

**GOOGLE TAKES ON CHINA:
A MORAL CRUSADE OR
A SHREWD BUSINESS MOVE?**

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Executive Summary

1. Google stunned the world in January 2010 when it announced that it might end its China operations. It further said that it would no longer filter search results on its Chinese language website in China.
2. The threat to withdraw comes after a sophisticated and targeted cyber attack that Google claims originated from China. Google is taking the moral high ground by citing its commitment to protect the free flow of information and privacy of its users.
3. Free speech and human rights advocates worldwide have lauded Google for taking a principled stand. The White House and State Department have upped the ante by standing on Google's side.
4. China has deftly avoided responding to U.S. pressure at an equivalent level. Instead, it has preferred to make its stand clear through the Foreign Ministry spokesman and government controlled media agencies.
5. Other observers have questioned Google's apparent altruism. They noted that Google is consistently lagging behind China's home-grown competitor Baidu, which also adheres strictly to tight censorship rules and is more popular as it is more acutely tuned in to Chinese culture and taste.
6. While Google's public confrontation is unusual, it is not the first U.S. online company to encounter problems while operating in China. Yahoo and eBay have also competed and lost out. They have attributed their failures to Beijing's role in restricting market access and covertly supporting indigenous competitors.
7. Google's threat to withdraw has momentarily bolstered its international image. By standing on principles, it has become a less tempting target for anti-trust

regulators in the U.S. and Europe. Yet, its image may suffer if Google were to yield to China's pressure and continue self-censorship to remain in China.

8. Google's withdrawal threat is unlikely to affect other major U.S. companies operating in China. More significantly, if Google eventually decides to stay on in China, it may find the going even tougher vis-à-vis not only its local competitors but local Chinese angered by this stunt.
9. US-China relations are headed for a bumpier ride. With China showing no signs of bowing to U.S. pressure, the issue of cyber attacks and web censorship looks set to become a thorn in U.S.-China relations. To overcome this issue, both sides would need to refrain from playing to the gallery and reach a settlement.