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Google's China dilemma

Some four years after setting up Google China, the leading internet search engine company has decided to confront the Chinese authorities over censorship, following alleged cyber attacks on the e-mail accounts of Chinese human rights activists.

Google has decided to stop complying with Beijing's online restrictions and instead is sending search queries from inside China to servers in Hong Kong, a special administrative region in China, which has been guaranteed freedom of speech for 50 years.

China has reportedly begun censoring Google's restructured search service.

So should the company stay or go? Was the original strategy to enter China sound in the first place? If not, is this an excuse to retreat from a not-so-lucrative business venture?

These questions were brought to the fore in a recent panel discussion 'In or out: Google in China' organised by student club INDEVOR at INSEAD's Asia campus in Singapore, and moderated by Dean Frank Brown.

According to INSEAD MBA student Liz Ericson, a former Google employee, Google's entry into China was a foregone conclusion because of the co-founders' philosophy of bringing access to information to as many people as possible.

"Larry (Page) and Sergey (Brin) don't think in small steps," she says. "They think in (terms of) 'What's our next billion dollar business? (Who are) our next billion users?' And in this case, they decided that the best thing, although it wasn't perfect, was to go into China" -- even if that meant agreeing to self-censor the search results of politically-sensitive content.

As it has turned out, Google made a "tremendous investment" in China especially when you take into consideration its modest market share. China, Ericson says, accounts for only one per cent of Google's global revenue, lagging far behind the popular homegrown search engine Baidu.

So should Google pull out of China?

"I would say that, for most companies, withdrawing from China would obviously be stupid, because in 15 years it's going to be the largest economy, therefore the largest market for most product and services," says INSEAD Chaired Professor in Strategy Anil Gupta.

"But not just that: China is multiple things. China is a market, China is a place for global cost efficiency, and China is a place for talent, a place for innovation, and of course China is one of the major springboards for the rise of new global competitors. And it's better to meet them on their home ground."

Gupta, however, believes Google is unlike most companies because it has a political ideology or set of beliefs, which many other companies steer clear of. This could in turn lead the company to take certain actions or make decisions, which other companies are not likely going to second.

Google is also an outlier in the sense that it is a global search company, and there aren't many players in their league. Although Baidu remains the market leader in China, Gupta doesn't think it has the capability to do well outside of China, and doubts it will be a global threat 10 years from now.

"Google is perhaps one of the very few companies for whom the economic risks -- if they were to pull to out of China -- are extremely small. The economic costs are not zero ... but relatively small so they can afford, if you will, to indulge in their ideology."

"What Google loses if it pulls out of China is really 20 per cent of the world's market, because China is 20 per cent of the world's population. The media is saying China will rule the world; I simply disagree with that because as the country becomes richer, its growth rate has to slow down. It has happened to every economy in the world, and for the same logical reasons, it will happen to China, so therefore China is unlikely even 50 years from now to (account for) more than 20-25 per cent of the world's GDP. Essentially what Google loses is access to 20 per cent of the market, which is important but not catastrophic."

While Google's financial losses in China may be mitigated by its robust global revenues,

Michael Witt, INSEAD Affiliate Professor of Asian Business and Comparative Management believes that irrevocable damage has already been done.

"There will be repercussions probably in their relationship with the government. If there were specific business areas, for instance, where they need permission, you would expect that perhaps they would find it a little bit harder -- certainly a loss of face. At the same time, they probably have not exactly made friends with the Chinese government. So there may (be subtle ways) in which Google will in future somehow pay for this one; I would be very surprised if there were no price for this."

And the problems don't end there. "One of the bigger threats for Google moving forward will be politics in general, not just politics in China, but even in Europe. You increasingly (sense) concerns among governments that Google is the next Microsoft: it's a monopoly that needs regulating. I think one of the biggest threats to them moving forward is really going to be getting their wings clipped by political processes, not necessarily in China."

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As Sino-US relations continue to sour, Gupta thinks no one will come out winners. "I don't think whatever Google does is going to change China; China is much bigger as a system than Google is, but I think it (would be) a serious loss for China if Google were to pull out. In China, given the visible hand of the government, Google in many ways indeed burnt some bridges seriously with the government, with the media, and perhaps with some of the employees -- and that's going to be hard to recover from."

"It's really a case of global technology meets local knowledge - and not only is Google global technology, but it's really technology hubris. If they were in fact stronger at integrating global technology and local knowledge, I think it would be better for the company, and we probably wouldn't have this situation."

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