

OPINION

# Google's Business Reason for Leaving China

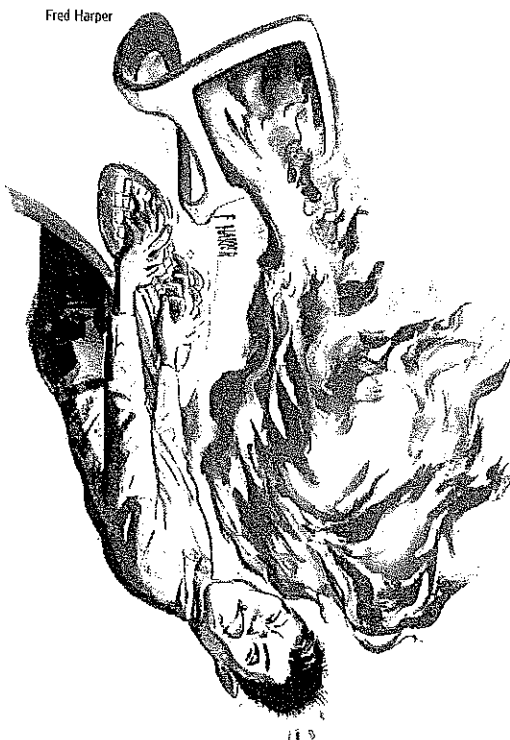
By MATTHEW FORNEY  
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Google's high-profile departure from China's search-engine market has furnished the company's reputation for ethics. The company has won plaudits from various quarters for sacrificing its business interests on the altar of free speech.

But is the decision really so altruistic? Few doubt Google's commitment to free speech, which is particularly important to co-CEO Sergey Brin, who was born in the Soviet Union. But when considering whether other companies should follow Google out of China, it's worth noting that Google's withdrawal from China's search market makes good business sense.

The reason is simple: Google's business model requires that its consumers trust that their information will be absolutely secure. So when Google says it will "do no evil" and will never compromise on its principles or its technologies, the world must believe it.

Recent events undermine the sensitivity of data security. The same week that Google rerouted its China search traffic to Hong Kong servers, the Yahoo email accounts of several China-based foreign journalists were hacked. Yale University in the U.S. is reconsidering its decision to use Google's email service campus-wide after faculty members questioned whether data would be secure. And University of Toronto researchers this week announced their discovery of yet another cyber-espionage ring operating out of China.



Fred Harper

In January, Google gave two reasons for reassessing its China operations. One was the company's dismay with the Chinese government's ceaseless efforts to limit free speech on the web. The other was a sophisticated hack attack launched from China in December that targeted Google's secure servers in the U.S.

The hackers, Google said, had penetrated far enough into the Gmail accounts of Chinese human rights activists that they could read email subject lines. Significantly, the hack also "resulted in the theft of intellectual property from Google." That property is believed to be a chunk of Google's highly confidential source code.

Google redirecting search users to servers in Hong Kong because of censorship is easy to understand. After much soul searching, Google

did agree to censor its search results when it launched its Chinese search engine in 2006, and was later distressed to find that Beijing's commitment to censoring the web grew stronger over time, not weaker. But what did the hack have to do with exiting China? If the attack had come from New York City, would Google have closed down its service in Manhattan?

To find the answer, remember that the Google products we see today, such as the company's colorful but clean search page and its pinpointed maps, may soon comprise just a small part of Google's suite of products. Google's long-term plan is to compete not just with other Web publishers and search engines, but with technology companies like Microsoft and Apple.

In particular, Google wants to dominate the cloud—the suite of servers and applications that will store much of the information that businesses and individuals today retain on their own hard drives. Instead of using Word and Excel and Outlook, users may choose similar Google applications, such as Google Docs, that will store data online and make it accessible from any computer or wireless device. When used on wireless handsets, those applications may run on Google's open operating system, Android, which will of course make Google's products easy to use. In short, Google wants to be the guardian of your private information.

That's where China presents a problem. Google compromised its principles when it censored its Chinese search engine, which was damaging enough to its reputation. If Google had stayed in China and was seen as setting up research and development centers, training engineers, possibly even training the types of people who would someday hack out chunks of Google's code, then users could fairly wonder whether Google might compromise their data for a buck. As one former Google employee in China told us, "If what Google does in China makes its data seem unsafe, then Google's global strategy is gone."

So Google had much at stake in the world, but, it turns out, not much at stake in China. Google earned roughly \$300 million a year in China, nearly all of it from advertising. Yet one-third of that sum came from Chinese companies us-

ing Google to place ads outside of China, and Chinese companies will presumably continue using this Google service. So Google stands to lose around \$200 million. That's less than 1% of the company's global income—a rounding error.

Of course, Google forgoes more than just online advertising revenue. China's second-biggest telecommunications carrier, China Unicom, just dropped Google's search product from its newest smartphones. But such opportunity costs can be considered small compared to the downside risk of maintaining operations in China.

It's likely that Google's top executives, especially Mr. Brin, were already reconsidering their commitment to China when the hack came in December. The intrusion tipped the balance, and also provided a nice public-relations hook (Google has since said that the hackers had not targeted the email accounts of Chinese human rights activists).

The lessons to be learned from Google's exit are not necessarily transferable to other foreign companies operating in China. Many of these companies have also compromised long-stated principles. They may choose to follow Google and leave. But they should do so knowing that Google's principled stand did not imperil its future bottom line.

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