



High Tech Should Follow Google ... Right out of China

By Erik Sherman | Jan 14, 2010

Many people in business point to Google (GOOG) as a company to emulate. You might agree or not — there are arguments for either side. But recent developments should have high tech executives considering whether to take the company's lead in claiming that it will no longer be told to censor search results in China, and simply leave that country.

There are many reasons why someone might balk at companies doing business in China: political repression, human rights suppression, arm-twisting negotiation tactics. But there are a number of significant business reasons, as well:

- **VeriSign's** (VRSN) iDefense security lab has come to the conclusion that the Chinese government was behind the hacking effort that was attacking Google. That alone should pull companies up short. If true, the Chinese government has been funding a systematic campaign of industrial spying in an attempt to steal intellectual property. It was bad enough when the danger was from Chinese entrepreneurs running factories that would, as many experts have told me over the years, do production work for western companies during the day and then run extra shifts to create knock-off.
- It's not as though this should be surprising. Back in 2007, British intelligence agency MI5 warned many large corporations that "Chinese state organizations" were using cyber attacks to get information from them.
- Forget espionage for a moment. Back in 2008, China stated its plans to force computer security companies to submit their technology for approval before marketing in the country.

The problem is that China has a definite interest in becoming "self-sufficient in all technology markets" as blogger Jeff Nolan succinctly notes.

I emailed **George Haley**, director for the **Center for International Industry Competitiveness** at University of New Haven and author of *The Chinese Tao of Business*, an expert on business and IP in that country. He made three points:

1. "The Chinese government has openly stated that the primary concern of Chinese of state owned enterprises should be the acquiring of foreign technology.

2. “Once the genie is out of the bottle there is no stuffing it back in. If a technology is crucial to a company’s future success and competitive advantage they should never risk it in China.”
3. This [practice] is nothing new [in the world]. Robert Fulton is an American hero because, when the US was a developing economy he responded to U.S. government policies, stole some technology and brought it to the US.

The high tech industry is *all about* technology as a competitive advantage and underpinning for a business strategy. Most companies going to China face tremendous risks for little actual profit. (Google says that the money it makes in China is immaterial. Haley thinks that one percent of the company’s revenues actually come from China, but that the costs of operating there, including the censorship filtering, are so high that the return on the investment is relatively low.)

Heck, I’d even argue that the companies going there to manufacture products are barking up the wrong tree, because most ship the goods back by ship. But that trip takes two months, meaning the company now has an extra two months of inventory floating about at virtually all times. It’s a cost that is carried separately in the books and not directly applied to the now significantly increased cost of manufacturing (because the company ties up all that money to maintain the inventory at sea). It’s time for high tech companies (and a good many others, to boot) to rethink their Asian strategy and head for ports that are more even-handed and honest in their dealings.

***Erik Sherman** is a freelance journalist whose work has appeared in Newsweek, the New York Times Magazine, Technology Review, the Financial Times, Chief Executive, and other publications. Follow him on Twitter.*