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The Cost of Doing Business in China



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"Business [in China] is run strictly on profit for the Chinese government. This is what is driving the censorship policy," said Laura Betterly, president and CEO of Internet marketing firm InTouch Media Group. "From our Western view, companies like Google ... compromised their ethics to knuckle under [to] Chinese demands. But this is simply the cost of doing business there."

American corporations drawn to China's vast market of 1.3 billion people have to be prepared to jump through some regulatory hoops and adhere to a host of government censorship codes. Xinhua, China's state news agency, recently announced rules that require foreign media to get prior approval for the distribution of news, pictures and graphics within China. These rules prevent international financial information companies like Reuters and Bloomberg from selling their news services directly to Chinese banks, brokerages and other potential customers.

Besides the social and political ramifications of such policies, these rules force some obvious commercial considerations upon foreign companies setting up business in China. Perhaps the most noticeable of these considerations is whether or not a company is willing to compromise its established standard of ethics and surrender control over its intellectual property.

The experiences of [Cisco](#) (Nasdaq: CSCO) , [Google](#) (Nasdaq: GOOG) , [Microsoft](#) (Nasdaq: MSFT)  and [Yahoo](#) (Nasdaq: YHOO)  this year suggest what may lie ahead for other American [technology](#) firms in China.

These four industry leaders were strongly criticized by some U.S. lawmakers who accused them of collaborating with the Chinese government to stifle free speech. Specifically, the firms were called to task for denying user access to Web sites critical of China's rulers, and following orders to provide information on dissidents.

Congressional sub-committee hearings were called, in part, to investigate two troublesome occurrences of this nature. First, according to news reports, two Chinese journalists were arrested based on information provided to the government by Yahoo, and second, Google has acknowledged that it blocked search results provided by its new Chinese service to satisfy government restrictions in that country.

Increasingly, American technology firms are being forced to decide if the potential market in China warrants complying with Chinese demands, and whether they care to walk the razor-sharp line between the free-access policies of the U.S. market and the compromises they may be forced to accept in order to operate in China.

Politics or Economics?

Some experts on Chinese trade relations insist that Chinese President Hu Jintao and Premier Wen Jiabao are playing hardball with Western enterprise 🏢 more to maintain social control than to make a profit via a pay-me-as-you-go policy. According to Alec Li, a foreign legal specialist for New York, Boston, and Washington, D.C., law firm Sullivan & Worcester, the Chinese government's stance is not about economics. Rather, its censorship rules are about maintaining and retaining political control.

"The censorship in China is something Americans have trouble fathoming," Li told the E-Commerce Times.

Examples of media filtering in China abound. CNN is only televised in major hotels. Chinese residents are forbidden to access the full text of Wikipedia because the government, upon review, has found some content to be offensive.

Diana Lu, chief executive officer for Image Global Impact, agrees with Li's view that more than economic gain is driving China's censorship demands. "This is more [a] political decision rather than an economic decision," she told the E-Commerce Times. Her company helps clients in China compete in brand and product name recognition in the North American market.

According to Lu, one benefit censorship brings the Chinese government is maintaining its social stability. Too much negative media exposure would create more chaos and social instability for China's 1.3 billion people. Lu said China is now burdened with an unbalanced infrastructure, an overly-abused environment, widespread corruption and a growing gap between the rich and the poor, all with a rural population alone of 800 million

people. These problems are causing a social dilemma in which more negative media exposure could lead to a huge crisis.

Adjusting Corporate Cultures

Legal specialist Li -- a graduate of Harvard Law and China Foreign Affairs [University](#) who has worked for the Chinese government as a diplomat and was also a reporter for one of China's technical journals -- challenged the view that the Chinese government is discriminating against American news outlets. All news disseminated in China is subject to the same rules, he said. Those foreign companies that can play by China's rules can and will make money, but American information outlets operating there need to recognize that the goal of the Chinese government is to weed out "cultural pollution" and promote political stability.

"I believe China built its economy too fast without great balance. This generated a lot of new problems that no one has ever experienced, and [for which] no one can provide the 100 percent winning solution," Lu explained.

Learning to abide by the Chinese government's corporate purview is forcing American information companies to reconsider their stances on issues of censorship. Foreign companies doing business in China have little choice but to adjust to the Chinese corporate culture.

"Business there is run strictly on profit for the Chinese government. This is what is driving the censorship policy," Laura Betterly, president and CEO of Internet marketing firm InTouch Media Group, told the E-Commerce Times. "From our Western view, companies like Google and Yahoo and others compromised their ethics to knuckle under [to] Chinese demands. But this is simply the cost of doing business there."

Some Western corporations merely consider the cost of adhering to China's rules as part of the set-up fees.

When doing business in China, a company must also do business with the government there, suggested Usha

Haley, director of the Global Business Center at the University of New Haven and author of the recently released

"The Chinese Tao of Business."

China's Changing Attitudes

Betterly is sure that Internet access to information is opening people's eyes in China. Those who do business there say that the rising Chinese middle class will not permit excessive censorship of Internet information. They expect the current hard-line restrictions will eventually prove to be temporary.

"I see many changes in the attitude of the Chinese government regarding the kind of information that can be

distributed since 2000, when we worked with a company doing business there," said Betterly. She says China is undergoing a huge shift toward Westernization, and hanging in the balance of this shift are major economic changes. In her view, the government cannot continue to block and filter the Internet forever. At present, no more than 2 percent of China's 1.3 billion citizens has access to the Internet, yet Betterly believes this number is sufficient to apply significant pressure on the government to end its Internet censorship policies.

Rigid Regulation

In the meantime, Haley insists that the Chinese government does more than use scare tactics in monitoring the Internet use of its citizens. "The Chinese government has legions of agents eyeballing the Internet -- over 300,000," she told the E-Commerce Times.

"The government uses the Internet as a means of control. It insists that information dissemination businesses such as Yahoo put their servers in the country. Foreign news agencies cannot disseminate anything without prior approval," she added.

Sullivan & Worcester's Li agrees. "Even Chinese journalists can't publish an article without an intense review process by several censors," he said.

"The Chinese government controls business through a cooperative structure. It is no surprise that the Chinese government wants this control over regulatory and commercial activities. They want both control and profits," said Haley.

No matter how many hoops American corporations are willing to jump through to meet the demands of Chinese government regulators, their compromises on censorship and other matters of ethics may ultimately be to no avail.

"Making a profit by doing business in China is often a shell game. Most foreign companies have never made a profit there," Haley concluded. **ECT**

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