than Google had anticipated. Due to China's intense censorship activities, Google customers in China experienced slow and unreliable Internet access. The Chinese filters were causing slow processing times for servers. This led to the next problem.
The poor service Google offered to their Chinese customers led to a decline of Google's market share in China. Many Chinese Internet users found Chinese-based Internet search companies which offered better and more reliable services. They were able to provide better services than Google because they understood what "terms" should be blocked on their end, which sped up processing times. In addition, the Chinese-based Internet companies worked closely with the Chinese Government, which helped them provide better services.

Another reason why Chinese Internet users preferred Chinese-based Internet search companies over Google was that the Chinese Internet companies understood what Chinese Internet users want than did Google. For instance, Google did not understand that Chinese Internet users favored chat rooms over email, and that piracy of games, movies, and songs was very popular as well. Google would run into many legal issues back in the US if it supported piracy in China.

A third problem Google faced in China was in regards to privacy rights. In the US, Google tries to protect its users with privacy rights. In China, Google would have to
give up private information of its Chinese users if the Chinese Government should ever want to use it to incriminate a person. The Yahoo! story supports this claim. A Chinese journalist began exposing Chinese government material online. When the Chinese government found out, they forced Yahoo! to turn over the journalist's Yahoo! email account information, which was then used to imprison the journalist for 10 years.

Another incident in regards to privacy issues, involving Google and China, was when Google's servers were hacked. The hackers' computers were located in China, and they sought the Google email account information of Chinese activists located in California. Although, there was no direct evidence linking the hacking to the Chinese government, this activity required lots of resources to perform. It would not be very difficult to link China's government with this incident.

Why did Google face these problems in China?

Google faced these problems in China for many reasons. The problem of receiving criticisms from the US Congressmen was not surprising. The fact that Google decided to enter China, knowing that they would have to censor their web
site, was not going to sit well with Americans. This is something Google could not change; it was a decision they would have to make and accept the consequences. Google did not have to enter China.

In regard to all of the service issues Google experienced in China due to "The Great Firewall of China", they could have been better prepared. Other options were available. Google could have partnered with a local Chinese-based Internet company which understood the Chinese environment better. But rather, Google decided to go in alone and with haste. They were unprepared. The evidence showed that Google had little understanding of Chinese users' wants, and how the Chinese censorship system worked.

Until this day, Google does not have a clear explanation of what they would do if they experienced the Yahoo! dilemma. What if a Chinese Google user engaged in the same type of activities as the journalist who was sentenced to 10 years of prison? Would Google turn over his email account information to the Chinese government?

Many of Google's problems in China were due to the decisions they made, along with their unpreparedness when
they entered China. Other alternatives, such as partnering with a local Chinese-based Internet company were available.

Solutions for Google in China

Google has three options in China: comply, resist, or leave. To comply means for Google to agree with all of China's regulations on censorship. To resist, means for Google to attempt to operate in China while disregarding their regulations. And to leave, means for Google to forgo any more business activities in China. Each of the choices for Google's presents its consequences.

Comply

Compliance was the first choice for Google when it entered China. Without complying with Chinese censorship regulation, the Chinese government would have never let Google enter their country.

But compliance presented a plethora of problems for Google, many of them unanticipated. Google experienced service issues that were caused by China's sophisticated censorship system. Some of the service issues included slow and unreliable access to their website for their Chinese Internet users. Ultimately, Chinese Internet users began to used Chinese-based websites that were able to
provide better services, due to their close relationship with the Chinese government.

Google tried to comply with Chinese regulations, and it was unsuccessful. Google's compliance only produced problems. They would be forced to take alternative actions in China.

Resist

Another option for Google in China is to attempt to operate in China while resisting Chinese censorship regulations. This would be to disregard Chinese censorship and not censor the Google web site in China. This also would send a message that Google does not agree with censorship policies that violate human rights. Google could also try to influence the Chinese government to change their censorship policies.

In theory this route seems to be the moral option to take, but it is the most unlikely to happen. For one, if the Chinese government discovered that Google was not abiding by its censorship policies, the Chinese government would ban Google in China. In addition, the Chinese government would not be influenced by Google's opinions, especially taking into account that Google is a fairly new
partner in China. And lastly, China does not need Google in the country as much as Google would like to believe. China already has a Chinese-version of Google, called Baidu which is the most popular search engine in China.

Leave

With the comply and resist options scratched, Google was left with just one: leave China. Today, Google has left mainland China. It redirected all Google users in China to its Hong Kong uncensored site Google.hk. There was no other choice left.

Some may believe the Google's current situation in China is satisfactory. Chinese Internet users are still able to use Google's website, although it is being rerouted to the Hong Kong uncensored site. Thus far, the Chinese government has not interfered. Google is making a small profit.

But the current situation is viewed more as a failure. Google and China had higher hopes for each other before their partnership than after it.

The decision for Google to enter China was a difficult one to make. Every company is motivated to remain competitive in the market and make the most profit
possible. But every company must also always consider the moral implications of every business decision. Did Google have to enter China? The answer is clearly no. Google was the world's most-used search engine; being in China or not would not have made Google any less of a company.

But this scenario is not always the case. A company could easily want to enter China not only to make profits, but to establish themselves in the country so that they could influence change. In order for change to happen in China, it is going to take time. But, the Chinese government will not be easily influenced by a company that just entered the country; it would be more inclined to listen to a company with which they have worked over many years.

In the case of Google in China, Google did not take a clear stance or announce their reasons and intentions in China. Perhaps, even Google's managers did not know in any detail why they were entering China. Obviously, Google wanted to take advantage of the Chinese economy and Internet market, but they could not clearly answer what their stance was on censorship and privacy; even their corporate motto "Don't be evil" began to be questioned.
With such little clarity, Google did not stand a chance of any success in China. The Chinese government could not trust Google as well. So, heavy censorship and monitoring of Google caused poor and unreliable Google services in China for Google Chinese users. Google's relations with the Chinese government grew more strained rather than closer.

The end result was that Google's attempt to establish itself in China was a complete failure. Google ended up making its relations with the Chinese government worse than before they entered the country. Now Google is completely out of China, all Google users in China are redirected to Google's uncensored site in Hong Kong.

Not everything has been lost. Chinese Internet users still have access to Google. Google is making some profit. But this is not the vision Google or China had in the beginning of their partnership.

It seems Google wanted to enter China to take advantage of the large Chinese economy and booming Internet market, but in its own way. Google was going to bend a little to enter China, but then operate how Google wanted and knew how to operate (little censorship). This is a
form of passive resistance. Unfortunately, it did not succeed.
FUTURE OUTLOOK

At the time of writing this thesis, Google remains outside of mainland China. After entering China with high hopes, unforeseen problems forced Google to retreat from the country. Google had to redirect all Chinese Google users to its Hong Kong uncensored site, Google.hk.

No new major development in the Google-China stand-off has occurred in the last few years. The Chinese government seems to be content with the domestic Chinese-based search engines, which have gained great popularity amongst Chinese Internet users. Google has been quiet and has shown no new enthusiasm for making any moves in regards to China.

Unfortunately, this scenario is not best-case. Essentially, Google and China have parted ways. As long as both remain as powerful entities, the potential for working together to benefit everyone will remain.

Some of the opportunities lost are job creation from Google's enterprise in China. Whether it be Chinese, Americans, or others who would benefit from these jobs, they would benefit humanity as a whole. Another lost opportunity is for Google, a multinational corporation with democratic values, to build relations and trust with the
Chinese government. This would allow Google to influence China on human rights perspectives in the long term, if this relationship were to be built.

Today, China remains a global power in the world; so does Google. China seems to be evolving into a more open society than in the past. This bodes well for Google. Google just may get another opportunity to establish the firm in China; it just does not seem likely to be in the very near future.


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