Google in China: An Ethical Debate

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The Problem Definition

Google, a U.S. based company, should not play by the United States’ standards of conduct when doing business in China, specifically relating to privacy and individual rights, and should bend to the policies of the Chinese government. We will present our argument to, you, the Google Board of Directors, so that you can see the overall advantages of continuing to do business with the Chinese government. We will discuss the historical context of the past issue and the benefits of the future for our company. We will consider everyone involved in this issue and what Google’s competitors are doing. As necessary, we recommend Google do what it takes to gain back the trust of the Chinese government. This proposal will go in depth into the financial but also ethical benefits of going back into China. So far it has been proven that even if Google takes a stand against the issue of censoring content, other companies will step in to do what Google will not. Finally, we will discuss the disadvantages of doing business with China, but also how we can prevent those disadvantages from getting in the way of our overall mission.
Historical/Legal Context

Laws Regarding Internet Content in China

The basic rules of the Chinese government regarding Internet content, as established in 1997¹:

- No unit or individual may use the Internet to create, replicate, retrieve, or transmit the following kinds of information:
  - Inciting to resist or breaking the Constitution or laws or the implementation of administrative regulations;
  - Inciting to overthrow the government or the socialist system;
  - Inciting division of the country, harming national unification;
  - Inciting hatred or discrimination among nationalities or harming the unity of the nationalities;
  - Making falsehoods or distorting the truth, spreading rumors, destroying the order of society;
  - Promoting feudal superstitions, sexually suggestive material, gambling, violence, murder;
  - Terrorism or inciting others to criminal activity; openly insulting other people or distorting the truth to slander people;
  - Injuring the reputation of state organizations;
When examining why Google backed out of China in the first place, we must recognize the issue of what happened and how we can prevent it from happening again before we discuss reinstating a business partnership. In December 2010, Google reported to the public that its private databases had been hacked by a sophisticated cyber attack that had originated in China. A virus entitled Trojan.Hydraq caused the attack, which, according to McAfee security systems, was transmitted when Google employees were redirected, or forced into visiting a malicious website. The hackers were able to embezzle intellectual property. The most threatening discovery about the attack was that the hackers attempted to access the email accounts of several human rights activists. For industries such as Google, the cyber attack was highly coordinated and sophisticated. The attackers utilized over a dozen pieces of malware and multiple levels of encryption to access information. Google removed itself as a presence in China because of the safety threat to important information. Executives stated that not only was this a security issue, it was an issue of freedom of speech and that Google could not continue its partnership with the Chinese government. Google admitted to knowing that its actions would have consequences, but also admitted to not telling Google.cn employees that they were not going to continue working there. This shows that in their decision, Google did not completely think
about every consequence their actions would have, including people losing their jobs without knowing about it first. We could easily make the argument that this is going against Google’s motto.

Historically, Google has established a precedent of complying with the laws and social institutions within the countries where it does business. In India, the company has censored search results deemed anti-religious or anti-social by a government lawsuit. Also, according to Google’s transparency policy, Google currently complies with regular requests from many nations, including China, to censor content. So despite moving their search engine to Hong Kong, they still comply with the Chinese government’s censorship requests. Google also still operates in the country selling ads to Chinese companies that target international markets. The only thing Google isn’t doing in China is capitalizing on the market opportunities.

China has a long history of censorship of its entire media with a large focus on the Internet. The government’s main motives are to protect state secrets as well as maintain order of the world’s largest population. The government has motives beyond state security. Financial insurance is also important for this ever-growing nation. Specifically, the Chinese government looks for any and all forms of disloyalty to the nation, criminal activity including terrorism, and spreading of non-truths. One could argue that it is necessary for these searches to be blocked in order to ensure safety. The government has also banned YouTube and other Google products that are deemed unfit for residents.
As for Google’s history, the website became official in 1997; by 1998 the company had its first big investor for $100,000 and set up shop in a garage in the now famous Silicon Valley. In May of 2000, Google offered versions of their site in 10 different Western languages. Later that year, Google created Chinese and other Eastern language versions of their site. In 2002, Google became inaccessible in China due to unconfirmed reasons, but heavily suspected of the site being blocked from within the country. Google worked with Kai-Fu Lee, an ex-Microsoft employee, to create Google China in 2005, which was designed to adhere to China’s strict censorship laws. Microsoft ended up suing both Google and Mr. Lee for potentially stealing secrets for a rival company. This was a direct violation of contractual agreement between Mr. Lee and Microsoft.

In other countries, Google has run into some complications with governments in which they conform to. In February of 2010, three Google executives were handed six-month suspended sentences for breach of the Italian Personal Data Protection Code. Other examples include when the Czech Republic banned Google from collecting street view photos, while leaving already acquired photos to remain accessible. Google was also required to hand over collected information to governments in Spain, France, and Germany. Very similarly, in Portland, Oregon, courts ruled that data collected in street views must be handed over.

While Google and other like companies such as Yahoo and Microsoft have been receiving heavy criticism for following Chinese’ unethical control over
residents, “80% of Chinese think the Internet should be managed or controlled, and 85% think the government should be responsible for doing it.” Hong Kong also has noticeably more freedom when it comes to censorship laws. In 2010, Google decided to back out of China, leaving searches to redirect to a China based site in Hong Kong, which is not censored. In doing this, Google avoids legal conflict. By pulling out from China, Google stands to loose out on a potentially massive market that is reportedly growing at 40% a year according to the BBC. Since 2010, Google has started a new strategy for China. By backing away from main Google services, it is going to focus its efforts more on their advertising. They have been starting from the bottom trying to work their way up on this massive, fast-growing market. With export advertising as its main focus, Google with be there to help with the rapidly expanding export market. Google is also looking toward China’s mobile market. City dwelling smartphone users use their phones majority of the day, ranking third in world usage, according to Google.

**Stake Holders**

When dealing with Google and a new business client, especially if it is a country as large as China, many are affected in the process. This section will thoroughly examine the main people involved with the process as well as the ones affected by it, this way the reader will understand the stakes, costs and
results in order to better understand that China is a necessary expansion for their empire.

One of the first things to examine is the Board of Directors, which includes Google founders, Larry Page and Sergey Brin. The rest of the board is well educated and worldly, from Paul Otellini, who worked as Chief Operating manager at Intel, which has shown growth around the world, to K. Ram Shiriam, whom served as Vice president of Business Development at Amazon. From the mentioned Board members, all seem to have a history and background or understanding with working overseas, so it is difficult to imagine them making the decision to conform to a country’s rules unless they truly understood what the possibilities and outcomes were. We might get someone to describe their practices as going against their core which is “Don’t Be Evil,” but one can very easily see that before improvement can be made, one must prove themselves first. To come into a country and create drastic changes in its Internet accessibility would not be responsible, and Google recognizes itself “as a company that acts responsibly.”

Stockholders and Google’s image go hand in hand. If you have a good image, you sell well, your stock goes up, your investors are happy. Google opening its doors in China would mean tapping into a 513 million Internet user marketplace. With the money Google is valued at, there is no way that the stockholders would want to not do this. Google’s image maybe seen as evil at first by doing this, but with time Google can show who they truly are and re-
bloom. There will definitely be a decrease in value in public image and having to gain China users, but with over 500 million added Internet users, it will not be long before Google does bounce back and stock increases exponentially with this new market.

The Chinese government is directly involved because it would be them who would tell Google what to censor on the Internet. The People’s Republic of China has a strong on fist on top of its people, but this does seem to come with results. When examining China terrorist acts, only three incidents have occurred in the past two years, and there were no incidents from 1997-2007. Now to imagine a business, like Google, uprooting how a government works to fit their agenda. This is more morally wrong than limiting rights for the sake of a country’s safety. The China Internet Network Information Center has shown through collected statistics that about 65% of all Internet usage in China occurs on cell phones. When examining our country’s figures, about 92% of Americans use Google as their mobile search engine, according to, NetMarket Share. Now if Geng Huichang, Minister of National Security, and Wan Guang, Minister of Information and Technology, both recognize the need for Google, but decide to limit its results, is that something to rejoice or be upset about? Well, we say rejoice because Google would be the first Search Engine that isn’t completely controlled by Chinese rule. Yahoo is already available in China, but with talks of China buying out Yahoo, one can easily assume that Yahoo, will not be a long running engine for the people.
The U.S. government would also be directly involved with their decision to react or let Google do its business. However, with Google estimated earnings and stock at $37.9 billion dollars in 2011, it is hard to imagine with the tax the US is receiving that they would not want expansion.²³ Although one in government might try to question the ethics of our business venture, they will be presented with the facts that the laws Google follow are the ones of the country it operates in.

When examining this issue, you truly realize that there are many people being affected. You have the Board of Directors, Google Stockholders, Google Corp’s Image, the Chinese Government and even the U.S. Government. Now we must examine the Chinese people and how this issue will affect them. The Chinese people already have search engines and Internet tools that have blocked sites and information, but nothing compares to what Google can offer them, all for free. To not allow access to Google in China is wrong, and although Google’s privacy policy would be changed there, it still does not make a difference that its tools and programs would still be extremely helpful for the people. They would be able to see what true Communism is with Google, free sharing and programs to help everyone equally. The main thing people need to realize is that the privacy policies in China, although different, will still be presented to the people in a “transparent form.”
Competitive Analysis

Google’s largest competitors in China are Baidu and Yahoo China. China has over 513 million users with only 38% penetration of the country’s population. These users represent roughly 23% of global Internet users. The growth opportunities in this country far outweigh any other country. Once established the information business generated from a large Chinese user base would generate demand from many international businesses presents a strong argument.

Google can provide a lot of benefit to the China by bringing its unique values and views. It can usher Chinese Internet users to information in Google’s unique and efficient medium. The Chinese can take advantage of the Google Lab creations and communicate, express and educate themselves in ways that would not be available without Google’s presence.

Economic Factors

Google has made $640 million in annual revenue in China, which is one-sixth the size of Facebook’s global ad revenues last year. Overall, Google is still strong but analysts weren’t impressed with their revenue for 2011, with only less than 2% of it coming from China. Google is missing out on a very large market in China. It has managed to dominate the Internet search-engine market
in the rest of the world but it needs to adapt in order to succeed in China. Even though China has a population of about 1,338,299,500 people (according to the 2010 census), Google only makes 2% of their revenue there. We must also consider that only 25% of this population actively using the Internet. If Google had a stronger market share, they might have a little more power. Google’s investors are unhappy that the company isn’t making as much money as it could be right now if it had a strong market share in China. As Google grows, it can’t neglect the Chinese market. Android smartphones are heavily dependent on Google’s services. Google cutting their services wouldn’t just hurt them financially but also the phone manufacturers such as Motorola, HTC, and Samsung.

Google should be highly concerned with the potential amount of revenue lost should we not bend our policies to China’s demands. First, China has the world’s largest population for a market with more than 1 billion citizens. It would be naïve to think that if we stayed out of China that we would not suffer, and in fact we could be potentially losing about 2% of our revenue. That amounts to about $400 million, and although that may not sound like much, it is very important to note that only about 25% of Chinese citizens are connected to the Internet. Think about the future growth we could be losing out on, and that number will only continue to skyrocket as Internet accessibility is expanded in the country. Thus, 10 years from now we could be missing out on an estimated $1.6 billion.
By ignoring China, our competitors will only get stronger, as evidenced by the recent partnership of Bing and Baidu. This agreement “will direct English searches from Baidu to Microsoft’s Bing, which will deliver the results back to Baidu’s Web pages”. Baidu already has roughly 20% of the market share in China, and currently takes in roughly $1.2 billion in advertising, alone which makes their partnership with Microsoft a very real threat to our profits. Additionally, many other companies have research and development labs in China, which would mean we could potentially fall behind on any new technologies that are developed in the region. This would hurt future growth as well as give our competitors even more of the global market share. Even though Google accounts for over 80% of all Internet searches worldwide we need to stay vigilant to ensure that the number does not decrease and profit growth is sustained.

**Technological Factors**

As Android phones become more and more popular around the world, the demand grows. If Google doesn’t offer their services in China, it will make their phones much less useful. Android phones depend on Google’s Internet search engine, Gmail, and Android Marketplace. New Android phones have been late to come to China after Google threatened to cut off services in there. Not having access to the latest Android phones in China will limit customers’ choices among
smartphones. This will ultimately take away the freedom to use an Android phone to its fullest potential. With Google’s absence in China, it allows Chinese companies, such as Baidu, to dominate the market. Android is open-source, which means that it can be modified to use other companies services by default. According to a report from TechWeb, 80% of Android phones sold last year in China will have Baidu set as their default search engine.\textsuperscript{13} Not having Google in China will eliminate some freedom of choice for its people.

\textbf{Recommendations}

Critics of China often point to their restrictions on free speech and censorship of information to be negative impacts on the quality of life afforded to its citizens. Thus, it is in Google’s best interests to have a presence in the country to try and assist the citizens with access to information. Though Google may have to comply with Chinese Laws, having a small presence will only help Google’s worldwide image as a company who wants to make access to information easier, collaboration more efficient, and as a company who will not let anything get in the way of helping the fellow human being.

Therefore, we present the following solution to both comply with China’s policies as well as comply with Google’s company values and image. Although our media may portray our image as a dog with its tail between its legs, begging
for forgiveness, we can overcome this with sustained cooperation. First, we will need to try and impress the Chinese government with our commitment to its citizens. This could mean making several donations, and maybe even supplying Chromebooks to schools. China is used to media disasters, and it is plausible that they may even be able to help us as, “no one understands the issue of losing face better than the Chinese state.”

After getting the green light from the Chinese government, we then offer our search engine with the censored results at the request of the Chinese government. Additionally, we disable our ‘Instasearch’ feature that predicts a user’s search due to the unpredictable results that can occur if the servers are flooded with bogus searches. In order to increase market share, we should begin partnerships with several other respected businesses that are based in China to try and build trust with the citizens of China. Once we establish Google as the premiere search engine and they begin to rely on our services to a greater degree, we may then be able to try and negotiate with the Chinese government to try and implement some of the practices we do here in the U.S. or worldwide.

As for the ethical issue of blocking information, we need to realize that we as a company cannot start a revolution in a country. If they desire more rights, Chinese citizens need to band together like in other countries with regimes that remove rights. As seen in the past, if we do not provide services with blocked information, other companies will rise to the challenge in order to please the Chinese government and gain market share. We need to encourage the Chinese
people that we are on their side by at least providing them with some access to useful, non-institutionally destructive material.

**Advantages**

There are many positive reasons for Google to continue doing business in China. First and foremost, with 513 million Internet users at the end of 2011 - with over half of that logging in since 2008 - China is the world’s largest Internet market and its population of web users accounts for a quarter of the entire world’s population who go online.\(^{18}\) Baidu, a Chinese search engine based in Beijing, saw profits jump 88\% in the third quarter compared to the same time period the year before and as a result is attracting an increasing number of advertisers looking to get a piece of the China pie.\(^{13}\) The fact that 10 million searches are conducted in English on a daily basis is also driving the Chinese Internet market gold rush. Who is supplying Baidu with its English results? Why, none other than Bing, Microsoft’s search engine, which currently holds a stake of the American search market at around 15 -20\%.\(^{30}\) It’s a good time to note that the positive reasons for Google to be in China aren’t only economically based. By being in China, Google provides consumers there with a greater choice of products to choose from thus advancing the fight for a freer Internet within Chinese borders. Choice translates to freedom.
Disadvantages

Google doing business with China would have a negative affect on public relations that promote freedom of speech and online human rights. Google’s withdrawal from China on January 12th, 2010 brought social awareness to the extent of China’s censorship laws. This ambitious business move set an example for other American companies interacting with China such as Microsoft, and Yahoo. For Google to now cooperate with China’s censorship laws would mean the company would be regressing from its original stand point as well as their motto, “Don’t Do Evil”. In doing business with China, we must consider that we are condoning these strict censorship laws. Consequently, we are also informing other foreign countries that Google’s work conduct and regulations are malleable.

Google doing business in China increases the potential Cyber threats within the Chinese sector. In the wake of Google progressing into foreign domains, the company should be weary of foreign attacks. As Google opens it’s doors to different populations, it is also exposing itself and putting itself at greater risks of being hacked or disrupted within each branch extension.

If Google can increase security on their information and realize that some Google is better than no Google, we can give access to people everywhere and act responsibly even while working with those who do not.
References


