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in Chinese market“

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At the end, I hope that this topic would be interesting for you as a reader and elucidating the theme why some big American internet technology companies were forced to withdraw the Chinese electronic marketplace and making you thoughtful would raise some future questions.

Vienna, 2018

Ignatova-Mincheva, Daniela

Author's Declaration

Unless explicitly stated in the text or references, I certify that this thesis is entirely the result of my own intellectual work. I take full responsibility should any of the included facts or my own reasoning arguments be incorrect or flawed. This thesis has not been previously submitted elsewhere - neither parts of it, nor in its entirety. I declare that the printed thesis is identical to the submitted electronic one.

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Table of contents

1	ABSTRACT.....	7
	ABSTRAKT	8
1.1	List of tables and figures	9
2	INTRODUCTION.....	10
3	OVERVIEW OF CHINA	11
3.1	Short history of China	12
3.2	Patterns of cross-cultural business behavior	12
3.3	Product placement in China	14
3.4	Negotiating with Chinese business people.....	15
4	CULTURAL DIFFERENCES. A COMPARISON BETWEEN U.S. AND CHINA.....	16
4.1	Hofstede's 6-D model of national culture	17
4.1.1	Individualism vs. collectivism	17
4.1.2	Level of power distance	18
4.1.3	Masculinity vs. femininity.....	18
4.1.4	Uncertainty avoiding vs. uncertainty accepting	18
4.1.5	Long term vs. short term orientations	19
4.1.6	Indulgence vs. restraint	19
4.2	Impact of cultural differences.....	20
4.2.1	Cooperative strategies	20
4.2.2	Conflict management	20
4.2.3	Decision-making	20
4.2.4	Work-group characteristics	21
4.2.5	Motivation systems	22
4.3	Factors affecting differences	22
4.3.1	Payment system	23
4.3.2	Logistic system	24
4.3.3	Language barriers.....	24
5	ELECTRONIC MARKETPLACE IN CHINA.....	25
5.1	Stages	25
5.1.1	Novelty stage (1998-2000)	26
5.1.2	Incubating stage (2001-2003).....	27
5.1.3	Empowering stage (2003-2006)	28

5.1.4	Growth stage (2007-2010)	29
5.2	Statistic of internet users in China	30
5.3	More facts about the Internet in China	33
6	GREAT FIREWALL OF CHINA	34
6.1	Internet censorship and regulations	35
6.1.1	Self-censorship	37
6.1.2	Multidimensional regulations	37
6.1.3	Censorship technologies	38
6.2	Collateral damages	39
6.3	Control over the internet	41
6.3.1	Cyber Police	41
6.3.2	Blockade of the Information Network	42
6.3.3	State stability	43
6.4	Internet development and democracy, and e-government	43
6.4.1	Internet development and democracy	43
6.4.2	E-government project	44
6.5	Control and evolution of Cyber-crimes	44
6.5.1	Laws and regulations	45
6.5.2	Pornography and online gambling	46
6.6	Users' perception of internet security	47
	Comparison of 27th and 39th Survey report on internet development in China	47
6.7	Fight against Great Firewall	49
7	AMERICAN INTERNET TECHNOLOGY COMPANIES IN CHINESE ELECTRONIC MARKETPLACE. CASE STUDIES	50
7.1	Case study: Google	50
7.1.1	Company background	51
7.1.2	The challenge	52
7.1.3	Solving the problem	54
7.1.4	Steps towards google.cn	58
7.1.5	The decision	59
7.1.6	Presenting google.cn in China	60
7.1.7	The withdrawal	62
7.1.8	Additional political issues	63
7.1.9	Consequences of the withdrawal	66

7.1.10	Plans to come back.....	67
7.2	Other American internet technology companies	69
7.2.1	Case Study: Yahoo!.....	69
7.2.2	Case Study: Microsoft.....	76
8	DISCUSSION AND CONCLUSION	80
9	BIBLIOGRAPHY	83

1 ABSTRACT

This paper work surveys cultural differences between Chinese and American nation. It places important questions about the specific nature of Chinese market, Chinese people and Chinese government and more precisely how these peculiarities can influence on business- making process in China.

The work is focused on specific marketplace in China, namely the electronic one. It studies characteristics of Chinese government, the implementation and function of Great Firewall, the need of governmental control and how all this factors influence the business negotiating process. Further, it explores the development of American internet technology companies in China- their motivation to enter Chinese e-market, their strategies, the clash of interests, and the reasons why they cannot be so successful, and even forced to withdraw Chinese market. Google, Yahoo! and Microsoft are selected to represent American internet companies, because of the leading positions they take on the global market.

The thesis provides suggestions for future studies, recommendations how to reduce the gap between those two nations and discusses key questions about human rights and free speech expression as conclusion.

Keywords:

Cultural differences, Chinese electronic market, American Internet Company, Great Firewall, Internet censorship, self-censorship, Google, Yahoo!, Microsoft

ABSTRAKT

Diese Diplomarbeit studiert die Kulturunterschiede zwischen den Chinesischen und Amerikanischen Nationen. Sie stellt wichtige Fragen, die die Natur des Chinesischen Marktes, des Chinesischen Volkes und der Chinesischen Regierung betreffen, wie alle zusammen den Wirtschaftsprozess in China beeinflussen.

Die Konzentration fällt auf den elektronischen Markt Chinas. Die Arbeit analysiert die Eigenschaften von der Chinesischen Regierung, die Struktur und Funktion vom Great Firewall, den Nutzen von Kontrolle seitens der Regierung und wie diese Faktoren die Vertragsvereinbarungen beeinflussen. Sie forscht die Entwicklung der Amerikanischen Internet-Unternehmen in China – deren Motivation den elektronischen Markt Chinas anzutreten, deren Strategien, die Ursachen warum sie nicht erfolgreich sein können und sogar den Markt verlassen müssen. Google, Yahoo! und Microsoft wurden ausgesucht die Amerikanischen Internet-Unternehmen zu repräsentieren, da sie die führenden Positionen weltweit halten.

Der Leitsatz schafft gewisse Vermutungen für künftige Studien, Empfehlungen wie die Unterschiede zwischen diesen beiden Nationen reduziert werden können und stellt zum Abschluss wichtige Fragen zu den Menschenrechten und Freiheit der Rede und des Ausdrucks

Stichwörter:

Kulturunterschiede, Chinesischer Elektromarkt, Amerikanische Internet-Unternehmen, Great Firewall, Internetzensur, Selbstzensur, Google, Yahoo!, Microsoft

1.1 List of tables and figures

List of tables

TABLE 1. BASIC COMPARISON BETWEEN CHINESE AND AMERICAN CULTURE (XING, 1995).....	16
TABLE 2. BASIC COMPARISON BETWEEN THE STATISTICAL REPORTS FROM JAN.2011 AND JAN.2017. (SOURCE: CNNIN; COMPARISON MADE BY THE AUTHOR)	31

List of figures

FIGURE 1 PAYMENT METHODS FOR ONLINE SHOPPING IN US AND CHINA, 2000 (BIN ET AL., 2003)	24
FIGURE 2. GENDER STRUCTURE OF INTERNET USERS IN CHINA IN 2010, 2015 AND 2016.	31
FIGURE 3. AGE STRUCTURE OF CHINESE INTERNET USERS (SOURCE: CNNIN; COMPARISON MADE BY THE AUTHOR)	32
FIGURE 4. EDUCATION STRUCTURE OF CHINESE INTERNET USERS (SOURCE: CNNIN; COMPARISON MADE BY THE AUTHOR)	33
FIGURE 5. NETIZENS' PERCEPTION OF INTERNET SECURITY (SOURCE: STATISTICAL SURVEY ON INTERNET DEVELOPMENT IN CHINA, 39 TH STATISTICAL REPORT).....	48
FIGURE 6. TYPES OF CYBER SECURITY INCIDENTS ENCOUNTERED BY NETIZENS (SOURCE: STATISTICAL SURVEY ON INTERNET DEVELOPMENT IN CHINA, 39 TH STATISTICAL REPORT).....	49

2 INTRODUCTION

China has unique culture, economics and politics. The changes through its sectors create better conditions for greater business opportunities. Parallel with the business world globalization, China has become an attractive marketplace for foreign investors, especially since its transformation to socialistic country and when in 1979 the country implemented open door policy and became more “friendly” for trade. However, China still combines old communistic politics with a new capitalistic economy (Fan Y. , 2007). The enterprises wanted to do business in China, should realize that doing business in a country like this requires better understanding its politics and economy, but also its culture and nation in order to do right business negotiations. Obtaining cultural knowledge can be executed through different ways: visiting the country and gaining personal experience, doing research and reading about the culture, collecting information from business manuals, following the papers and news involving information about the society, the law and politics in China (Cooper & McFarlane, 2011). The challenge nowadays, according to Luthans and Doh (2008), is to learn and successfully operate international management by getting competence and understanding the specifics of certain culture. Gaining cultural knowledge is the best investment for being successful businessman. Meanwhile, China has a massive economy and its appearance on the international scene will definitely make it focal point of such challenge and knowledge.

Cultural differences on business level should be minimized in order to have free world-trade. Globalization represents interconnection of cultures, financial, economic and communication integration (Business Dictionary). Due to globalization trade, I find this topic important.

There are many reports about the specific characteristics of internet users in China. China internet Network Information Center (CNNIN) is the main source used in this paper, which provides every half a year statistical reports on internet development in China – including many different topics such as size and structure of Chinese I-net users, internet access environment, government applications, network security, internet development of enterprises, etc. Comparing different CNNIN reports, gives an overview how internet consumers are changing during the years – level of education, gender and age structure.

Since beginning of new century, there is a serious rivalry between American and local technology companies. The competition began with American domination and slowly turned into success for the Chinese internet enterprises. Therefore, some American companies decided to withdraw their business from China (Lu, 2014). In order to conduct business in China, internet companies must comply with Chinese law and implement self-censorship system, which to filter their online content. Even this to contradict to their principles, mottos and goals, many of them just prefer to leave human rights on the side and to cooperate with Chinese authority just to stay competitive on the market.

This study reports the cultural differences between American and Chinese society in a doing- business aspect. After an overview of the literature on the impact of cultural differences on decision-making and business- making process and the factors affecting those differences, I examine the electronic marketplace in China, including the implementation of the Great Firewall, government control and the need of self-censorship. Chinese market is detailed explored. Chinese government is leading key factor for successful business in the country. Unlike Western and American countries, in China, government control is very tight and affects every field of the economy. Meanwhile, human rights are also concerned. It is important to see how Chinese authorities control influences on human rights issues and the impact of all mentioned above on Chinese people.

This is non-empirical, theoretical research, where the research data is based on previous researches. Because the research area is still relatively unknown exploratory study will be conducted. To obtain information and to investigate the research problem is used literature review and case studies. Through collected data, I analyze the reasons that forced American internet technology companies to quit Chinese e-market. The research problem is focused on the impact of Great Firewall on the American internet companies. In order to expand knowledge and understanding about the research problem, leading companies like Google, Microsoft and Yahoo! are analyzed.

Research problem: The impact of GFW on the American internet companies.

Subject of analysis: Google, Microsoft and Yahoo!

3 OVERVIEW OF CHINA

One of the crucial factors for doing successful business is to first investigate and understand the other party's culture. Nowadays, we have a variety of different cultures- some of them have been isolated for many years and now when they open their borders for trade, we have to understand their needs, views and characteristics (especially those characteristics which are connected with the business relations) in order to enter this new market. An example for such a culture is the People's Republic of China (McFarlane and Cooper, 2011).

Although China has made some reforms i.e. steps for liberalization in the economic, the government is still deeply communist. On one hand, it's not easy to enter such a market, but on the other the idea of an open-market and steps taken towards a more democratic government create more business opportunities for international free market trade and attract more western countries.

3.1 Short history of China

China has more than 5 000 years of history based on control of different Chinese dynasties and the fight for supremacy. The Chinese have saved a lot of memories and records from their real and mythological origins which form their consciousness. All the ancient history was written by members of the ruling scholars (University of Maryland)¹ which was mostly focused on the rulers and their policies; meanwhile the life of the ordinary people was only mentioned. Thanks to their strong self-awareness, advance culture, developed technology and politics, the Chinese, many times absorbed the people of their surrounding territories (Chaos Group of Maryland). Not only has this had left a mark on Chinese history, but also the different tribes who succeeded to conquer Chinese areas (like Mongols and Manchus). Nevertheless, the Chinese imperial system ends around 1912 with the downfall of the Qing dynasty, and then Modern China was established (McFarlane and Cooper, 2011).

China, as we know it People's Republic of China, was founded in 1949 as Communist country. When the communists overtook, they rewrote Chinese ancient history based on Marxist model- development from primitive communism to its transitions to slavery, feudalism, capitalism and at the end to socialism (University of Maryland). However, the new period was also a time of stability which in 1978 brought economic growth thanks to the reforms and open-up policy (Chaos Group of Maryland).

As we mentioned, Chinese history dates back many centuries. All the myths, symbols (like dragon, phoenix, tiger etc.) and legends are deep-rooted in their beliefs and Chinese awareness. In China there are three major religions- Buddhism, Hinduism and Taoism (most of the people follow Buddhism). Chinese people believe in the concept of Heaven, representing God. Kong-Fuzi's principles also left a big mark (e.g rules are good for people's life; respect others; women should submit to the men) and Yin-Yang's doctrine (the good and the bad, the light and the dark, and the balance in life). However, Chinese people created a group-oriented culture which plays an important role in every aspect in their lives including business relations.

3.2 Patterns of cross-cultural business behavior

We will mention very briefly the cross-cultural behavior, because later on we will be more focused on that and the difference between the cultures, mainly China and America. Cross-cultural patterns are affected by different principles, which reflect on the business behavior. According to Gesteland (Gesteland, 1999) there are four different principles also called orientations: emotionally expressive- emotionally reserved cultures, rigid- fluid time, deal focus-relationship focus and formal-informal cultures. Chinese business people are more focused on getting to know their counterpart than to just finish the deal. They

¹ <http://www.chaos.umd.edu/history/setting.html>, retrieved 18 February, 2018

value the other party and then invest trust in the future partnership. Chinese are relationship- oriented and believe that personal contact and trust are more important in business making process. In contrast to this, the deal focused cultures are also described as task- oriented (not people- oriented).

Chinese culture is based on hierarchical system, and as we mentioned above Kong-Fuzi's principle that rules make people's life easier, it's no wonder that Chinese have a high degree of formality. Formality includes respecting older people, high ranked people or people with greater achievements or power. On the other hand, informality could be considered as disrespectful and offensive (McFarlane and Cooper, 2011).

We said that Chinese citizens have respect for seniority and high ranking people, so they prefer not to lose time with them by being late for example, especially when it comes to business relations. Of course, being on time and punctuality in every aspect means render homage to other party, that's why we can categorize China as having a rigid-time culture. The situation is totally different when it comes to western countries and America- they rely more on the flexibility and the adaptation to changing situations than on punctuality (fluid-time cultures) (McFarlane and Cooper, 2011).

People in China could be described as emotionally reserved. For example, Confucius' and Mencius' doctrines are based on moderation and self-control (McFarlane and Cooper, 2011). In business meetings, Chinese people are very restrained, composed and talk quietly, which allows their counterpart to consider the situation. This also shows respect to others (McFarlane and Cooper, 2011).

The cultural orientation is not the only one which defines business relations. According to Los Angeles Chinese Learning Center² there are four basic elements on which to also reflect. The first one is different treatment of the same person. One party could behave with respect to someone, while the other could treat him unfairly. This cross-behavior could break up the relationship. The second one is the importance of building trust. If a company or an individual promise something, keep his word and make it happen, so the Chinese person will prefer to work with them again in future, because this company/person already gained his trust. Another element of the relation is to be dependable. If the partner can rely on his counterpart in good or bad times, it means that they already have strong relationship. And the last element is the deep contact between each other. The frequent contact and the emotional commitment are the reason why Chinese people feel obliged to make deals with their friends first (McFarlane and Cooper, 2011).

² Los Angeles Chinese Learning Center. (2011), Chinese business culture: Guanxi, an important Chinese business element. Retrieved from <http://chinese-school.netfirms.com/guanxi.html>

3.3 Product placement in China

Not only political and economic situations need to be taken into account- Western countries and all foreign countries which try to deal with China need to investigate the creation of a strong relationship in order to make successful deal and to minimize the risk of misunderstanding and failure. However, Chinese people are still reserved when it comes to foreigners and their products on Chinese market, because Chinese's people are strong nationalist and respect their own market and production. Even their taste is influenced by their culture and national values. Chinese support their traditions, arts and beliefs. Although it takes more research, countries trying to enter such a market, need to understand Chinese culture and behavior, because exactly this could be the difference between successful business and failure (McFarlane and Cooper, 2011).

Unfortunately, there is no specific method or business strategy that could be considered as always successful. There are many examples of failed enterprises- although they have different business marketing, some of them even very innovative, but they still could not understand Chinese's needs. An example of such a company is the American electronics firm Best Buy, which in 2011 after five years on Chinese e-market was forced to close all of its stores (Rein, 2011). Most of the critics defended the company and blamed Chinese costumers saying that Chinese preferred only cheap products and discounts and were not focused on the quality. Of course, that cannot be completely true, because at that time another American company Apple reported in its store in Shanghai the highest sales compared to any other Apple's store in the world. The case was not lower prices- actually the prices in Shanghai were 30% higher than in US (Rein, 2011). So, that what Best Buy did not take into account was they were not the only one who offered the same goods to Chinese consumers. Actually, they were a lot of others western and especially local companies selling the same products but on different prices. There is no logical reason why consumers should go to Best Buy's stores to buy something on higher price, when they can get exactly the same product from other shop but cheaper. That is not the story with Apple: Chinese are willing to pay more, when they cannot find the same product anywhere else. Indeed, this can be explained by the difference between US' and China's economy. As a contrast with American companies, in China local stores are able to offer low price products to consumers, because they pay less when it comes to benefits, salaries, rents, electricity and etc., something that only big chain American companies could do. Other reasons are plagiarism and piracy and the fact that China can make a replica of almost everything. Best Buy made another mistake by focusing on building really big stores like in US than on more small shops. Unfortunately, Chinese people preferred to shop in their neighborhood, in the local stores because of the bad traffic and the lack of parking places. We cannot forget about the Chinese government, which does everything to support local market and protect the local production and the same time to restrain the freedom of the foreign enterprises (Rein, 2011).

To survive as a foreign company on Chinese market, they need to provide competitive prices (i.e. same or lower prices from the local ones) and good quality products. Of course,

this will be difficult mission, Chinese needs and society are not the only hindrance, but also the government's protection policy. McFarlane and Cooper (2011) suggest that one optimal decision for success can be an alliance with local company in order to avoid the cultural resistance and to gain some advantages to Chinese government.

3.4 Negotiating with Chinese business people

Above, we tried to describe Chinese society; now we will point briefly some rules, which can help when doing business in China.

Personal relationships and respect are very important in the negotiation process. Moreover, to do business, Chinese people develop first personal relations, then they create trust and after they can talk about business. This concept based on strong involvement and personal contact is called "Guanxi" and is a core component for doing successful partnership with Chinese businessmen (McFarlane and Cooper, 2011). We can't forget that Chinese do business not with companies (like in US or Europe), but they give prominence to personal contact with individuals or group of people. Both parties should be open and show respect to each other. Other forms of behavior can be taken wrong and can end the negotiations. Chinese people have high degree of formality – take into account age, achievements, power. In business meetings they talk clear, calm, allow periods and set some distance. Usually, the head of delegation enters the conference room first because of the hierarchical level. They are emotionally reserved which can make it difficult for other counterpart- because they cannot understand if their Chinese business partners have lost interest on the deal or they have had positive change of mind. Non-verbal expression is also very important. Crossing legs, gesticulations with hands and physical touch can distract Chinese people or give them wrong impression, that's why this should be avoided. Chinese negotiators are mainly very well- informed, well- prepared and highly competitive. Sometimes it looks like they are too aggressive or they can even use pressure techniques, but it should not be taken to heart, because their strategies and moves are focused first to keep the relationship intact. Additionally, they are skillful and clever and like to bargain until they reach their gain or at least the best conditions. Timing is not a factor when it comes to deals with Chinese businessmen. Usually, the decision making process takes much more time and the counterpart should be more patient. The rules are part of Chinese's life, but in some cases in the business the instincts and the collected experiences and knowledge can outweigh laws or rules. Chinese people are very organized and all the business schedules should be noticed long enough in advance. Punctuality is high valued, it shows respect. In every other situation in life there can be compromises but when it comes to business then it is a must. However, China is changing. Now it has open-trade policy and because of the influence of foreign countries, perhaps all this rules in future will be also modified (Katz, 2008).

4 CULTURAL DIFFERENCES. A COMPARISON BETWEEN U.S. AND CHINA

The 21st century is the time of globalization of world economy. When we talk about international business i.e. crossing national boundaries, we have to be ready and prepared sometimes for a not so easy process of negotiation based on different cross-cultural principles and values. On one side, the process of globalization has created possibilities for international collaboration between the countries all over the world; on other side, that is the reason why management problems in negotiation process between cultures have appeared. Now we will underline some basic recommendations for American companies trying to enter Chinese market, deriving from differences between those two nations.

Culture determines the way of thinking, beliefs and behavior of people. China has a rich history and strong self-awareness. When we bring two cultures together, some misunderstandings can appear. For example, the term “privacy” does not really exist in Chinese ideology (they are group-oriented) but in US is classified as part of individual rights (Xing, 1995). Another example is the notion “program” which produces different meanings according the context that’s why, cannot be literally translated and some of its meaning do not really exist in Chinese language. Meanwhile “Yin- yang” is an important Chinese concept, but because of its complex sense cannot be understand completely by Americans (Xing, 1995). Xing gives us very simple and clear comparison of main characteristics i.e. differences between those two countries (See Table 1.)

Chinese	American
Intuitive	Rational
Introvert	Extrovert
Self-restrained	Aggressive
Dependent	Independent
Implicit	Explicit
Synthetic	Analytical
Patient	Impatient
Group oriented	Individualistic
Desire for eternity	Eager to change

Table 1. Basic comparison between Chinese and American culture (Xing, 1995)

This general comparison grounded on assumptions and stereotypes can often lead to biases.

Even nowadays, a huge influence on Chinese behavior comes from Confucianism which became widespread in all parts of Chinese’s lives. Confucian ideology put stress on the relations between humans mainly man-man relationship. The other point of this ideology

is based on a hierarchical principle: the relations between father and son, wife and husband, older and younger brother, superior and subordinate, and between friends. This forms the hierarchical pyramid of behavior i.e. how people should act when they have a contact with other people on different level of the pyramid. Loyalty and submission are necessary. However, in case of remises behavior of the ruler, a protest or discord may appear. In conclusion, Confucianism determines the base for Chinese culture, etiquette, bureaucracy and the type of business relations (Xing, 1995).

China has become an attractive market for many foreign companies. This calls for a deeper cross-cultural research of China. Moreover, the experience shows there are many examples of international companies' failures in Chinese market based on difficulties in communication process, high transaction costs, politics, different methods of operating and negotiation. The idea "how to do successful business in China" arouses interest in more and more foreign enterprises. In order to explain the distinctions among China and United States and Western countries, we will take a look Hofstede's principles. To some extent America is classified as part of the western countries, and comparison between US and China is mainly the same as West and China (Fan & Zigang, 2004).

4.1 Hofstede's 6-D model of national culture

Geert Hofstede provides a theory for a more specific description of one society whose model contains six dimensions of culture (Hofstede, 2009). This model and also the above mentioned Gesteland's orientations will help us to deeper describe the Chinese people and their main differences from Western and American countries.

4.1.1 Individualism vs. collectivism

Society where the individuals from their birth onwards belong to one or another group describes collectivism orientation. Groups can be family, certain activity group belonging, village societies etc. Collectivity nations categorize others based on their group belonging, not like separate individuals i.e. are they in-group people or they are excluded. This does not mean "closeness", but to know where exactly your place in the community is. In collectivism first comes the relationships and then the task (exactly opposite is by individualism). It is not surprising that China is an example for such a collectivism culture where its past isolation, traditions and history play crucial role. Here, a key word is a harmony, mainly inside the group. If there are any disagreements, people need to find the best solution and the right way to harmony, otherwise the group will become weak and can easily be destroyed. Individualism classifies others as individuals i.e. they don't have to belong to any group to be identified. US, Europe and Australia are the biggest individualism nations. Other characteristics of individualism are low context communication- everything needs to be specified and there must not be always a harmony,

because confrontation can be healthy and help people to make an individual progress (Hofstede, 2009).

4.1.2 Level of power distance

Power distance describes people with different power status, where those on the bottom (with less power) “accept and expect that power is distributed unequally” (Hofstede, 2009). There are two groups- nations with large power distance (Ex: China is centralized country) and with small power distance (US and Europe). Most of the countries are in the middle. By large power distance inequality in the society is accepted as something normal. Superior people are those who tell their subordinates what to do. Here the maxim is power comes first and then the good or the evil. The idea is when someone gets the power than he/ she decides what the rules will be. When it comes to organizations we talk about centralization. The situation is totally different with small power distance societies. They believe inequality is not right and needs to be removed. The power should be used gently. The rules established by superiors are equal for everyone in the hierarchy, but they can also be changed. The important key is to teach young generations independence. No one should command you what to do and your word can be heard (Hofstede, 2009).

4.1.3 Masculinity vs. femininity

Masculinity and femininity is not equal to individuals, to social gender men and women, but to emotional gender roles- for example a woman can be categorized as a member of masculinity society. Masculinity is society “which emotionally gender rules are distinguished” (Hofstede, 2009). Men are represented as tough, strong individuals, focused on material success, while women are tender, soft and focused on quality of life. One society can be classified as feminine if there is any deviation from the definition above- for example men to be also focused on the quality of life. By masculinity people don’t try to balance work and family (by contrast with femininity), but work dominates family. Furthermore, the father deals with facts and the mother with feelings. By femininity they both father and mother deal with facts and feelings. In feminine society genders are closer emotionally and using power is not tolerated, actually there is sympathy for the weak. The religion is orientated to human beings. In masculinity, boys should fight, be strong and never cry. The religion teaches to turn to God as a Father and Power. China can be classified as a masculine nation, while the US countries are somewhere in the middle between both dimensions (Hofstede, 2009).

4.1.4 Uncertainty avoiding vs. uncertainty accepting

Uncertainty avoidance has nothing to do with risk avoidance, actually it describes to what extent the members of one society accept/ avoid the unknown situations. A country where the uncertainty is something natural and changes are part of life is categorized as

uncertainty accepting society. In this kind of societies the stress is less, aggression and emotions should be controlled and tolerance is normal. They don't really like to follow rules and if there is any, many times they have been broken. Uncertainty avoidance nations are scared of the unknown and of the different. One of the biggest worries is to change job. This brings you more uncertainty in life, that's why people try to stay as long as they can at the same workplace. Meanwhile, they need rules, because they believe rules make life easier, even if sometimes they are not practical. To adopt something new is a slow process- for example modern innovations are taking more time compared to uncertainty accepting societies. China is high avoidance country- political structure is rigid; superiors are very controlling; managers don't put so much trust on their subordinates like in European or US countries and the rules are obligatory for one well-balanced co-existence (Hofstede, 2009).

4.1.5 Long term vs. short term orientations

Long term orientations are related to the future- they accept that world is changing and we have to adapt to the new situations. This is the reason why all norms and the traditions can be modified depending on the new circumstances. The good and the evil are not fixed; they also can be changed over time. The superior person understands and knows how to adjust to the new conditions. Common sense is important resolve a problem. Short term orientations are focused on the past and present moment- traditions, national determination and culture are very important to build future strategy, because they believe that the past can provide all the answers. The good and the devil don't change- they always stay the same; and superiority is also always the same. China can be categorized as a long-term orientation country (Hofstede, 2009).

4.1.6 Indulgence vs. restraint

This is the last one of Hofstede's dimensions and a more recent one. It is related to the control of life and personal happiness/ unhappiness. The freedom, enjoying life, to have friends and to have fun is important when it comes to indulgent societies. They have an optimistic mind and positive attitude. The members very often practice some kind of sport, which makes them feel healthier. In contrast, people in restraint societies feel less happy and less healthy although probably they are physically equally happy and healthy. Playing sport is not common practice- sport is something you watch others do. Members are more pessimistic because life is hard and everyone has a lot of responsibilities. They believe that fate (and happiness) is not something you can control, because it does not depend on you, but on some external factors. Moral discipline is important, but having friends is not that important (this a material factor when we talk about social media like Facebook for example). Although there are many nations which are still not classified, China is related to restraint cultures, together with many European countries. US in other hand are classified as indulgence societies (Hofstede, 2009).

4.2 Impact of cultural differences

4.2.1 Cooperative strategies

Americans' decisions are determined by their own point of view, because they are deep rooted in individualism and medium masculine society. They prefer to work alone and to have control over the situation. Cooperation for them is a mark of weakness and shows difficulty in managing the task. At the same time, Chinese people are loyal to the group, and working together diminishes the possible risk and personal responsibilities. To place your individual benefit on 1st place will not be positively welcome. The main goal (of the group) is more important than any personal goals (Pan et al, 2004).

Additionally, Americans put great significance on contractual safeguards (something which it's not that important to Chinese). Americans believe that contracts can defend them in any unwanted situations where their counterpart's desires become bigger or different than the terms of agreement. In contrast, Chinese businessmen accept that everything is changing and the contract is not fixed, but it can also vary. They give prominence to building a good partnership than to just signing a contract. Weaver (2000) described that companies from individualistic nations put much more attention on the contract representing successful cooperation than those from collective societies (Weaver, 2000).

4.2.2 Conflict management

Chinese nation and Americans have different methods to solve a conflict. Chinese people will give their best to avoid any direct conflict, because the harmony in society is extremely important. However, in case of open conflict, they will use the power of authority to repress it or to discuss it somewhere in private- their ways enlist compromises or negotiation. As a high avoidance and collective oriented country, China is more likely to use any indirect way of solving the problem including interference of another party. Those ways of influence help Chinese managers to not destroy already erected "Guanxi". Americans, on other the hand, are ready to stand face to face with the problem or the problem-maker. They prefer to directly confront others giving them rational arguments, evidences and possible solutions. Their methods don't include investing time and effort in order to provide some other party's help. The western methods of facing the problem directly could be taken the wrong way by Chinese businessmen. In contrast, Chinese's way may also be confusing for their American partners (Fan et al. 2004).

4.2.3 Decision-making

Chinese and American managers have completely different strategies when it comes to the decision making process. High uncertainty avoidance Chinese prefer to rely on known and

proved; the risk is not a part of their nature. They don't like to make rushed decisions, every move should be well considered and analyzed. To compete in the market is not something that has to be done at any cost. When the circumstances are unsafe and more risky, they will decide to stay out. Uncertainty accepting societies like US take the risk as something natural and as a way some new product or technology to be discovered (Fan et al. 2004).

The level of managers' participation in decision-making is different in individualistic and collectivistic oriented cultures. Power distance is another factor which determines the participation level. As individualistic American businessmen are more likely to make decisions by them own instead of asking for someone else's advice. They also come from small power distance society and believe in independence and that inequality is wrong and subordinated should be authorized to be part of decision-making. The situation in China is quite oracular. On one hand, China is collectivistic type of culture i.e. the solutions and every step are taken by group-decision. On other, this is high power distance country i.e. there are superiors and subordinates. The decision is part of supervisor's duties and all employees should accept it, because they don't have enough knowledge and power to object it. Although, the first factor is true and exists in some situations, privilege has the second one. Mostly the final decisions are taken by higher level superiors without being discussed with their employees- the employees almost never have the chance to be part of solution-finding process. Anyway, China has made and still makes a lot of reforms and influence of western countries is a fact, which can bring changes on participation during decision- making processes (Fan et al., 2004).

4.2.4 Work-group characteristics

China is relationship- oriented society, where personal contact plays a very important role. The managers use strategy, first focused on establishing interpersonal relations (Guanxi) - after making the contractual relations. They prefer to spend more time and effort to getting knows their counterpart and to build one strong partnership which always precedes the rough business. Compared to them, Americans are task-oriented people and prefer to get straight to the point and to negotiate trade conditions. The personal contact does not have to be part of negotiation process, because business and personal life are two separate topics. Based on their collectivism culture, China separates people in two categories: in- and out- group. As discussed, in-group members belong to certain community, that's why they are more self-assured. Of course, Guanxi helps out-group people to join the group and to become also members. When Americans try to do business with Chinese, they need to provide enough time to get to know each other and to become in-group members. When Chinese managers decide that they have built real trust between them, only then they will continue with business negotiations. The different point of view (i.e. culture) and principles are the reason why many American businessmen don't have enough patience to make relationships (and then perhaps successful deal) when they trade in the Chinese market (Fan et al., 2004).

4.2.5 Motivation systems

Employees' motivation can be stimulated with different methods. One is the bounty system. The rewards can be distributed based on personal performance, equally to the group or specific to each member's needs. The principle of equity (based on the performance) is typical for individualistic societies and principle of equality – for collectivism cultures (Fan et al. 2004).

By individualism, the personality is something independent from community, while by collectivism –this is interdependent. In collectivism, individual goals are often the same as group goals; in contrast, in individualism, personal goals don't have to tally with common goals. This can be helpful for creating a motivation system, whereas in US it will be based on the performance and in China- the bonuses will be distributed equally through the members.

In America, individual achievement is reached by personal efforts, skills and hard work. The competition between co-workers can be stimulated; the individual attainment and goals are highly valued. Success is achieved by own personal contribution, knowledge and efforts, and it's classified as individual achievement (sometimes even if other members also had helped). Because of that, to be effective one motivation system should be based on principle of equity (Fan et al. 2004).

In contrast, collectivistic nations rely on in-group collaboration and group harmony. They value the devotion to the community. Usually the success is achieved thanks to the hard work of all members and deserts cannot be taken from one person but should be shared (equality principle). Chinese managers take into account the work experience and qualification of the worker as well. In case of promotion, some personal abilities can effect the final decision like history, interpersonal relations and political qualities (Fan et al., 2004).

4.3 Factors affecting differences

In 1990s few American companies entered Chinese e-market: Microsoft, Intel and Compaq. A bit later, another American firm Net Economy also opened its offices in China. This trend was followed by other US internet companies. However, all of those enterprises met a lot of hindrances on the way to conquering the Chinese e-market. Many of them were forced to quit. As discussed, distinctions in culture are some of the main problems causing failure. Here we take a look at the impact of cultural differences on several aspects that play a main role in e-commerce (Bin et al., 2003).

4.3.1 Payment system

In 2000, the payment options for online shopping were quite different in the US and China. American netizens used mostly credit card payment while at that time in China the most common method was cash payment. Usually the payment was made upon the delivery, when consumer received the good (the sites hired people who were delivering and cashing the shoppers) or it can be done in some of the sites offices. Therefore, many of the shopping websites built their offices in the big cities of China to make the payment process more accessible (Bin et al., 2003). Figure 1 below shows how differed in 2001 Chinese and American netizens based on different payment methods.

There are be different reasons for the most common payment method in China – cash on delivery. One of them was the non-existence of real credit cards. Although, the number of bank cards- holders increased drastically (in comparison: from 140 million in 1999- to more than 340 million in 2001), only 25 million of them were credit cards. The credit cards owners called their cards “non-credit cards”, because most of them were not even working as bank credit cards, but as normal debit cards. The process of issue of really working credit card in China was not easy. In the same year- 2000, in US there were more than a billion real credit cards holders. On other side, in China was not build centralized settlement network. Each bank had its own territory, where its bank-cards were accepted i.e. given restaurants, shops, theaters etc. That means, owner of one credit card could use it only in certain places, but in others –he had to find other ways. Therefore, the most common method to be paid for a good or service was still the cash payment. Bin et al. (2003) in their work present facts from one research, where 62% of bank cards holders in China own between 1 and 3 cards, more than 36% have between 3 and 6 cards and the rest own 6 and more cards. Despite this, not every bank card holder really use his cards for online payment, because generally Chinese don’t trust internet. So, we cannot affirm that finding and supplying one safer and trusty way of online payment will change Chinese netizens’ online point of view and their attitude.

Different methods have been proposed for solving the lack of centralized settlement system problem in China. The biggest consumer banks with many branches trough the country established in local post offices are China’s Postal Savings Banks. There is no other bank, which can provide so many affiliates and to be so easy accessible. So, one of the ways was to be improved Postal Savings Banks’ system. Chinese Postal Bureau was also trying to help by creating a functional electronic commerce. Meanwhile, sixteen gateways used by Post Office and with national settlement for ATMs were established. The largest provider for Golden Card in China (called “Huateng”) was ready to cooperate for better I-net transactions. However, the process was not so easy. Banks still did not provide vast services and the worldwide transactions were not really possible. On other hand, the idea that banks adopted so fast the online platforms was imposing. Step by step, China was building international bankcard and e-commerce system (Bin et al., 2003).

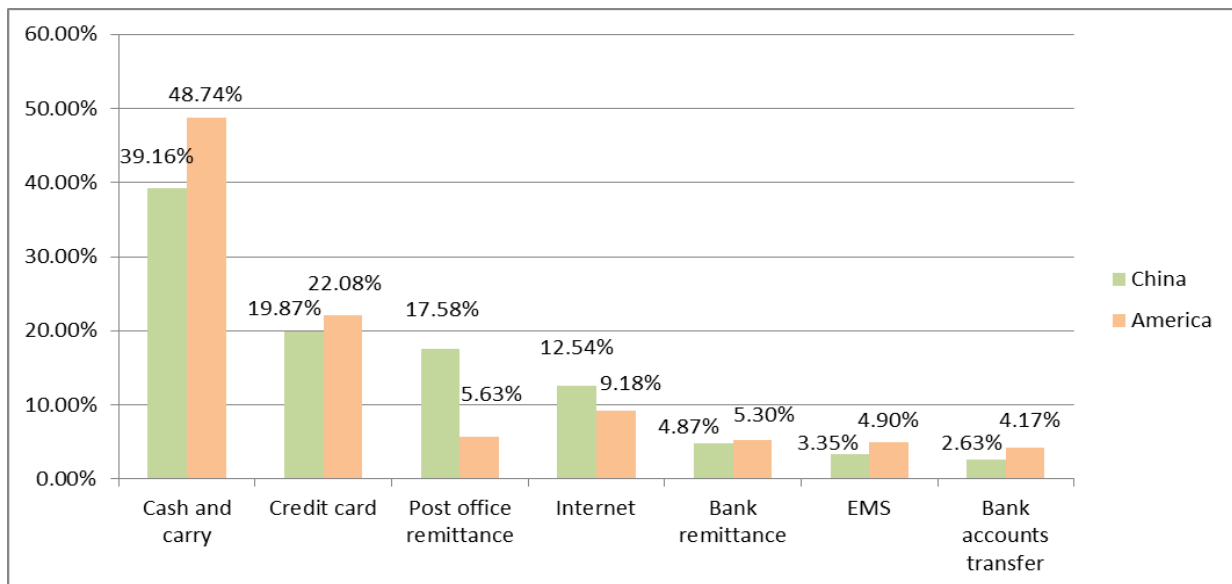


Figure 1 Payment methods for online shopping in US and China, 2000 (Bin et al., 2003)

4.3.2 Logistic system

The most common method to purchase a good in China was to be ordered online and then to be paid offline. The idea was to avoid as much as possible involvement of 3rd party-delivery and transaction infrastructures. Indeed, the e-commerce companies in China had nothing to do with the management and control of the delivery system and the transaction infrastructure. In fact, the mentioned companies were trying to invest money to be built a proper delivery system, where the responsibility for this to be done had other institutions like the government. There were places, where the infrastructures did not exist. In this case, internet companies had to find another way for delivery- mostly by making it electronic way by creating information platforms and looking for physical solutions. In US, the relation between company and online shoppers was usually done by courier firms like FedEx and UPS. In China, the only officially workable delivery system was the Post Office system. Unfortunately, the Post Office deliveries were considered as very slow and non-reliable. The impossibility to be satisfied consumers' needs and the possibility of gaining new market shares were the reasons why some foreign companies like DHL and EMS tried to enter Chinese market. The costs they charged were higher than the internet shoppers were willing to pay. So, a lot of Chinese online shops still preferred to use labor resources, because labor in China was very cheap. They were hiring hourly workers. Therefore, the most common and favorite way in China was: order online, labor delivery system and pay cash by delivery (Bin et al., 2003).

4.3.3 Language barriers

In 2003, half of I-net users are American. In 2016, the situation is totally different: only 8.4% of the internet users are from US and the country with highest percentage is China-

with 21% of the people on the internet³. Regarding this, more of the internet spending comes outside US. Thus, the U.S. websites should be focused on their internationalization- to be designed and modified for worldwide utilization. One of the difficulties for such an internationalization process is lack of translation strategy. There are two types of translation- linguistic and cultural translation. The linguistic translation is a bit easier to be realized and adapted for certain consumers' needs. So, the 1st step will be to use linguistic translation and to modify the website according to the target e-market. For instance, the users in Taiwan and Hong Kong apply the ancient Chinese characters, while most of Chinese use more simple Chinese symbols. Those are important facts which every American company has to know in order to create good strategy before to expand its business in mainland China. The most common way used to do the translation work is to be hired professionals- firms taking care only of websites' translations (Ex: Berlitz, Worldpoint Interactive, Geonexus etc.). When the given U.S. firm start to sell online, to make profit and be successful, may be it will change its strategy. The second step will be to hire domestic technical team and to be created a website, expressly designed for Chinese netizens, considering their specific characteristics and culture (Bin et al., 2003). To be successful one company, it should predict the future possible situations and to think few steps further. Qin Bin et al. mentioned some cases of American firms, making a huge progress in Chinese e-market- Yahoo!, MNS (Microsoft Network) etc. They have been very successful and beat the competition by using website specially made for Chinese users. Unfortunately, the article cannot give us full overview of the situation with Yahoo! and MNS, because it's written in 2003. In 2013 Yahoo! exited China.

Cultural differences in e-commerce exist when it comes to internationalization of one business. The foreign company needs to focus its strategy on overcoming the language barriers. The good payment and delivery infrastructure are also important factors in China e-market. Although, those are first and necessary steps in across-borders' trade, sometimes there are also other factors influence on the business success.

5 ELECTRONIC MARKETPLACE IN CHINA

5.1 Stages

The paper "The institutionalization of an electronic marketplace in China, 1998-2010" of Guang Yang and Rishuang Wang describes well the development of the e-market in China (although it's mostly focused on the online shopping). It gives us another overview and helps to understand the behavior of the Netizens in the different periods (Yang and Wang, 2013).

³ Statistic from Internet Live Stats: <http://www.internetlivestats.com/>, retrieved 7 March, 2018

5.1.1 Novelty stage (1998-2000)

There are around 7.3 billion people in the world, from which 1.4 billion is the population of China. According to this statistic, the online population in 2013 became around 29% i.e. 2 billion people and it kept growing (<http://www.internetworldstats.com/stats.htm>). Based on the data from China Internet Network Information Center (CNNIC), in China there were 457 million people by the end of 2010 who had access to internet and 36 % of them have already used an online shopping platform (Yang and Wang, 2013).

The 1st online transaction in China was made by Mr. Wang on March 6, 1998 when he decided to buy 10 hours internet access (Yang and Wang, 2013). The main role of internet so far was to provide information. Anyway, the idea to buy something on the internet was an interesting topic for Chinese consumers, who wanted at least to try the internet shopping platform. At that time the internet offered products like books, games and videos. It was hard to overcome that there is no personal connection between the vendors and buyers, something that people in China got used to. Consumers were trying to be well-informed about any vendors and the goods which they offer before to decide to buy anything. Meanwhile, internet shopping was announced all over the world as the newest and modern way of buying different stuff and received many positive reviews. However, the Chinese were mostly browsing, and those of them who were brave enough to take the step to become internet shoppers were called “the brave souls who dare to eat the crabs first” (Yang and Wang, 2013). The reasons were the unknown quality of the goods offered online, fluctuation in pricing, lack of security, policy etc. On the other hand, there were not a lot pure online sellers in China and most of them could not even survive to the next stage of the institutionalization of the marketplace. One of the problems was the cost of the internet access. Internet service providers were charging for the amount of data or the time browsing in internet- so, the most time you spend looking for the best or low price product, the more you will pay for using this internet access. The whole conception was unprofitable. Another impediment was the underdeveloped bank system. Online banking existed mostly for business clients, while the private customers were charged cash immediately after the delivery of the online product (Yang and Wang, 2013).

Crucial role was played by the Chinese government. Based on the growing use and importance of the internet in people’s life in advanced economies and its reflection on Chinese population, in 1998 the government of China established a new Ministry- the Ministry of information industry. The main task for this Ministry was to reduce the costs of the internet service providers and to make the whole process of online shopping easier and transparent. Very helpful for this cause was the role of the mass media as well. It provided more information about online shopping, spreading for every novelty and giving many positive reviews (most of them based on the worldwide use of internet), (Yang and Wang, 2013).

5.1.2 Incubating stage (2001-2003)

After this “curious” stage of online shopping, a hush followed. Chinese media was less focused on “promoting” online shopping and more into the outside countries news. Probably, this was affected by waning of the internet shopping in US. Interestingly was the fact that even on Christmas holidays, when people are fully open to shop, US online consumers were less as number compared to previous years. Losing interest, or trust, or may be because online shopping was not something new anymore, but decreasing number of shoppers was the reason many vendors went out of this business (Yang and Wang, 2013). Other factors for the “incubating stage” were the increasing cases of deceptions, internet criminals and impossibility of consumers to complain and to be protected. This was the time when Chinese shoppers stopped following the new trend and started to be more responsible for every online order and more benefit-oriented. There appeared in this stage a new phenomenon called “tuan gou” (meaning “quantity purchases by groups”) (Yang and Wang, p.101, 2013). Online consumers with interest buying one specific good merged in one group and negotiated with the online seller for the best price. This was how Chinese citizens started using the internet as a communication system and gaining more benefits.

In 2001, one of the biggest Chinese online platforms called 8848.com went bankrupt. All the buyers who made an order just before its ending couldn’t get the purchased good or their money back. At the same time, the sellers were less motivated and more afraid to try other platforms. They were trying to recover their losses. Meanwhile, the government was warning this retailer not to be used for any other orders any more. Only the very small online retailers were on the way to survive (Yang and Wang, 2013).

In March 2001 was established the Internet Society of China (ISC). A year later, ISC declared the self-discipline mechanism named “Self- Discipline Treaty of Internet Industry in China”. In 2003 a list was published with all topics classified by ISC as Spam.

However, once the internet entered people’s daily life, it changed it forever and there was no going back. The banks were still trying to work with the electronic-tailers and to find the best conditions for both parties. In the virtual space there were two types of consumers- 1st of them was represented by the “brave” buyer who believed in everything which was written, ignoring the fact of criminal existence, until the moment they didn’t become their victim. In the other group they were more cautious and suspicious. Mostly they were joining this “tuan gou” groups and trying to collect more information about the sellers. Suppliers who were already tested (by friends, family, or recommended by someone) gained higher trust and of course were more preferable by consumers (Yang and Wang, 2013).

This period was mostly cognitive. The buyer were trying to act as more benefit- oriented, suppliers were trying to be more transparent and to provide more information and that

how to gain consumers' trust. Both parties wanted to establish better relationships avoiding the deception and the electronic criminals (Yang and Wang, 2013).

5.1.3 Empowering stage (2003-2006)

This period started with the dissemination of one disease- Severe Acute Respiratory Syndrome (SARS), April 2003. In order to not get infected, people were trying to escape any public meetings and places. This was why number of internet users was strongly increasing. Only to compare- in July 2003 internet buyers were more than 7%, while in the previous stage they were not more than 2%, based on the statistic from CNNIN (www.cnnin.com.cn).

Another very important event was the creation of the internet platform taobao.com in May 2003. Just because that was not an international company which just entered the Chinese e-market, using the same strategy like in every other country, but domestic product understanding the specific needs of Chinese netizens, what was no wondering why this company became so successful that in 2009 owned 2/3 of all online transactions in China (Yang and Wang, 2013).

Meanwhile, the power of internet was increasing. People understood that any information shared on the internet was spreading faster and reached more users. That was the other mass media. Soon, a lot of bloggers appeared on the e-market (posting their thoughts, opinions and ideas). Unfortunately, the logistics were still not developed enough. Until now all the deliveries were made mostly by vendors themselves or by the Chinese post system. With the increasing online orders, the suppliers realized that they cannot handle all the deliveries. There were many negative reviews about the logistic system at that time. That was why Chinese government opened its e-market to foreign logistic companies (Yang and Wang, 2013).

Also, consumers started to expect more variety from the online market. The big online stores (ex. dangdang.com) gave a part of their online space to smaller stores- in this case they offered different goods and the same time they gained money from the rent- that was an equivalent of the shopping malls in an online version (Yang and Wang, 2013).

With this online progress, both parties- consumers and sellers needed better online transaction systems- safer and protected. The big online stores had more power now to negotiate with banks for better conditions. The parental company of taobao.com – alipay.com- created the dominant payment system. This system made online shopping not just more popular but with less deceptions and victims and provided more information and safer transactions (Yang and Wang, 2013).

However, at that stage the big online retailers were fighting for more online shares like most of them tried to reduce the costs (in exchange of their profits), which lead to

bankruptcy for some of them. In 2003 taobao.com announced that they will not charge for their platform for a period of 3 years, many other platforms also followed this example in order to stay on the e-market (Yang and Wang, 2013).

Every consumer wanted to find the needed good at the preferable price, especially now there are more options, which lead to more time spent searching online. At the same time the third party platforms were trying to stimulate the small stores and meanwhile they had to increase the search cost or to cut the time for search for consumers. So, again both parties (buyers and suppliers) had to collaborate and to find the optimal conditions for functional search engines (Yang and Wang, 2013).

The Internet Society of China (ISC) was still controlling the e-market with its self-discipline- it also announced the domain net.china.cn for inappropriate and illegal. After the settling of the disease SARS people started going out their homes, but now most of them had an experience with online shopping. That stimulated more small retailers and logistic companies to enter the electronic marketplace, although the problem with proper online transaction still existed. The suppliers and the bank couldn't negotiate about the profit shares. New enterprisers took advantage of the situation and created a new form of payment based on nonfinancial institutions (Yang and Wang, 2013).

If we have to sum up this stage- we could say that after SARS nothing was the same- increasing use of online browsing, shopping, transactions and internet becoming part of the day life, although that was going hand to hand with more internet crimes and victims.

5.1.4 Growth stage (2007-2010)

In this period Chinese government played an important role. In the middle of 2007, China made its 1st plan for e-commerce, which also proved how important internet trade was. One year later the global financial crisis began, which partly overturned the idea of online trade, but not in China. However, the number of online users was still increasing, unfortunately directly proportional to the number of internet crimes. A lot of swindlers took advantage of this situation- the e-market was flooded with fake goods, unknown quality, hackers, non-existing transactions, spam etc. The websites were not so secured and easily could be cracked. Receiving more information how to defend themselves from any deceptions, Chinese netizens started taking actions against the e-criminals, mostly using the online mass media. In spite of this, the statistics showed that online shopping became the preferred mode of shopping for the Chinese population because of lower prices and less efforts. In fact, the financial crisis played a huge role in this - people believed they should stay at work longer and work more over hours, they did not have the usual free time for shopping, that's why using the internet anytime, anywhere became the first choice for many Chinese people. This situation showed how vital adequate legislation was. In order to take control of the situation, the government initiated some regulations:

-Ministry of Commerce: “Some Guidelines on Promoting the Healthy Development of Online Shopping.”

-The National Business Administration Bureau: “Temporary Rules on Internet Business Transactions and Services”

-The People’s Bank of China: “Rules on Payment Services by Non-Financial Institutions” (Yang and Wang, p.9, 2013).

The new legislation started taking actions and made online shopping safer for online users, protected the transactions and made sanctions for the crimes. Actually, the statistic shows that in this period of time, some Chinese companies like Tencent, Alibaba and Baidu became the largest internet companies in the world (Yang and Wang, 2013).

5.2 Statistic of internet users in China

China Internet Network Information Center (CNNIC) was established in 1997 as a service and administration organization which provides more information about the internet infrastructure in China, its development, public interest and net users. This is all happening with statistical reports published every 6 months- they contain detailed information about the internet resources (domain, websites, IP addresses, etc.), internet development in enterprises, structure of internet users, the role of the government and network security. This is all needed to understand the current situation in the country and the progress of the domestic internet industry, which has been an interest in a lot of countries in the world (including United States).

In order to see how the situation is changing during the years, in this paper we will compare the last published report from January 2017 (which contains information about year 2016) and the report from January 2011 (based on year 2010) (<http://cnnic.com.cn/IDR/ReportDownloads/>). We will start with some basic information described below in Table 1. As we can see the total number of internet users in China drastic increase- from 475 million in the end of 2010 to 731 million in 2016 i.e. 256 million users more for 6 years. The total amount of domain names in 2010 was 8.66 million, where around half of them ended with “.CN”. In 2016 the local domains were almost the same percentage of the total number, only that total number of domain names has been increased 4.9 times. In 2010 the amount of websites in China under “.CN” was 59% of the total number of all websites at that time (1.91 million), and 6 years later this number has been decreased to 53.7%. Until the end of 2016 only 1% of the total number of companies in China didn’t use internet. This is how important the internet became, not only for daily lifes needs, but mostly for doing business.

	Statistical Report on Internet Development in China January, 2011	Statistical Report on Internet Development in China January, 2017
Total number of net citizen in China	475 million	731 million
Number of mobile net users	303 million	695 million
Number of rural net citizens	125 million	201 million
Total number of domain names -Domain ended with .CN	8,66 million 4,35 million	42,28 million 20,61 million
Total number of websites -Websites under .CN	1,91 million 1,13 million	4,82 million 2,59 million
Weekly average online duration of net citizens	18,3 hours	26,4 hours

Table 2. Basic comparison between the statistical reports from Jan.2011 and Jan.2017.

(Source: CNNIN; Comparison made by the author)

According to the data, by the end of 2016 the number of Chinese citizens without any access to internet was 642 million. There were different reasons for this: more than half of them didn't have a computer or any computer knowledge; 24.2% didn't have a good command of Chinese alphabet or pinyin (*"The standard system of romanized spelling for transliterating Chinese"*- Oxford dictionary), almost 18% didn't have any time for internet surfing and the rest were too young/ old or didn't have any interest. Only to small part of the non-internet users the internet access hasn't been provided yet (Statistical Report, January 2017).

In 2010 there were 10% more male internet users than the female. Six years later they started becoming equal. Actually the male –female ratio in 2016 resembled the sex ratio of the Chinese population at that time (Figure 2).

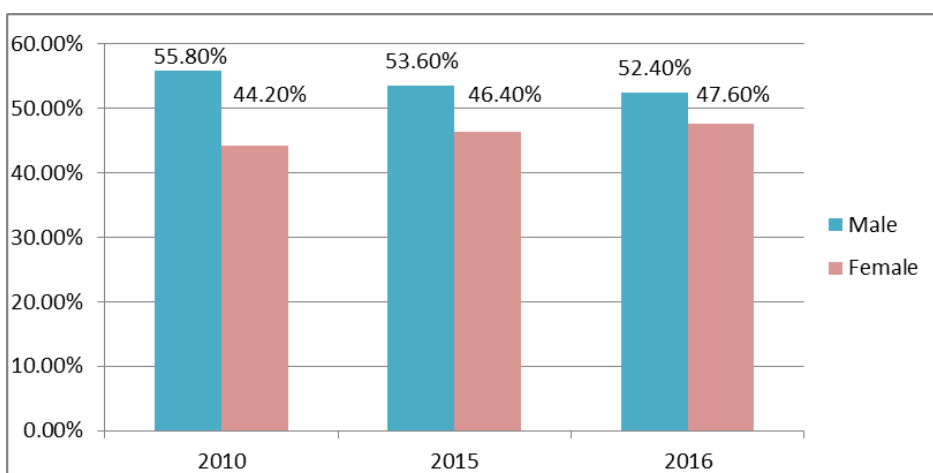


Figure 2. Gender structure of internet users in China in 2010, 2015 and 2016.

(Source: CNNIN; Comparison made by the author)

The majority of net citizens are between 20-29 years old. Interestingly, by the end of 2010 the difference between the mentioned majority and the users between 10-19 years old was only 2.5%. The report from January 2017 showed that this difference is getting higher- 10.1%. We have to keep in mind, although young people are getting into new technologies really quickly, they are still under age. In 2016 the focus was on users 20-29 years old, followed by aged 30-39 and on third place- aged 10-19 (with difference of only 3% from previous group age).

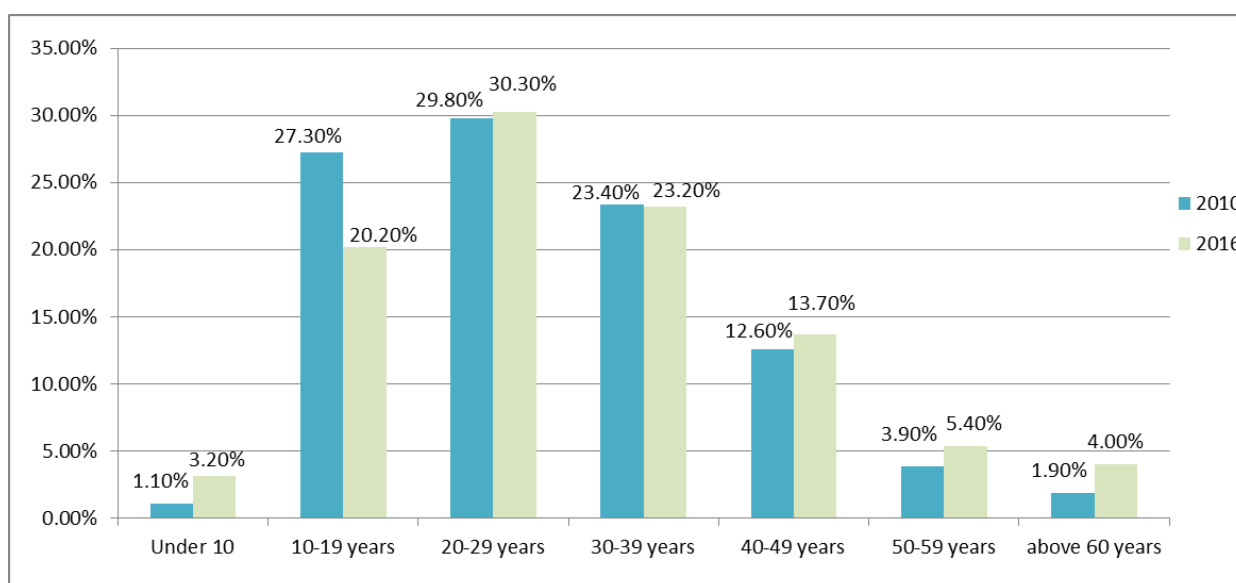


Figure 3. Age structure of Chinese internet users
(Source: CNNIN; Comparison made by the author)

The amount of net citizens with junior middle school background was increasing during the years. From the last data the percentage reached 37.3%. Internet users with senior middle school background decreased for the first time in 2010 (only to compare: in 2009 they were 40.2% and year later- 35.7%). It was keep on decreasing during the years after and in 2016 fell to 26.2%. There is a drastic change of the number of poorly educated netizens (only with primary school background or below) – it almost multiplied twice (Figure 4).

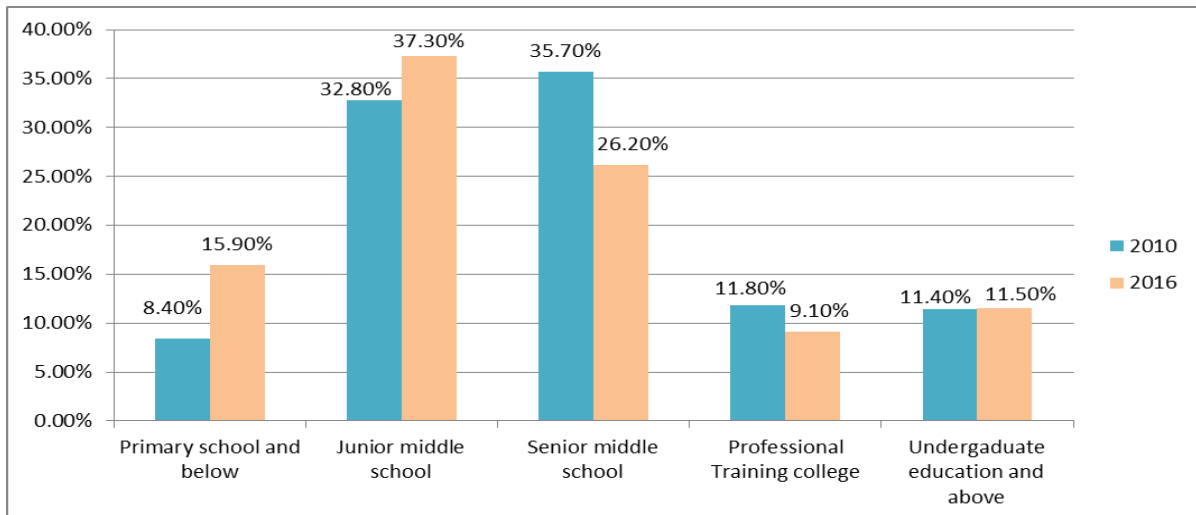


Figure 4. Education structure of Chinese internet users
(Source: CNNIN; Comparison made by the author)

In 2016 there was a 3.9 billion internet users all over the world. China with its huge population provided the biggest amount of users- almost equal to the sum of netizens of the next two countries in the statistic: India (2nd place, 462 million) and US (3rd place, almost 290 million). This is of course a reason why the Chinese internet market was and still is very attractive to more internet companies (domestic and international). Getting more into details about the structure and the size of net users (like we discussed above – their age, education, sex etc.) and understanding their needs helps internet enterprises oriented to Chinese e-market to provide better and more successful strategy.

5.3 More facts about the Internet in China

Statistic showed there were more than 105 million Chinese I-net users in 2006, but only half of them had a wide, international access (although, compared to 2003, that was an increase of 41%). In fact, that was only the very beginning of internet deployment on Chinese land- reaching around 8% of the citizens. Among that percentage, there were more than 80% internet users under 24 years old. Until 2010, the number of Chinese consumers reached 250 million and the number of mobile telephones- 350 million (growing with more 57 million per year) (K. Wickre, 2006).

A study by Chinese Academy of Social Science's researchers described some very interesting and may be unexpected discovery about the vision of Internet users in China:

- Most of the users thought the internet was shifting politics in the country. They believed it could also expand political transparency and increase discussions. 63% of Chinese people were of the opinion that they could learn more about the political situation in the country by going online. 54% of internet consumers in

China believed thanks to internet they had more options to criticize the government, and 45%- that internet was a place to express their political point of view.

- A large part of Chinese citizens thought that internet information containing pornography or any kind of violence should be well controlled. Interesting is the fact that only 7.6% supported the control of internet information with political content.
- By a 10:1 margin, internet consumers in China believed that internet could make the planet a better place and not the opposite.
(K. Wickre, 2006).

According to those results, CASS internet research added at the end that the political impact of the internet content in China was more serious than in any other country. Moreover, this impact influenced in citizens- government relationship, as well as in the relationship between groups of people sharing the same political views. Therefore, when popularity of internet increased in China, then impact on politics would become more powerful (K. Wickre, 2006).

6 GREAT FIREWALL OF CHINA

We can use Google for research anytime and anywhere, to connect with friends through Facebook all over the world, to use YouTube for music and video clips, to check Gmail whenever we need it. Imagine that all access we have now is suddenly restricted or completely unreachable.

The mentioned scenario above describes exactly the situation in China- whether you are Chinese or you just visit the country- all users are threatened under equal conditions i.e. controlled internet content access. The NBA player J.R. Smith, after a visit to China, shared on his Twitter account: *“Dear china, the fact that u won’t let me work my Skype on my desktop or twitter is really pissing me off data was 400 an I been here 3 days”* (Twitter account, JR Smith (2011)).

Another dissatisfied consumer was the Software developer Tony Hunt, who wrote: *“That was really the most frustrating thing as I never knew whether the connection had just dropped or if the site was being censored...I work quite frequently with a number of people in China and I’m always conscious that there is certain material I’d like to share with them which they won’t be able to access. I’m not talking about anything politically or culturally subversive, I’m talking about simple resources which software developers work with on a daily basis as part of their job”* (Hunt, 2012).

Mentioned above is caused by the so called Great Firewall of China (GFW or GFC) - one of the most important and complex censorship systems not only in China but in the world. The GFW's policy is to remove unhealthy information and for its authors to be penalized. However, that is possible only for information hosted inside China. For information coming outside China, the Chinese government could only use filters to block it. Traditional censorship methods are quite inefficient when it comes to censorship at international gateway of the internet. That is why Great Firewall is considered as innovative and also very necessary for the stability of Chinese country.

At the same time, the outside world is critical towards such censorship systems - it does not go hand in hand with economic development and open trade system. It cannot restrict certain internet links and websites, because it can block also the business traffic. However, the Great Firewall is a government system used to attack harmful information impeding legitimate websites and internet communication process. We can say that this system is pretty successful in minimizing the websites that the government considers threatening although sometimes it affects more victims than evil-minded actors. Of course, for some sharp professionals, the Great Firewall with some effort can be broken. This juggling between internet control and its avoidance has brought much damage. As discussed, the victims were not only Chinese net-users, but also users from other nations, nothing to do with China. GFC affected not only the freedom of speech and information, but also the international economy. Moreover, filtering the information from Google, limiting the access of Facebook and Twitter, can only bring benefits to their Chinese competitors (D. Anderson, 2012).

6.1 Internet censorship and regulations

In 1994 the 1st internet connection in China was made with a global computer network. At that time China obtained CN as its level domain name. Like many other nations, China's first efforts to create proper internet network were based on scholarly information. China started realizing how important the use of computer technology and the global connections are. Since this moment, internet development in China started to register high progress, so by the end of 2008 Chinese users became the largest I-net users in the world. They displaced Americans- the previous largest number of users. However, Chinese progress was going hand- in- hand with government's restrictions and control, which enforced a political move – implementation of an official internet censorship Great Firewall. GFW controls the social use of internet, legal domains and rules the internet infrastructure (Liang and Lu, 2010).

The President of Beijing University of Posts and Telecommunications, Binxing Fang, is considered to be the main creator of the GFW. In government-controlled news he was proclaimed for the “father of the Great Firewall”, a title which he took with pride. Indeed, many institutions like universities and IT enterprises have helped for the building and

maintenance of GFW. Many IT experts and professors accept this control system as long as it can produce money and benefits for the country (D. Anderson, 2012).

The most common method used by the Great Firewall is limitation of access of internet information. Only agencies which are approved by the state have the permission to create Internet Interconnecting Networks (In Chinese “*gugan wanglu*”). The structure from establishing an I-net Network to providing internet access to every Chinese user is pretty simple. On the top are mentioned internet agencies. The created networks go through some global gateways situated in the big cities like Shanghai, Beijing and Guangzhou, where they have been checked for undesirable content. Then, the private internet providers who supply an I-net access should be first authorized by one of the internet Interconnecting Networks. Of course, those purveyors need to install block- filters and to control the incoming information. The last level of the structure is the simple internet user. He/She has to be registered with some of the internet service suppliers in order to get an internet access.

The internet control system should be frequently updated. For instance, “Golden Shield” is one of the “Three Golden Projects”, part of the Great Firewall. Its main job is to force a censorship to domestic and global internet Information. Moreover, it was created an Internet Police Force to help with internet websites’ inspection. The forbidden I-net content is categorized in nine different groups:

- Information contradicted to the main Chinese Constitutional principles and laws;
 - Rebellious information against the government, the state and the system of socialism;
 - Destabilization the state power and authority;
 - Inducement to racial discrimination and ethic inequality;
 - Rumors destroying the social order;
 - Spreading information about gambling, violence, pornography or terror;
 - Public humiliation or the disgrace of others;
 - Information damaging the state’s reputation or interests;
 - Content forbidden by administrative norms or laws
- (Liang and Lu, 2010).

Unfortunately, the usefulness of Chinese control system is unclear. Some describe it as questionable, while others see it as very effective. Anyway, like almost everything else in the world, there are ways to outsmart the internet filters- by using proxy servers, research’s manipulation, private emails, etc. At the same time, the internet blocks cannot be considered as very steady, because during the time some of them disappear, others appear and the content varies. Another problem is the lack of clear and result-oriented decision-making process. On the other side, the non-focused censorship is also a

difficulty- it ranges a large variety of subjects (not only political issues, but economics and crimes as well). However, results after empirical analysis show that Chinese filtering system turns out are more dynamic and self-improving over time (Liang and Lu, 2010).

6.1.1 Self-censorship

To tighten the control of the internet content at an infrastructural level, the government in China forces the businesses and individuals to apply its censorship system to their internet commercial and social usage. In fact, the only possible choice for companies' owners was to agree with the state control system given the limited options, government's pressure and the possible tough consequences. After 2000, self-regulation became an important factor even for non-state sector. In March 2002 in Beijing, the Internet Society of China (ISC) presented its organization for "Public pledge on self-discipline for the China internet industry". It can be easily seen from the name – this is a system for self-control. For more security and to not attract any problems with the government, many companies choose to use even more strict censorship system (Liang and Lu, 2010).

The restrictive mechanism should be applied not only from domestic, but also from foreign enterprises, when they build their own I-net infrastructure. American companies such as Yahoo!, Skype, Google and Microsoft Corporation made their Chinese version of the websites and filtered the internet content according to state's censorship system. It is forbidden in China for foreign business investors to own or manage telecommunication service. In 2001, China entered in WTO (World Trade Organization). However, even then the state still had the control over the telecommunication industry. The foreign ownership was limited- the non-Chinese companies had the possibility to own until 50% of value-added services and maximum 49% for mobile phone and domestic and global services (Liang and Lu, 2010).

6.1.2 Multidimensional regulations

China's internet political system became very extensive over time. The legislation of internet use led to many changes in regulating organizations. Tan (1999) determined three main eras: before 1994, so called experimental period was distinguished as "fragmented structure without a single authority" (Tan, 1999; Liang and Lu, 2010). The second one is the era of transition, 1994-1998. It was founded the Steering Committee of National Information Infrastructure to collaborate with other state organizations. And the last one is from 1998 onward. In 1998, two Ministries- those of Electronic Industry and of Post and Telecommunication unified in one- the Ministry of Information Industry (MII). The new created Ministry became the main controller of the telecommunication industry in China. However, there were many other institutions (like the Ministry of Public Security, Ministry of Culture, and State Council etc.) which also had the power to regulate and control the internet use. The involvement of too many agencies made the process of censorship and internet control more confusing, inefficient and uncertain.

At the same time, the regulations and laws made changes in the construction of the infrastructure, the security of the providing I-net network, I-net level domain names, management of online business actions and the I-net reports and publications. For instance, in 1996 regulation was put in place that ensured all domestic computer systems should go through the internet Interconnecting Network; in 2000, any chats, discussions or emails, containing information about governmental secrets were forbidden; almost at that time, the control over the internet news and publications got tight. Moreover, it was not allowed for the internet websites in China to quote any foreign news unless they had state's approval first. All publications were going through strict inspection (Liang and Lu, 2010).

There was fogginess and lack of distinctness about China's legislation. For example the term "state secret" was not well defined. In that case, the government had more possibilities to take advantage and to manipulate. Additionally, the unspecific range was the reason why many I-net users and business owners preferred to apply strict online control instead of having problems with the state. On other hand, some of the regulations and laws overlapped. That created some confusions and affected on the successive decision making process (Liang and Lu, 2010).

6.1.3 Censorship technologies

After building and improving more than a decade, GFC has been placed near the gateways of their domestic ISPs. Thanks to the Deep Packet Inspection (DPI) technology, Great Firewall taps the incoming international internet traffic in order to catch any forbidden keywords passing those gateways. There are three main technologies controlling the "unhealthy" information: IP blocking, TCP RST (Reset) and Domain Name System (DNS) (D. Anderson, 2012).

6.1.3.1 IP Address Blocking

Great Firewall is based on null routing to control i.e. restrict given IP address by limiting the address of destination. GFC inserts specific routing information in Border Gateway Protocol and deviates unwanted traffic to restricted websites- just like twitter.com. Null routing can limit the outgoing information traffic from China and allow the incoming one. Therefore, one website can be easily blocked, because it needs two-way interaction.

This is one of the easy constructed censorship systems- the state prepares a blacklist of forbidden keywords, then null routing provides only a load to ISPs' gateway routers, and all this- without any extra devices. In fact, this pretty simple system can be overreached effortlessly- by installing a proxy out of China or by removing the website to another IP Address. Theoretically, if a certain website saves its domain name as it is and changes only its IP Address, then the netizens can still access it (despite of the IP Address) (D. Anderson, 2012).

6.1.3.2 DNS Injection

First thing to do in surfing in internet is to ask DNS for the needed domain name's IP Address (For instance: www.facebook.com). By DNS injection Great Firewall tries to confuse the DNS resolution. The Deep Packet Inspection mechanisms are established near all nationwide gateways. Thanks to this system, GFW can trace every DNS inquire coming from any DNS resolver or ending in any computer in China. If GFC detects any undesirable ask/ inquiry, as the mentioned above website www.facebook.com, then it will insert invalid DNS reply with non-existing IP Address. Generally, the fake DNS answer comes first than the legal one. In this case the DNS server will get the 1st arrived and this one will be provided to the final user. The DNS server inside China can't differentiate the fake from the legitimate replies, because Great Firewall tricks the IP Addresses of the legal DNS servers located outside the country. The GFW manipulates domain name traffic at a few ISP's gates, so the Chinese government won't need to do so much unnecessary work to interfere all DNS- resolving servers gave out at the edges of ISPs. In China, almost every domain name resolver is polluted (D. Anderson, 2012).

6.1.3.3 TCP Reset

As discussed, GFW surveys all the traffic and beats back the unwanted communication if forbidden keywords are detected. To end such TCP connection, Great Firewall inserts many TCP RST packets with fictional source address, number of the port and sequence, and without to suppress the real request or the legitimate answer. Thanks to TCP Reset, GFW can easily stop any TCP connection containing bad keywords- mostly, this is happening without the knowledge of the demanded address, nor of the original domain name.

GFW cannot read any keywords with the encrypted HTTPS' traffic, but it can lightly terminate the encrypted link by injection of TCP Reset and block this website's service. According to the government of China this instability is due to the websites' bad service, of course the netizens don't believe that. However, thanks to this poor service many users gave up from services supported outside China and turn to domestic ones (Ex: Baidu instead of Google) (D. Anderson, 2012).

6.2 Collateral damages

The mentioned above censorship technologies - DNS Injection, IP blocking and TCP Reset- also bring some collateral damages.

One of the most efficient blocking methods is TCP RST- it eliminates any connection containing a keyword from the blacklist. For instance, in 2010 in Hong Kong the search engine of Google was blocked because part of its search range was the string "rfa". In

China “rfa” is the abbreviation for “Radio Free Asia”. Sensitive words also include party leaders like Hu, Wen, Xi, etc., this is why some innocent Chinese terms as *Hu Luo Bo* (carrot), *Xue Xi* (study) and *Wen Du Ji* (thermometer) are blocked as well (D. Anderson, 2012).

As we see, IP blocking creates some collateral damages due to the fact that many websites can be hosted on one IP Address. On other hand, the banned websites can also cause damage. For instance, the website www.falundafa.org has been blocked, but GFW also blocked the Address www.mit.edu because both sites reach to the same IP Address. Open Course Ware of MIT was banned for the same reason. This caused such a major protest that GFW rescinded the block.

However, GFW’s collateral damage is not restricted only to China’s territory. For example, if a user living in USA tries to access a website outside China, he will be also censored. The reasons for this are Border Gateway Protocol routing in ISPs and the repetition of DNS resolutions (D. Anderson, 2012).

Great Firewall hijacks the internet traffic to banned websites by reporting the routing networks (called also prefixes) to Chinese ISPs through BGP. This is exactly the same method that was used in Pakistan in 2007 to block the access of YouTube.com, which leaded to international blockage of YouTube’s website. However, if the internet service provider in China re-announces this prefixes to some neighbor’s access provider, located outside China and this neighbor takes the Chinese network, then the neighbor’s internet service provider has the possibility to redirect the internet traffic intended to the blacklisted websites to Great Firewall. According to some papers, in 2010 the ISPs in China hijacked most of the internet traffic – on purpose or not – but showing that GFW has the power to censor some of the access by USA users (D. Anderson, 2012).

The censorship via Domain Name System also caused collateral damage- the source and direction of an access point located outside China can be blocked due to DNS injection. Three main factors lead to this:

1. Some of the internet providers in China are used as transit system as well which can supply connections for other internet access providers and transfer traffic through them (Ex: ISPs in Europe and East Asia).
2. China is a host for few root servers. The providers which host the mirrors of root servers notify their networks (prefixes) to neighbor internet access providers, so the Domain Name System’s resolvers in those ISPs can manage their DNS questions to the Chinese root servers.
3. One DNS inquiry consists series of repetitive sub queries. Whereas any of the sub queries go among one internet provider in China, Great Firewall can import a fake reply and ban or edit this access (D. Anderson, 2012).

For instance, if a user in India wants to open the website www.forbidden.de, where *forbidden* is a banned keyword by Great Firewall, then the DNS of the user will send out many inquiries (“.”) to the root server, (“.de”) to the Top Level Domain server, and (“forbidden.de”) to the authoritative name server, with full domain name (“www.forbidden.de”) (D. Anderson, 2012). In fact, if the ISP of the given user chooses one of the Chinese root servers or follow the query to the TLD server or to the authoritative name server throughout China, then the GFC will block this access.

One DNS operator in Chile was the 1st one who detected the origin of DNS server pollution. Later on, the consequences of this pollution affecting many countries were investigated by scientists of Renesys Corporation. They concluded that the collateral damage must vanish after Netnod retreated anycast routes for the internet root name server in China from CNNIN. However, the collateral damage still exists. It has been measured that in 173 countries (excluding China) there were more than 43 000 open domain name resolvers and 26% of them were polluted. Generally, the damage appears from the banned transit route to the Top Level Domain Servers instead of rooting DNS servers (D. Anderson, 2012).

6.3 Control over the internet

The main goal of China was to reduce the influence of the global internet and to create its own giant domestic internet system in order to provide state security. In addition, the single access to internet information was considered as potential destroyer of the state stability, that's why the internet issue was taken very seriously with no tolerance. The already existing agency got some new functions and meanwhile new agencies were created, all this to keep the internet control (Li, 2015).

6.3.1 Cyber Police

Important role for the internet safety played Intelligence Agency (part of the State Security Agency). However, the State Security Agencies were just a piece of all internet control agencies. Additionally, it established Cyber Police, which was the most powerful tool against the internet crime. The real internet control was a serious topic. The netizens were going online and surfing always with great care for fear that they could be caught and arrested by the police and put on the blacklist (Li, 2015).

At the beginning the control was quite weak due to inadequate Cyber Police actions and old, slow computer protection systems (mostly imported in the period 1980-1990s). Despite this, for the last two decades China's censorship policy has been changed drastically- the Cyber Police improved its skills, knowledge and authority, therefore much more websites, e-mails and correspondence can be observed and blocked and many

internet users can be penalized. At the same time, the state reconsidered its polity and became a bit more liberal, which reflected on the future regulations and laws (Li, 2015).

6.3.2 Blockade of the Information Network

The term ‘blockade’ was used to describe the situation when the outside world limited the access of a specific country to a certain level. However, when it comes to information network, the term ‘Chinese blockade’ was used in the opposite way- it represented the separation and isolation of China from the outside information network. There was an idea to be built an independent information network based only on the specific Chinese characteristics called “*Chinternet*” (Xingan Li, 2015). Of course that was hard and impossible mission, so China took another action– to control and/ or limit the incoming internet content. Blockade was a result not only of illegal information but also it might incur other consequences as financial penalty, internet access’ restrictions, even prison (Li, 2015).

In order to control internet activities, China had to control network content. In the late 1990s and early 2000s, Cyber Cafés were a popular trend, where mostly young internet consumers used and enjoyed the fast internet connection. The aggregation of so many I-net users in one place was the reason why Cyber Cafés were closely observed by police forces. One way to blockade undesirable internet information was to fold the given net Café. Such an action will bring huge costs to the owners- meaning losing their business. Therefore, there were many cases where the police were taking bribes from Café owners to avoid closing-down. To be easier for the internet police to investigate a certain case, business owners had to keep a list of their consumers containing their ID cards. Despite all actions, many Cyber Cafés were forced to quit the e-market. Later, for more security, the state implemented usage of specific personalized ID cards, which users had to buy and register online their names, ages and other personal information. In this way, the cyber police can easily follow the websites which specific user had visited. Of course, such an intensive control brought high costs for the state (Li, 2015).

However, due to the net police actions many proxy servers placed outside China were blocked. Meanwhile, different controlling and filtering methods were created like implementation of a list with forbidden keywords and content (described above) and self – control mechanism. For instance, to build a user account or even to post a message in Qiangguo Forum was almost impossible, especially when this comes from foreign computers (Qiangguo means Strong China Forum and it is the 1st online forum for politic theme created by Chinese Internet Media). What bothered Chinese polity was the usage of WWW (World Wide Web), BBS (Bulletin Board System), IMs (Instant Messages), SNSs (Social Network Services) and e-mails from political dissenters to proclaim their ideas and to recruit new followers. In order to deal with this kind of situations and to regulate the stream of incoming and outgoing internet information, Chinese government decided to work with giant international companies in online commerce. To be successful with such

cooperation, both sides had to imply a filtering system. Therefore, many enterprises who wanted to enter and to survive on the specific Chinese e-market had to modify their strategies according to the new requirements, otherwise they might be prohibited. The case with Google (which left Chinese market in 2010) was partly because it did not observe strictly the Chinese I-net rules (Li, 2015).

Some forums and BBSs had restricted access in Chinese market. Despite this, some Cyber Cafés keepers negotiated with the managers to provide free web e-mail service to their consumers. Owners charged this differently- lower was the price for using standard service (limited browsing) and higher –for unlimited surfing containing risk for the businessmen. The usage of adult websites was strictly observed; but absolutely controlled was any try of retrieve websites with political context – mainly threatening communist government and socialist methods. Cafés owners had to strike to provide an admission to such internet information (Li, 2015).

6.3.3 State stability

One of the biggest problems which Chinese artificial political system had to face with was the propaganda of “liberalist, anti-revolutionary and separatist ideas” spreading through internet networks (Li, 2015). Those revolutionary people were not only Chinese living in the country, but Chinese all over the world with national self-determination. Over the last four decades the mainland made big steps towards democracy and more freedom towards the outside world. Despite this, the country was still not completely open to the international market. Moreover, Chinese government played the role of a strong system which cannot be influenced by any dissent parties and all its decisions were not made under pressure (Li, 2015).

Chinese regulations were focused on the elimination of damaging information and keeping the useful parts. Outside China this situation was considered as disregarding human rights and opposite of what the internet was trying to do – worldwide information and connection of people. As discussed, internet crimes were mostly hacking, fraud, appropriation and spreading of viruses. However, thanks to its strong and tight policy, Chinese cyber police successfully investigated and solved cases not only in the domestic, but also on the international electronic marketplace (Li, 2015).

6.4 Internet development and democracy, and e-government

6.4.1 Internet development and democracy

There is a direct relation between development of internet and the democratization in China. The free and easy access to I-net information, the I-net development and the

creation of many cyber groups can be danger for Chinese polity. Despite this, the internet had become an instrument for state control.

An interesting fact is that over the years, most of Chinese netizens instead of getting more concerned with the political situation they were more into the gambling, news, celebrities' life or their own career's options. Internet users in China are mostly active when it comes to government's intervention in I-net regulation. This is in contrast with general Chinese citizens' behavior-they always feel committed with political life in the mainland (Liang and Lu, 2010).

6.4.2 E-government project

In 1999, it was started the Government Online Project. According to this project, all state departments should make their own websites and supply online service and management. The statistic shows, in 1997 there were 323 recorded governmental domain names (gov.cn) and seven years later – the number increased drastically to 13.963. Meanwhile, the number of governmental websites shot up to 12.332 in 2004 (Liang and Lu, 2010; Zheng, 2008). Thanks to this project, Chinese governmental politic succeeded to be more clear and transparent for the citizens, helped to Communist Party to strength the propaganda, to solve the urgent political problems and to obtain better supervision over the low level employees. Internet world opened new possibilities for Chinese polity. In June 2008, the President Hu Jintao made the first step with his online interview. That was a needed communication between online users and state leaders and put the beginning of “Internet politics” (Liang and Lu, 2010).

The E-government project also reflected on the Chinese legal system. For example, in 2009 the SPC (Supreme People's Court) issued its *Online of the 3rd five- year reform of the people's courts (2009-2013)* (Liang and Lu, 2010). In recent years (compared to the last decades), in order Chinese justice policy to be more transparent the justice organs started publishing online judicial judgments (<https://www.chinacourt.org/>). Published reports and statistics informed citizens about the ongoing procedures and changes. Thanks to the new technology, almost every intermediate court now has its own website where to post the judicial work and other documents. The data shows, until 2009 more than 50 intermediate courts and 160 basic courts had the practice to report online. At that time, the official website of SPC made the communication between the Chinese citizens and the courts easier by creating email boxes. In 2013, the SPC stimulate even the lower courts to be more open and to provide more information through internet. Moreover, some of Chinese courts even posted live trials (Liang and Lu, 2010; Liang and Hong, 2016).

6.5 Control and evolution of Cyber-crimes

There are no a lot of articles about cyber-crimes in China compared to the information about internet control and censorship. Basically, cyber-crimes are connected with the

utilization of computer information technology; if we ask the I-net users what cyber-crime is –the most common answer will be “online fraud”. In fact, there are two types of cyber-crimes: crimes attack directly computer and network system and crimes bound by the usage of computers and their networks (Liang and Lu, 2010).

According to the statistic provided by Yu (2007)⁴, in 1999 the number of investigated cyber-attacks in China were a bit more than 400; they became 2.700 a year later and in 2001- 4.500 crimes. Nowadays, the facts are shocking- the crimes registered by Chinese companies increased to 969% only for the period 2014-2016. Moreover, the global average number of cyber-attacks decreased by 3% for the same period of two years (and by 30% since 2015) while in China it is still growing.⁵

6.5.1 Laws and regulations

In China, the cyber-crimes are controlled by scope of laws. For example, the Ministry of Public Security had the authority to manage and guide computer information security systems and to inquire into criminal attacks, thanks to the decision taken by the State Council at the beginning of 1994 (Liang and Lu, 2010).

In 1997, the Criminal Law tried to form and rule the legislation on the criminal activities in articles 285-287. The content of article 285 is about the illegal access to computer information of state deals, public defense institution facilities, and innovative technology and science. Article 286 specified crimes, which can change, remove, add or impede the normal computer information system’s work by causing atypical operations, serious outcomes and spreading of viruses. The last article 287 stipulates cyber-attacks based on financial fraud, misappropriation, assumption of public funds, state secrets’ abuse and other governmental criminal activities (Liang and Lu, 2010).

Concerning the fast internet development and to keep its strict control, in 2000 Chinese Standing Committee of the National People’s Congress published the decree “Decision regarding the maintenance of I-net security” (Liang and Lu, 2010). This Decision classified cyber-attacks into six categories:

- Attacks destroying the security of the computer network’s operations;
- Internet attacks that copy or sophisticate information damaging the security of the nation or the social stability;
- Internet crimes that can throw the socialist market system and the governance of social system into disorder;

⁴ Yu, J. (2007). *Dangqian wangluo fanzui de fazhang qushi ji duice* [The current development of cyber crimes and its solution]; <http://china.findlaw.cn/xingfa/fanzui/jsjfz/jsjwlfz/7828.html>

⁵ Jiang, Sijia (2016): Chinese firms hit by huge increase in cyber attacks: survey. Retrieved 4.10.2017, from <https://www.reuters.com/article/us-china-cyber/chinese-firms-hit-by-huge-increase-in-cyber-attacks-survey-idUSKBN1301E5>

- Attacks invading personal rights and property, and legal entities;
- Cyber-crimes not enough major to be used the Criminal Law from 1997, but on other hand can be penalized under the “*Provisions on administrative punishment concerning the management of public security*” from 1986;
- Crimes not so significant to be punished by CL from 1997, neither from the Provisions from 1986.

CL97 and the Decision from 2000 are the two important laws regulated the internet security. Meanwhile there were issued many others administrative rules to master the increasing number of internet crimes (Liang and Lu, 2010).

6.5.2 Pornography and online gambling

As discussed, the Chinese authority is mostly focused on internet crimes like online fraud, supplying unlawful products, libel, rush of personal privacy, producing and spreading of different computer viruses, online pornography and gambling. Although internet frauds determine the biggest group of online crimes, many Chinese users pay more attention to gambling and pornography (Liang and Lu, 2010).

In 1996, Chinese authority for the first time took action against online pornography. Article 5 of the *Computer Information Network and Internet Security, Protection and Management Regulations* and Article 57 of the *Telecommunications Regulations of the People's Republic of China* prohibited the pornography on internet (Gomez, 2004). It is not easy to take strict anti- pornography steps due to the unclear definition of “pornography” and blurred range of censorship regulations. In 2001 in Hong-Kong an online rating system where lesbian and gay websites were categorized as “harmful media” was presented. The holder of the largest gay site was forced to mark his website as “harmful” and had to install software in order to filter the access of underage users (Gomez, 2004).

As discussed above, internet cafés (called “wangba”) play a huge role in Chinese netizens’ life. The first I-net café opened in 1996 and since then the number increases constantly. Based on the statistic, in 2002 the registered cafés reached the number of 64.000 and in 2004 the I-net consumers going to I-net cafés became 16 million. However, there were many more unregistered internet cafés (named “heiba”) – in 2003 they were estimated around 110.000. Generally, I-net cafés became very trendy among young generation users thanks to low cost service, loosed regulation, accommodation and updated resources. I-net café customers took advantages of the fact that they can stay anonymous and cannot be easily identified. They often gambled, searched for censored information or participated groups where gave a voice to their personal political opinion and criticism. Pornography and online games have paramount importance for the parents and state generally, that’s why they focused mutual efforts to stop distribution and access to such websites (Liang and Lu, 2010).

The law pressure on internet café holders was not so high, although many regulations existed like obligatory user registration, non-smoking atmosphere, record saving, prohibition of pornographic and gambling content, no entrance for underage people, and no internet café in 200 meters distance of school areas. The government had to tighten the control and to take more serious measures against the I-net café owners. In 2002 because of fire 24 people died in one internet café in Beijing. That was the breaking point. 3.300 cafés were shut down indefinitely and another 12.000 were locked until they bettered their safety conditions. Moreover, in 2003, 27.000 other non-registered cafés were closed. Since this year, the government wanted to set the chain store model and to press more serious control. In February 2007, it was published the *Circular concerning further strengthening the management of Internet cafés and online gambling* due to common voting of 14 Ministries and Commissions (Liang and Lu, 2010).

Constantly, the government in China put more efforts to improve the block and filter the internet system and to stop the dissemination of pornographic websites. For instance, in 2007 the Ministry of public security reported for 10 serious cyber-crimes that have been cracked for the period 2006-2007. Seven of those cases were about pornography, immorality and prostitution. Meanwhile, the CNNIN exposed and removed many other pornographic and vulgar websites' contents. Unfortunately, Google has been one of the targeted companies (Liang and Lu, 2010).

Online gambling was also widespread, but not such a common problem as pornography. The numbers of internet gambling cases fluctuated and there was a lack of exact data. However, based on the statistic from the *China Center for Lottery Studies*, in 2006 were invested more than 600 billion Yuan for gambling abroad China, while in 2008 the number decreased to 300 billion Yuan. At the beginning of 2009 one of the big gambling cases (the Shanghai case) was discovered. More than 20 suspects were arrested. Those criminals succeeded to construct one good, sophisticated scheme and to gain more than 6.6 billion Yuan only for one year (between 2006 and 2007). Anyway, most of the gambling actions were focused abroad in order to avoid Chinese governmental control and domestic punishment (Liang and Lu, 2010).

6.6 Users' perception of internet security

Comparison of 27th and 39th Survey report on internet development in China

Nowadays, with the fast development of the mobile internet, the internet security becomes an important and a complex factor. Although throughout 2016 I-net security system in China has been strong and stable, at the end of the year at the 12th National People's Congress of China was adopted *Cybersecurity Law of the People's Republic of*

China about developing cyber- and national security, protecting cyberspace sovereignty, personal rights and the interests of netizens, companies and other organizations.⁶

Based on the data from 39th Statistical Report on Internet Development in China, more than 30% of I-net users believe that China has a good and safe internet security environment. In addition, more than a half of the netizens rely on the internet security polity and its efficiency. Only 20% have a doubt that the cyber police and internet regulations can really protect them (figure 5).

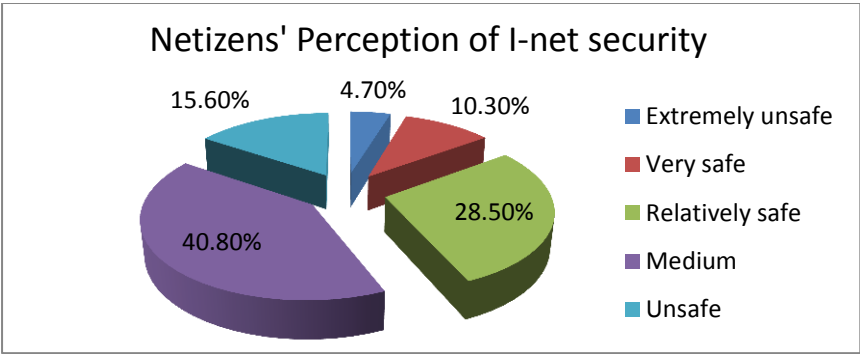


Figure 5. Netizens' perception of internet security
(Source: Statistical survey on internet development in China, 39th Statistical Report)

Despite all the governmental efforts to fight with cyber-crimes and all laws and regulations, in 2016 more than 70% of the net users became at least once an I-net victim. The most frequent crimes were fraud incidents- more than 75% of them were bonus-winning information fraud. The second most widespread online fraud was pretending to be a friend and based on trust to cheat through social network software.

In 2009, I-net users who have been attacked by Trojan or any other virus reached 56.6%. A year later, the number decreased to 45.8%, which makes difference of 8 million people. In 2016, the number of I-net devices affected by viruses was reduced to 36.2%.

Meanwhile, in 2009 number of people which account has been stolen reached 31.5%. In 2010 this number was 21.8% - 20 million people lower. Instead of decrease, in 2016, the number of stolen codes and accounts reached 33.8% - which is even more than the same in 2009 (figure 6).

Since 2009, many damaging websites were deleted thanks to *Work plan on special action to further control obscene and pornographic information in mobile phone* applied by MIIT (Ministry of Industry and Information Technology)⁷. Due to governmental polity

⁶ 39th Statistical Report
<https://cnnic.com.cn/IDR/ReportDownloads/201706/P020170608523740585924.pdf>

⁷ 27th Statistical Report
<https://cnnic.com.cn/IDR/ReportDownloads/201209/P020120904420388544497.pdf>

and the special actions taken by CNNIC to manage registration of the domain names, until the end of 2010 the verification rate of CN domain names extended to 97.2% and the real-name rate of CN domains- 100%. The reports about bad-content applications under CN domains were slowly minimized (27th Statistical Report).

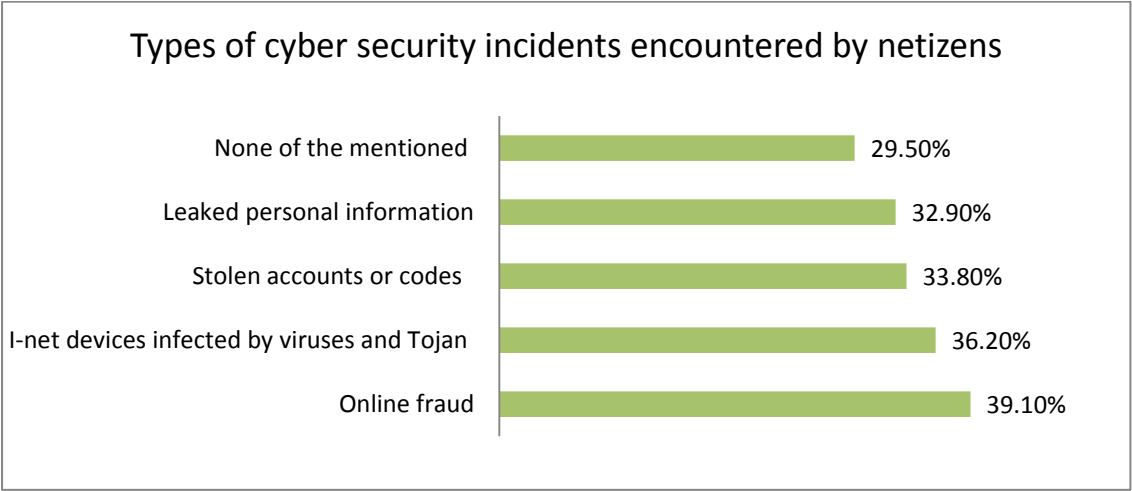


Figure 6. Types of cyber security incidents encountered by netizens
(Source: Statistical survey on internet development in China, 39th Statistical Report)

6.7 Fight against Great Firewall

GFW is very effective in banning most of the netizens from access to undesirable information, especially political. It cannot be said what the exact number of blocked websites is, but the internet users in China know that some of the very popular worldwide websites are completely or partly inaccessible to them (Ex: Facebook, YouTube, Google, etc.) (D. Anderson, 2012).

Chinese netizens are dissatisfied with governmental censorship because they believe the Internet is the only information tool by which they can get an access to unfiltered data and give voice to their viewpoint. To show their anger, Chinese assaulted so called “father of the Great Firewall” by throwing shoes and eggs at him at Wuhan University and disfiguring his website by uploading “Angry shoes” images (D. Anderson, 2012).

The only way to avoid the censorship system is to find any proxy nodes where the internet traffic is being encrypted. This is the mostly using mechanism, because just implementing one simple proxy does not always guarantee a successful overcome of the censorship system. There are few main ways to bypass the Great Firewall:

- **FreeGate, Psiphon and Ultrasurf**

They are free and easy to work with even for nontechnical users. This is the reason why they are the most preferred mechanisms in China. They rely on set of proxy servers situated out of China and encrypt to the servers the HTTP internet traffic in Secure Sockets Layer tunnels. However, the government can examine this software (although it is not an open source) by inverse engineering and to ban those proxy servers.

- **Tor**

Tor was very famous and widely used once in China. The advantages of this tool were a large amount of proxies and the complex encrypted protocols. The biggest weakness was the centralized directory server used by netizens to acquire the register of proxy nodes. Tor lost most of its Chinese users when in 2008 Great Firewall banned Tor's IP Address.

- **SSH and VPN**

The main concept of operation here is the same as with other two mentioned tools. Despite this, the Secure Shell and Virtual Private Network are the most secure and powerful tools for overcoming all observation technologies. The basic difference is that only technical specialists could set up SSH' and VPN's hosts or accounts, because SSH and VPN rely on external account (out of China) or a private host, instead of open and free networks as above. Moreover, the IP Addresses of public VPNs are all blocked (For instance: vpn.net, vpn.com, vpn.info, vpn.co, etc.)

Many ways have been invented; unfortunately there is no ideal solution for all internet users. However, those circumvention tools are the first step to drive a hole in Great Firewall system (D. Anderson, 2012).

7 AMERICAN INTERNET TECHNOLOGY COMPANIES IN CHINESE ELECTRONIC MARKETPLACE. CASE STUDIES

7.1 Case study: Google

China was trying to find the golden mean between economic efficiency and openness. The architect of China's economic reforms, Deng Xiaoping, showed the way of modernization by accepting fax machines, mobile phones, photocopiers, personal computers in the country. Later, the President Hu Jintao, put a strict control on I-net freedom and journalists. Although, he was very good leader, probably he didn't have clear vision how China would look like 20 years later (Kristof, 2010).

The internet was transforming China. Its enormous growth on Chinese territory was the decisive factor that brought Google Inc. there. Actually, communication and information technology – like internet, website logs, e-mails, online streaming video/ audio, mobile phones, SMS, MMS, etc. - has brought Chinese the possibility to write blogs, to discuss online, to create groups and communicate about everything they were interested in more than before (K. Wickre, 2006).

In addition, as internet grew and became popular, Chinese users became also quite free to express and share their thoughts about human rights and democracy in China (according to Kai-Fu Lee, a head operator for Google in China). Then, the following questions arise: what could be classified as freedom by Chinese users and is there a good/ bad way for limiting information? In America censorship is not an option at all, but in China as we will see in next case studies; this is just a different way of living (C. Thompson, 2006).

7.1.1 Company background

Google was officially founded in September, 1998, but its story began three years earlier at Stanford University, where the founders Larry Page and Sergey Brin have met. In the very beginning the two students created a search engine named Backrub and a bit later it was renamed to Google. If we open Google's official website, we will see the words on the top saying: "Organize the world's information and make it universally accessible and useful", which was the leading idea and still is. They wanted to supply relevant information on virtually any subject. That was original goal of the company and nowadays still is. The American technology company was officially born when the co-founder Andy Bechtolsheim wrote a check to Larry and Sergey in August 1998. The company transferred its service from dorm room, to the garage and after, to the Googleplex (current headquarter) in Silicon Valley, California.⁸

Today, more than 60.000 employees in 50 different countries work for Google (Google's official website; Our Story). We cannot say for sure how many billions of people use Google's services, but it is sure that this is one of the very successful technology companies worldwide; or the most successful one. According to Britanica website, Google owns more than 70% of the online search requests in the world. Google services on the market include YouTube, Google Books and Google Maps and go through Android mobile operating system to Smartbox and Social Networks, and of course the most popular one- Google search engine.

⁸ Google's official website, https://www.google.bg/intl/en_at/about/our-story/; retrieved 2 Sept.,2018

7.1.2 The challenge

On 3rd of September, 2002, Google disappeared. When Google's Chinese employees went to work that day, they realized that the website was removed- Chinese government put in action Great Firewall. Often users do not realize that the internet is not placeless, but it goes through real geographical borders. There are three basic fiber- optic internet providers (pipelines) in China. The private companies had to supply their service through those fiber- optic networks. In fact, some of those routers (through which the coming signal was checking for unhealthy words) were made by the American enterprise Cisco Systems. As it described above, when a user inside China tries to access a website hosted abroad, then his browser will send a request through one of the pipelines for the demanded web page. If sensitive terms (from the blacklist) are detected then the browser will be blocked and show error message (C. Thompson, 2006).

Google put Chinese government face to face with an unusual problem - at that time the company did not have any official office in China, that's why Chinese government did not have any legal rights to censor Google's website. Because of that, the GFW was only half working - it could block only websites that Google permitted, while others with disapproved content won't be banned. So, if a user in Hong Kong tried to open any information or articles about "human rights in China" through google.com- he would get some results, including an access to the website *hrichina.org*. Generally, the content of this site was unavailable in China- if the same user tried to open straight the link *hrichina.org* (without any search engine) from China, he would receive only error message. Basically, the netizens could see that certain sites existed, but they couldn't open them. Chinese government did not like the current situation, but Google was popular enough to be completely censored (C. Thompson, 2006).

However, in 2002, Chinese authority dared to close down all access to Google. Extreme measures, many speculations. Google's co-founder Sergey Brin posted online without saying any names, that according to some investigation this could be an action supporting national competitors. At that time, while Baidu (Chinese version of Google) had only 3% or less of the Chinese search market, Google got 24%. So, this decision could definitely benefit Baidu. In one talk between Thompson and a Chinese-American businesswoman (who prefer to stay anonymous), she was sharing of how some people working for Baidu did researches about uncensored links containing sensitive words to which Google provide access. After, with all collected links, they went to government with the idea to show what kind of information Chinese users can reach on google.com. *"That's why the government took Google offline"*, had said the young businesswoman. On other hand, professor Guo Liang from the Chinese Academy of social sciences, disagreed that could be true. He believed Baidu was strong enough to beat his rival Google and moreover to provide better service to Chinese consumers (of course conformable to the firewall). However, many high-tech experts from Beijing confirmed that this was a common practice for local internet companies- to complain to the government about competitors' "faults" and to

hope that government will punish them. This was how the censorship control became from political instrument to competitive one (C. Thompson, 2006).

More than a decade ago, in China, the internet connection was quite slow and pretty expensive. Because of that, the young Chinese users preferred to go online in Net Cafés where they could rely on faster service in exchange for few pennies per hour. Visiting one of those Cafés, Thompson noticed a poster read as follow *“Do not go to pornographic or illegal Web sites”*. The Café owner told him that his clients did not often try to access such forbidden content, because they know the rules and do not have any interest to act against the government. Of course, who would dare to cross the border and to search for something illegal, especially in public cafés when the user has to log in with his personal phone number, address, name etc. (C. Thompson, 2006).

Often, Western countries underestimate the Chinese censorship regime and even more governmental efforts to keep everything under control. Frequently, when American Internet companies enter Chinese electronic market, they expect that government will welcome them and will give them the “official blacklist of websites and forbidden words”. Unfortunately, this is quite far from the reality. When we talked about the Great Firewall and its function, we mentioned the nine different categories of forbidden internet content. However, this classification is made much later and it’s pretty common and do not go in details about specific keywords. The government requires foreign firms to clarify the vagueness about regulations themselves. Therefore, the companies have to do deep research in advance and to guess what Chinese government will and won’t like. The main reason to exist an exemplary blacklist was thanks to executives in one Chinese blogging firm. Every time when they received a command to ban certain posting, they marked the sensitive phrase which government disapproved and after a while they created their own list in order to help their company to survive on this unusual internet market. Interesting is how Chinese businessmen take the policy of censorship.

- *“If it’s not supposed to be seen, it’s not supposed to be seen”* (Cyber Café owner)
- *“I don’t want to call it censorship. It’s like in every country...There are taboos you cannot talk about in the U.S., and everyone knows it”* (Charles Chao, the president of Sina.com)
- *“We don’t want to annoy the government...We are business! Shareholders want to make money. We don’t have any responsibilities saying we should do this or that political thing”*. (Jack Ma: C.E.O. of Alibaba, later- C.E.O. of Yahoo! in China);
(C. Thompson, 2006).

We said that the punishment for disobedience with regards to the censorship regime can be tough. Internet executives in China are so scared to go to jail that they prefer to filter much more materials than it’s needed to. Sometimes one blocked website may become visible for a while, but after to be banned again. Only people well-grounded in Chinese culture can understand that there are boundaries which should not be crossed. All this small but important details confuse American firms and make the process of gaining

market shares and generally surviving on Chinese market very difficult for them. Meanwhile their local competitors are few steps forward (C. Thompson, 2006).

To take into consideration the censorship law in China, Google had agreed to remove any sensitive websites, including websites popularizing government- blocked spiritual movement of a Falun Gong, sites supporting freedom of the speech or any references to the Tiananmen Square massacre in 1989. If a user outside China searches information about “Falun Gong” or “Tibet” on google.com, he will find a lot of articles, blogs, news or chat rooms on this Chinese repression. In contrast, if a Chinese user does the same research in the country on google.cn, the access to most of the internet source (or to all of them) will be restricted or completely deleted (C. Thompson, 2006).

Meanwhile, Google’s decisions were not well taken in US. In February 2006 in front of company’s head office in California, there were many protesters fighting against Google’s subordination with Chinese censorship system. In 2004 when Google went public, the telegenic creators - Larry Page and Sergey Brin wrote online on Google’s Security and Exchange Commission’s page that “*Google is a company that is trustworthy and interested in the public good*” (C. Thompson, 2006). The question was: how this statement could go hand in hand with Chinese repressive regime and governmental censorship? (C. Thompson, 2006).

7.1.3 Solving the problem

To find the right way how to deal with China was a difficult process for Google. The negotiation procedure in itself was complicated too. As we saw above, very important and necessary value as well was self-censorship - something very far away of Google’s tenets. Despite this, the company decided to launch google.cn- a new Google’s product, specially made for Chinese users and coordinated with Chinese regulations (K. Wickre, 2006).

Until January 2006, Google has been offering services in China the same way they were doing this all over the world, since company’s establishment in 1999. They had no employees, no operations in China; only thing they could rely on in that moment to offer Chinese language model of Google was the global nature of the internet. Since 2000, Google has been providing in Chinese e-market google.com (of course the Chinese language version), made exactly to provide the best service they can on the most comfortable way for all Chinese – speaking consumers in the world, as it is for English native speakers. In contrast, Google’s internet service was non-reliable and very slow. Based on Google’s research- google.com in China was inaccessible about 10% of the time, while the rest of time- slower than the domestic companies’ search pages. Final net result: bad user experience (K. Wickre, 2006).

The reason for this slowness and inaccessibility was strict ISPs filtering implemented by Chinese government. The censorship regulations were applied not only to the ICP (I-net

content providers), but also to the ISPs. There were 9 licensed international gateway data transporters and hundreds of other smaller domestic ISPs in China. Meanwhile, each ISP was charged with the implementation of its own censoring mechanisms checking all queries across the network in every moment. For instance, services as Google News, Google cache, Blog-spot, etc.- were not available at all to Chinese users, others – Google Image Search- could be accessed only half of the time and third type of services were reachable only 10% of the time (Google Maps, Froogle, Google.com). Measuring of responding time showed that when Google was accessible, the average total time needed to be downloaded one Google page was seven times slower than for one Baidu web page. In addition, the reliability of Google from different locations in China at different time of the day was different. Users in Beijing had faster I-net service speed than those in Shanghai and in general, the smaller towns and villages had slower internet speed than the big cities. According to Google analyzers, the damages from the international gateway ISPs filtering were bigger than those coming from smaller regional ISPs filters. Because at that time, Google' servers were hosted outside China, the Google traffic had to pass at least through one of Chinese international gateway ISPs. To escape these filtering, Google executives found only one option – to create a local presence of the company inside the country (K. Wricke, 2006).

Serving without a local presence would become the major problem for Google, mainly because of the speed and the access. Based on some data, Baidu's market shares had been changed from 2.5% to 46% for the period 2003-2005. Meanwhile, Google's shares had been dropped to 30% and kept on falling (K. Wickre, 2006). The most worrying fact for Google was that young college Chinese preferred to use Baidu more than the older generation students. Partly, that was due to serious marketing campaign of Baidu and some service improvements, but the crucial factor was annoyance of the Chinese consumers when they had to use the slow and unreliable Google (K. Wickre, 2006).

Google never really understood why in 2002 it was folded by the government in China. *"In the fall of that year, we awoke one morning to emails from Google users in China informing us that our service was completely unavailable"* shared in 2006 Elliot Schrage, a Vice President of the company (K. Wickre, 2006). Moreover, in two weeks the blocking suddenly ended and google.com was restored. Anyway, Google's problems just started. As we explained above, most of the time Google search engine was unavailable in China due to data jams. The firewall cut down the traffic speed of Google, coming from outside China. When user tried to reach certain website, the loading was extremely slow. Some services as Google News were not available at all and others – only half of the time (For example: Google Images) (McLaughlin, 2006). Many queries couldn't make it through the servers. When a Chinese user searched for sensitive terms, the GFW sent him back a fake message that Google's website did not exist anymore. The search engine was filtered, although Google didn't do any self-censorship. Main troubles for Google were the shutdowns and delays, because generally its results were delivered in milliseconds. This was why American company was not pride of the level of service provided in China. College students from Chinese universities couldn't reach any foreign website and they

started using Baidu instead. Meanwhile, Baidu did not have such difficulties, mainly because its servers were placed inside China (C. Thompson, 2006).

Google's executives realized they had two options, neither one of them they really preferred. If Google decided its servers to stay outside Chinese territory how they were at that time, then they had to accept all slowdowns from Great Firewall, the possibility to lose market shares to local search engines and a chance of long- term cutoff from Chinese consumers. On the other side- if they established a local presence on Chinese land, Google wouldn't fight any more to jump over the firewall and the speed problems would disappear, but at the same time Google would be domesticated by Chinese government and the censorship regime (C. Thompson, 2006). Definitely, it was not an easy issue. *"There is no question that, as a matter of business, we want to be active in China. It is a huge, rapidly growing, and enormously important market, and our key competitors are already there"* posted online Mrs. Schrage. May be it would be more surprising if Google decided to give up and left China, taking into account that this is an extremely successful worldwide incorporation (C. Thompson, 2006).

By the end of 2005, Baidu smashed its competitors by owning almost 50% of the search market in China, while at that time Google had only 27%. It took few years before Google finally decided what its next serious move about China would be. Google was quite naïve to think that providing an access to almost unlimited data and uncensored information in an authoritarian regime country, could be a good decision. Of course, Google had to restrict the access to some websites like pornography, religious and some Chinese leaders, Tiananmen Square massacre, Dalai Lama etc. In fact, that was only a small part of what actually Chinese netizens were using Google for. They could learn more about environmental problems, international markets, any disease, AIDS, avian flu and much more (C. Thompson, 2006). What Google got in exchange was not revenue. May be many years would be needed before Google started making profit. Sergey Brin (Google's co-founder) shared in a post that Google going in China was not really business step, but more about educating people (C. Thompson, 2006).

On January 2006, Google put google.cn in action. The company shared that was a difficult choice, because they had to remove all unhealthy information. *"We know that many people are upset about this decision, and frankly, we understand their point of view"* posted online Andrew McLaughlin, senior policy counsel. The tough decision was taken after years of investigation and research. Google's executives had spent sufficient time to interview many people- from those who were against the collaboration with Chinese polity to those who agreed with the censorship regime- Chinese users, internet experts, human right activist and governmental officials. Without any further step, Google results would stay censored, the internet service- disabled and Chinese users- unsatisfied. Moreover, without one really good access to Google, Chinese netizens would use mainly the internet search page and not the other features, tools and capabilities of Google, which would reflect negatively on Google's fundamental commitment- the access to information to be maximized. The determinant question Google asked itself was: *"How can we*

provide the greatest access to information to the greatest number of people? “ (Google blog-spot post by A. McLaughlin, 2006). By trying to make internet information accessible worldwide, including China, the American search engine had to fulfill its two essential commitments:

- To please its users’ interests;
- To supply an unlimited, vast scope of access information to everyone who wants to be better informed.

Because of the specific situation, entering on Chinese electronic market, Google had to add one more fundamental task:

- To correspond to local requirements (K. Wickre, 2006).

The vast majority of internet queries in China contained local information- local business, domestic news, what weather to be expected, online games, online groups of interest, etc. Even for political based discussions, Net-consumers in China preferred to use also local internet sources and websites. In fact, less than 2% of all internet searches on google.com in China would appear in a web page where the results wouldn’t be available due to filtering (C. Thompson, 2006).

Google.cn was created as a subject to the censorship regime, a bit far from Google’s commitment to free speech, but with some significant advantages. Google had to decide which and how many compromises they could be able to make. In contrast to Microsoft and Yahoo!, Google’s executives chose not to offer any email service, neither blogging one inside the mainland, because most likely they would be push into censoring all writings and postings. They wanted to put their users’ safety on the 1st place, and they wouldn’t provide those products until they were sure they could do it on the right way (for example, by entering on Germany’s and France’s e-market, Google also had to comply with their domestic laws) (C. Thompson, 2006). Meanwhile, the company elaborated some specially made for Chinese users’ services:

- Disclosure to users (a notification which netizens would receive whenever some search result had been removed);
- Protection of users’ data (the reason why Google didn’t host Google Gmail and Google Blogger in China);
- Existence of google.com (the accessibility of non-filtered search page would not be terminated).

Google Inc. had even the idea to offer more services, if the circumstances would allow it. Meanwhile, the option Google to reconsider its strategy (if they could not achieve the planned purposes) existed (K. Wickre, 2006).

Of course, negotiations with China were far away from those with other western countries. *“It’s a choice that has generated enormous attention- vastly more, indeed, than our earlier decisions not to cross the line of self-censorship”* – said Elliot Schrage (K. Wickre, 2006). There was not a right answer to Google’s dilemma, but at least now, they could provide a decent service in China, and may made the 1st step towards long-term relations. As we saw, Chinese users would be still able to search on google.com and the results would be unfiltered, but sometimes the website’s access would be unreliable and the speed- slowed down. Additionally, they would keep google.cn, where the delivery of information would be fast, it would not be hindered by GFW, but it should be filtered by Google. Brin’s team resolved to put a message on sensitive links, because the lack of information is still kind of information. So, when a Chinese user searched on google.cn undesirable terms, he would receive a notification that the access to this information has been restricted by Chinese internet censorship police. Google’s goal was to show Chinese the scope of governmental control (C. Thompson, 2006).

7.1.4 Steps towards google.cn

In order to create the best possible Chinese version of google.com, Google’s researchers did a lot of work. First, they examined Chinese users. Net-consumers in China were interested in honesty and transparency, especially when it came to I-net information delivery. Second, very important to them were security and privacy of personal data. Third, Chinese preferred to have choices- so, the competition and market struggling were also factors. Market players had to improve constantly the providing services to stay in the game (K. Wickre, 2006).

7.1.4.1 Transparency

By search query, users have an interest to know if some relevant information has been filtered from their search outcomes. Google’s previous experience about different restriction policies in other countries would help them to operate google.cn in a decent but incomparable way, close to Chinese I-net consumers. Google has established successful global strategy and technical mechanism to deal with internet content regarding the host government rules. Some of the countries, where they provide service, have special laws about this I-net content regulation. Google always uses same system- when they get a notification from the government for existence of illegal content; they remove it as soon as possible of the Google search page, but only from the relevant nation version (For example: from google.bg –for Bulgaria). Meanwhile, the users are notified that on this internet page certain link has been removed. This kind of information helps users to know who exactly is responsible for the filtering (K. Wickre, 2006).

Such notices allow Google Company to be respectful of local laws and at the same time to offer rational disclosure to its users and to limit the influence to the relevant Google search engine for that country. This model of act can show China how Google is usually dealing

with content restrictions and to expect some disclosures on google.cn when a link is removed (K. Wickre, 2006).

7.1.4.2 Security and privacy

Some of Google's priorities are confidentiality and protecting user privacy. Before Google.cn launching, Google's executives made deep research about every single service which Google usually offered. They always have in mind that some of their data could be subject to the local country's jurisdiction. Because of that, only selected services would be hosted in Chinese mainland. In addition, Google Inc. would not take the risk to store data anywhere- they had to be sure that the security and the protection of consumers' personal information were on high level (K. Wickre, 2006).

7.1.4.3 Competition and choices

Consumers everywhere like the competition in the market. Without competition and choices in the marketplace, companies would have little stimulus to upgrade their services, to improve the state of art or even to be risk-takers. If Google decided to stay out of China, than may be the local I-net enterprises would not feel the competitive pressure, would not have the incentive to improve in the interests of their consumers and to develop better tools for organizing and accessing I-net content (K. Wickre, 2006).

Brin and his team were confronted with another challenge- how to define which websites to filter? To find solution, Google's engineers installed a computer inside the country, programmed to reach different websites outside China. When the access of the site leaded to dead end, it meant it had been considered as forbidden by Chinese government- and this automatically was going in Google's blacklist. Anyway, the American search engine was not happy with the blacklist they had to install (C. Thompson, 2006).

7.1.5 The decision

Taking into account aforementioned analysis and steps, Google launched its Chinese version search engine.

- **Launch google.cn**

Google.cn was made based on Chinese laws and governmental regulations. The webpage was an additional version of Google.com, not its replacement. The main search engine stayed uncensored and open for every user worldwide, including Chinese as well.

- **Disclosure of blocking**

We have to mention again the decision of Google's officials to send notification every time a link had been removed. Until that moment no other I-net company had done this before- to fight for greater transparency.

- **Limit services**

Google.cn offered only basic search services, in addition with Google Maps and local business information.

(K. Wickre, 2006).

Google believed that United States government should put the censorship problem as a worldwide problem and discuss it with other countries on international level. The censorship should be treated as a barrier to trade. Furthermore, the U.S. government should seek to strengthen the influence of internet information industry generally, and the impact of Google for the global reach in particular (K. Wickre, 2006).

In December 2005, Google officially became an internet service engine in China, although its executives and Chinese government never really discussed the Google's filtering system and the message users got by entering disapproved sites. Google just gave a shot and decided to see what the reactions would be after. *"Our launch of google.cn, though filtered, is a necessary first step toward achieving a productive presence in a rapidly changing country that will be one of the world's most important and dynamic for decades to come"* commented the senior policy counsel of Google, A. McLaughlin in 2006 (Google Blog-spot, January 27, 2006).

7.1.6 Presenting google.cn in China

On January 27, 2006, Google.cn started working on Chinese market. Meanwhile, human-rights defenders couldn't wait to check how the new search engine was working. They discovered if a user searched for "Falun Gong", the webpage would present only anti-Falun Gong information; the same was for a "Tiananmen Square massacre" query- it would not provide articles about protests or crackdown, but pictures of how happy people posing in front of the square. Google was trying to do its best in this bad system (C. Thompson, 2006).

However, Google picked the worst time to be presented on the Chinese market due to previous disappointment from other American electronic enterprises in the country. For instance, in September 2005, Reporters Without Borders made known to everyone in China that in 2004 Yahoo! placed a Net-user's personal details at Chinese government's disposal. That was the journalist Shi Tao, who was providing governmental materials about press restrictions in China through his Yahoo! account to a website hosted in U.S. He was convicted to 10 years in prison. Another example was the Microsoft case. A few months later- in December the same year, Microsoft bowed to Chinese state and agreed to

remove all writings from the blogger Zhao Jing. That was unexpected and surprising situation- mostly because the blogging service of Microsoft did not have any servers located on Chinese territory (C. Thompson, 2006).

Anyway, Google executives wanted to show that they could act responsible and ethical. Unfortunately, against their expectations, Google hadn't warm reception. It became an international indignation. People were wondering how this free-speech search engine could collaborate with Chinese censorship system. May be they felt deceived. The rising question was how people would react when looking for "Tiananmen Square" on google.cn, and find only "happy" pictures? Could that change their worldview? One option would be to trust Google and to accept the fact may be there was nothing to be seen. According to Christopher Smith (Republican representative), this situation could affect young generation, showing them censorship is something as normal as living in dictatorship. "*Filtering our search results clearly compromises our mission*" commented Andrew McLaughlin, but he believed providing well working search page and information to Chinese netizens was better than low speed and not always accessible one. Google's mission was someday in future to change China's current situation. Meanwhile, critics said that Google was lying to itself- the company was more focused on his profit than to help changing China's political system (C. Thompson, 2006). Rao Jin, the founder of the web-forum anti-cnn.com, said that Google's withdrawal would not affect Chinese that much, because they have Baidu and some other local search engines. Any company decided to serve on Chinese market had to conform with the local rules and laws whether they like it or not and even if the laws are "*not so reasonable*". He added that Google perhaps made its decision "under pressure from Mrs. Clinton" (who was promoting I-net freedom) (Jacobs, Helft, & Markoff, China puts lid on Google defiance, 2010). However, Chinese citizens were well grounded in governmental misrepresentations, media control and communist propaganda system. They knew internet information was controlled by the polity. Young Chinese appeared to be very creative. When Chinese government filtered any information containing "June 4" (the date of Tiananmen Square massacre), they were jumping over the firewall restrictions by typing "May 35" or "June 2+2". Mr. Kristof shared a story of its experience in China in 1990s about the very early computer viruses. Sometimes, it was appearing a message on the computer saying "Do you like Li Peng?", (Ex-prime minister of China). If you clicked "Yes" than the virus would try to damage your hard drive (Kristof, 2010).

We should not forget that when Google presented google.cn to Chinese users, it kept its original website google.com. "*Google.cn is an additional service, not a replacement for Google.com in China*", (shares Mrs. Schrage on Google Blog-spot). So, when a Netizen searches for "Falun Gong" into both search pages, the results can be easily compared- a strategy which could expose the blacklist. Critics even offered Google to go deeper and to announce in public its blacklist in the USA, so the censorship can become completely transparent (C. Thompson, 2006).

7.1.7 The withdrawal

In January 2010, after more than two months after menacing to quit China, Google decided to withdraw from the Chinese market by declaring publicly that they had no more intention of censoring search results. That was provoked after skilled Chinese hackers hacked the Gmail addresses of Chinese human rights activists. The attack couldn't reach its final cause, based on Google's investigation. The hackers succeeded to steal source codes of Google's company and important corporate data though. Normally, the source code contains instructions of the original programmer. Its main goal is to develop programs which produce company's economic advantages. The attack was not directly oriented to Google, that was what some critics said, but to more than 30 other American enterprises. Other sources informed 34 American firms were hacked; most of them located in Silicon Valley, California (where the Google head office is) and it was directed to people with Google's investigation knowledge (Jacobs & Helft, Google, citing attack, threatens to exit China, 2010). That was a wide and well-prepared spying operation (based on the US-China Economic and Security Review Commission's report from October 2009). It had discovered that all documents had been taken online from many different governmental and private organizations in the world, but from only one computer system located on Chinese land (Jacobs and Helft, 2010). People, investigating the case, commented that there were two universities of China connected with the assault- Lanxiang Vocational School and Shanghai Jiao Tong University. However, the institutions denied any participation (Helft & Barboza, 2010). The Google Company didn't say straight that the attack was provoked by Chinese government; it only announced that they had enough evidences about the perpetrators.

Meanwhile, according to another Google's investigation, independent of Google's attack from December 2009, discovered that some Gmails accounts based in U.S., Europe and China of human rights advocates, connected with Google, were constantly accessed via malware or phishing scams put on the users' PCs. Google "used" those attacks to improve its infrastructure and security systems, to provide more cyber-security information on its site and to suggest its consumers to add upgraded anti-spy anti-virus programs to their browsers. It published recommendations that every instant message has to be carefully read and do not share any personal details in order to avoid such kind of intervention. Google decided to post more facts about the penetration into its search engine system with the hope that this information could raise the question about freedom of speech and to become an international issue (Information posted by David Drummond, SVP, on Google's official blog-spot page).

In 2009, Google was constantly pressed. In June the same year, Chinese government forced Google to deactivate its function which shows suggesting terms on the webpage. It followed some shortly blocking access to Gmail and other Google's services (like banning Facebook, Google Docs, Twitter, etc.) on Chinese country-. The government explained it was trying to censor pornographic links from company's search page results (Jacobs and Helft, 2010).

Google's executives commented they could give it another try and negotiate new clauses in order to let them provide uncensored information on search page google.cn. This was kind of impossible requirement for the country with the most powerful and large internet filter system in the world. Otherwise, Google would be compelled to close its offices in China and to stop google.cn- search website. Meanwhile, around 700 skilled workers would become unemployed (Jacobs and Helft, 2010).

The reaction of young Chinese citizens due to this Google's decision was demonstrative- they went to Google's office in Beijing to pay their respect and to present flowers. One user even commented that the question was not Google leaving China; it was more about China leaving the world (N. Kristof, 2010). Meanwhile, Chinese government was trying to block all the upcoming discussions and speculations, but may be too late. Many Twitter users in China came out on the streets in protest against Chinese censorship regime. However, critics commented the Google's act as distraction of the main problem- losing market shares from Baidu and general Google's failure on Chinese market (N. Kristoff, 2010).

7.1.8 Additional political issues

Sometimes Chinese classified Google's protests as part of an American strategy to build international hegemony over the internet information. Meanwhile, the speech of Secretary of U.S. Hillary Clinton in February 2010 provoked Chinese officials. She blamed them for repression of human rights and limiting free-speech right. However, Chinese government announced that Google conflict would not reflect on their relations with Washington. At the same time, China would not make any efforts to stop Chinese firms to adopt more of Google's products (M. Wines, 2010).

There is not a lot of information how Chinese officials and Google tried to find a solution to the dispute, or if they really tried. The minister of industry and information technology in China Li Yizhong told in interview that China and Google were cooperating and wanted to solve the problem between them. A bit later, Miao Wei, a vice minister of China's industry and information technology, said that Google was more focusing on the hacker attacks and was holding Chinese authority responsible for that (M. Wines, 2010).

Researchers from the National Security Agency and computer security specialists found that the attacks against American corporations had led to participation of two Chinese educational institutions, one of them close related to Chinese military. The question which this investigation raised was if that was a job of Chinese government or the country had nothing to do with it, although the attacks were coming from Chinese sources. The Chinese schools responsible for that were Lanxiang Vocational School and Shanghai Jiaotong University. Jiaotong was one of the best universities in China for computer science programs. Lanxiang was found with military support where later computer

scholars were training for the military. The Obama administration was analyzing the situation. Some said that the role of vacation school was just a camouflage hiding Chinese authority operations where others – that the schools were only cover and the hacking was run by third country. However, this could be an example of criminal industrial espionage seeking to steal intellectual resources from technology companies in America. *“They have a different model for computer network exploit information...Chinese government often involves volunteer patriotic hackers to support its policies”*, commented James Mulvenon (military specialist in China and a director at the Center for Intelligence Research and Analysis in Washington) (Markoff & Barboza, 2010). However, even if the decision of Google to move forward and to put in question the participation of China is not publicly announced, it formed sensitive issues between U.S. and Chinese government.

On March 22, 2010, Google stopped filtering its online search services in Beijing (Google News, Google Images, Google Videos and Google Search). Users trying to connect with google.cn were transmitted to its non-censored search providers in Hong Kong- google.com.hk. Google.com.hk search engine used Chinese language and was specially projected for Chinese mainland users. Hong Kong’ users would still receive the services they had before also from the same search page. Google believed that was the best solution for the moment and to keep providing uncensored search for as many as possible people in the world. That was an entirely legal and sensible move, taken by Google’s executives in U.S. The American company wanted to be clear that its Chinese employees had no responsibilities for any of Google’s decisions. The only hope was Chinese government to understand and to let company working (posted by D. Drummond on Google blog-spot page). We have to mention that Beijing is part of mainland China (also called Chinese mainland) and is under the jurisdiction of the PRC (People’s Republic of China). Although, Hong Kong is geographically on Chinese territory, it’s not part of mainland China and not under the control of the censorship regime. Hong Kong is a British colony and it is a special Chinese administrative region. Google started redirecting netizens from google.cn to google.com.hk by displaying a link on the old webpage. So if a user wants to continue its research has to click on the link. By adding this extra step, Google could lose some of its users. Xiao Qiang, director of the China I-net Project at the University of California, remarked that this was win-win situation. Google won because they still could operate in China. Chinese users won because they still had an access to Google’s search engine. Chinese government also won- including all the efforts to force Google to move out of Chinese mainland, it showed Chinese people that this government was able to balance the censorship regime and economic issues (Sorkin, 2010). However, Google’s decision to avoid Great Firewall’s restrictions by directing mainland users to Hong Kong could escalate the conflict and even to lead to possible blocking of the Hong Kong’s service in Chinese mainland (Helft and Barboza, 2010).

Meanwhile, the compromises that Google had to make, allowed the company to keep its business in China, although its position could be weakened. Additionally, Google had to say goodbye to its desires to expand into mobile phone business in China. Some of the network operators and telephone makers were making phones using Android software of

Google. Now, they had to find other solution – to replace Google’s software with some locals – like Baidu. Google is a corporation, which generally makes money by placing ads related to search results. They had to be ready to lose audience for mobile advertising services (Dealbook, 2010).

Google has to stand many critics, mostly because it decided to enter such a market on a first place where the “safety” and censorship requirements are the most important. One of the Xinhua news’ agent (a government controlled media) commented current situation: *“Google has violated its written promise it made when entering the Chinese market by stopping filtering its searching service and blaming China in insinuation for alleged hacker attacks”* (Helft and Barboza, 2010). In Beijing, some government officials started intensively attacking Google. Moreover, the state would examine Google’s case based on Chinese law, but as Qin Gang, ministry representative, announced that shouldn’t be taken as hindrance for US-China’s business relations. That was a clash of different views- on one side the American company with motto “Don’t be evil” and fighting for free speech on the Web and on other- Chinese government having its own goals. Unless Google did not turn itself into Chinese enterprises, there was no change for it to win on that market. *“The company has clearly put its foot down and said enough is enough”* were the words of Rebecca MacKinnon, an expert on the Chinese internet (Jacob and Helft, 2010). In addition, Sergey Brin said that Google got enough significant indicators before to make its final decision. On March 2010, the chief executive officer of Google, Eric Schmidt announced that something was going to happen soon. Anyway, the situation didn’t really change for last three months- the trade negotiations were at dead-end street. Li Yizhong, the minister of industry and information technology in China, said in an interview that he hoped Google to change its mind and at the end, but meanwhile if someone wanted to act against Chinese law that would be reckless, unfriendly and had to face the following consequences (Wines, 2010)

After four years of Google’s official entering in China, the company gained 30% of the search market there and became a favorite one among higher educated and prosperous classes. But Google had felt uncomfortable during those years with the censorship requirements and the filtering of Information with political content. Although, Google had filtered some of its content, its censorship system obviously was not that strict like elsewhere in China and Chinese authority had to block in addition some more internet content. On January 12, 2010, Google Inc. announced that would not cooperate anymore with Chinese censors. It was not really clear what that statement meant. Some people said Google was not sure how to proceed- whether the company would unilaterally stop filtering results on google.cn or would close down its Chinese search engine and try to offer services through google.com to its Chinese consumers (Wines, 2010).

7.1.9 Consequences of the withdrawal

Many students were afraid to lose the access Google provided them to so many sources. Of course, Google did not leave the Chinese e-market completely- it kept many of its services as its domestic sales operations and its research and development force. Despite closing the website google.cn, Google Company still provided music service and online maps to its consumers (Helft and Barboza, 2010).

We have to admit such a step of repudiation of Chinese censorship system would be followed by consequences. Google had to say goodbye to the country with the numerous and progressively increasing internet users worldwide (based on data from 2010: they were around 400 million Chinese netizens. Just to compare –today they are 772 million⁹). Despite all efforts Google put to satisfy Chinese state and simultaneously Chinese users while juggling with its own principles, Google reached its limit. Right after the announcement that Google would withdraw, Google’s chief legal officer and senior vice president for corporate development, David Drummond, said that the company was ready to negotiate, but a few months later, he posted online: *“The Chinese government has been crystal clear throughout our discussions that self-censorship is a nonnegotiable legal requirement”* (Helft and Barboza, 2010). In response to this statement, Wenqi Gao (Chinese consulate spokesman in New York) replied that *“China is committed to protecting the legitimate rights and interests of foreign companies”* in Chinese territory (Jacobs and Helft, 2010). Although, Google would keep providing service to mainland China from Hong Kong (which according to David Drummond was completely legal action), he hoped this step would not lead to drastic decisions coming from Chinese government – like entirely blocking of Google access (Helft and Barboza, 2010).

Google’s decision was kind of expected and surprising at the same time. Xiao Qiang from the University of California commented the happening: *“The fact that Google cannot exist in China clearly indicates that China’s path as rising power is going in a direction different from what the world expected and what many Chinese were hoping for”* (Helft and Barboza, 2010). That was an indicator showing making business in China was getting hard, especially for a foreign company and taking into account that China was doing a lot to support local companies. Ignoring the size of Google and its power, strategy and reputation, the company lost market shares from Baidu.com (owning that time 63% of the market, while Google had 33%). A big part of the profit for one Internet Company is generally coming from advertising. The role of advertising in China is even bigger than in U.S. Although, the total financial loss of Google was not that remarkable, quitting the largest international internet market could lead to long-term outcomes (Helft and Barboza, 2010).

Google was not the 1st and the only American company that failed in China. Almost every popular American brand has entered Chinese market with great hopes and has been

⁹ Internet World Stats: <https://www.internetworldstats.com>, retrieved 5 August, 2018

removed directly by the government or by some domestic competitor (supported by the government). After years of emulation in China, Yahoo! sold its operations to its Chinese version- Alibaba Group. Amazon and eBay couldn't also conquer Chinese e-market. Meanwhile, Tencent forced Microsoft MSN service into surrender (Helft and Barboza, 2010).

7.1.10 Plans to come back

Since Google's official departure in 2010, the rival local internet companies have risen up (especially the dominant one- Baidu). Excluding the Google's search service, other services like email, YouTube, app store etc. are still not reachable because of the Great Firewall's filtering (Yuan & Wakabayashi, 2018).

Eight years after Google's withdrawal, Google's engineers are working on search application restricting internet content censored by Beijing. Since 2017, on a meeting between some top Chinese officials and Sundar Pichai (Google's CEO) has been started a project called Dragonfly. The main work of Dragonfly project is concentrate in Google headquarter in California. Other teams taking part of the project are located in Google offices in Santa Barbara, Washington, New York, Beijing, Tokyo and Shanghai. Engineers and programmers working for Google have been produced different version of custom Android application, named "Longfei" and "Maotai". This app has already been presented to the government in China and if Google gets government's approval, the app could be offered on the Chinese market until the end of this year (Gallagher, 2018). However, the company displayed each app they have added to its services to Chinese authority, consistent with Xi Jinping's Communist Party censorship regime. This doesn't mean automatically that Google will return on Chinese market for sure, as the company has been building and testing many different services which never became officially accessible (Yuan & Wakabayashi, 2018)

As we know from Google's previous experience, China is an extremely tough market to manage. Since 2013 when President Xi Jinping took office, Chinese government laced up the censorship regime even more. In order to can meet the censorship requirements, internet companies need a large amount of resources. More than 3.000 webpages has been blocked by Great Firewall in the first half of this year (Yuan & Wakabayashi, 2018). In 2016, Chinese government implemented a new cyber security regulation which was even more drastic than the previous one. The company has applied new automated systems to track out and filter the internet, which can even block the privacy technologies of Chinese users by detecting a sensitive content. Even more, there is less transparency in Chinese censorship regime, because the notifications informing that certain content has been removed, are now reduced (Gallagher, 2018).

Google's decision to reconsider its returning in China provoked many human rights activists. They believe the company would ban a lot of Western social media websites like

Twitter, Facebook, Instagram, some news organizations such as New York Times and the Wall Street Journal, even some of British news content BBC and Wikipedia, and of course pages containing information for Tiananmen massacre and some not very liked Chinese leaders. Its search app also will filter illicit terms. Google Images will not show any photos for blacklisted subjects (Gallagher, 2018). It will come “*dark days for internet freedom*”, commented Amnesty International. Some of Google’s employees expressed their chagrin about the China’s project. There were workers who refused to assist the company in realizing this project, some of them even preferred to quit. They said Google’s new- old goal contravenes Google’s previous assertion about the censorship regime in China. It is also far away from its recently added concepts on “the ethical use of artificial intelligence”, which says that the use of the technology against human rights is completely wrong. (Yuan et al, 2018). A source with knowledge about Dragonfly project shared with The Intercept that collaboration between large companies and governments to the detriment of their people should not be an option, because this could be used as model for many other countries. It will become example not only for other nations, but also for other companies which want to do business in China. “*The biggest search engine in the world obeying the censorship in China is a victory for the Chinese government – it sends a signal that nobody will bother to challenge the censorship any more*”, the source said (Gallagher, 2018).

It is unsure if Google will offer its specially made desktop version with censored search platform on Chinese market. Apart from this, the American technology company is focused now on launching an Android app. Based on research, more than 95% of Chinese who has an internet access, use their mobile phones to go online. Meanwhile, Android seems to be “the most popular operating system in the country- with 80% of the market share” (Gallagher, 2018). Some of Google’s apps for mobile devices are Files Go and Google Translate. According to some investigations, Google probably will use “joint venture” as a type of market entry with partner- company based already in China. This information is not officially confirmed. The Company made also some major investments in Chinese online retailer JD.com. In 2017, Google was considering to open artificial intelligence research center in China. Nowadays, Google has a bit more than 700 workers in China. (Yuan et al, 2018).

Google came back to China with new resources, new leadership and a new market strategy. The new CEO Pichai announced in a conference in June 2016 “*Google is for everyone. We want to be in China serving Chinese users*” (Gallagher, 2018). Google’s intention to return is an example of how American internet companies are adapting their products to become part of the huge Chinese market, even if they have to go against their own principles. For instance, LinkedIn censored some of its content in mainland China, Facebook created new software for its Chinese users to repress certain posts on the social network, although there is no evidence if they will really implement it. In July, Facebook got an approval to open an affiliate in Zhejiang Province in China. This approval was sharply pulled back (Yuan et al, 2018). Of course, Google yields to numerous Chinese I-net users (more than 750 million). The possible large revenue is most likely to be the

determinant for Google's reversal. In December 2017, Pichai had an unofficial meeting with Wang Huning (the right hand of the President Xi), which seemed to be successful, because the same month Google makes known that "it was launching an artificial intelligence research center in Beijing". In May 2018, Google offered Chinese version file management app on the market and two months later, the American company released the game "Guess the Sketch" on the Chinese media platform WeChat. The final goal will be the realization of Dragofly project. But "when?" is not sure. Two main details are needed: 1). Chinese governmental approval; 2). Google's new app to differ from Baidu's services (Gallegher, 2018). Actually, the renewed negotiations between Chinese government and Google Inc. were not going very well, because of the trade war between China and United States. China could use the Google-card in its negotiations with U.S. government, which has complained that Chinese government limits its market for American technology enterprises. Giving a permission to Google to come back and letting President Trump to earn a political triumph, the authorities in China could gain some of U.S. sympathy (Yuan et al, 2018).

On one hand we have China- with a number of I-net consumers equal to European population, on other- Google highly successful internet search engine and part of daily life of almost every person. Nevertheless, for young Chinese generation growing up "in the post-Google Chinese Internet", Google could become the only name which does not bring any memories. To win these people, Google has to do even the impossible and to create new services which will make it preferable to Baidu. The head of the research company Data Center of the China internet in Beijing, Liu Xingliang commented current situation: *"We welcome a normal Google but not a neutered Google. We don't need a second Baidu"* (Yuan et al, 2018).

Google's plans are based on sources, those who are involved and well familiar with Google's strategy, but prefer to stay anonymous because they are not authorized to speak with media. We have to mention that there is not one official statement yet about possible future business negotiations coming from Google, neither from Chinese government.

7.2 Other American internet technology companies

7.2.1 Case Study: Yahoo!

Yahoo! was the 1st large American corporation entered Chinese electronic marketplace in 1999. Not only this, but Yahoo! established its Chinese-language electronic version. However, Yahoo! had to learn the hard way how unpredictable the Chinese market could be, how difficult for an American firm was to conquer it and the importance of cultural differences. As discussed, Chinese businessmen prefer personal relations, live exchanges i.e. they use more mobile phones to contact instead of leaving a message or writing an email. Actually, even the person is unreachable in some moment, the personal message on the voicemail often says that the phone would not record any message (this is what the

writer C. Thompson shares in his article about “Censorship Pack- Google” based on his personal experience). Moreover, the most important particularly among Chinese users was the online board where they can discuss certain topic, write comments, share opinions and arguments. Chinese search engine Baidu (Yahoo!’s early competitor) provides to Chinese netizens one of the most desirable application- instant discussions in compliance with the search queries. For example, when a user looks for the famous Chinese singer Teresa Teng on baidu.com, he will find not only information links, but also chat room with many other users sharing the same interest. Based on data from 2006, the chat rooms of Baidu were getting more than five million posts per day (C. Thompson, 2006).

Yahoo! realized that those cultural differences were the reason why American internet companies could not satisfy completely Chinese users’ needs. There were some websites like sina.com or sohu.com with simpler search engines, but full of links with many different chat rooms and sites in the Chinese language with news, approved by the government. On the other hand, the strong Chinese self-determination was playing an important role too. As Andrew Lih (an American-Chinese professor from University of Hong Kong) said *“there’s now a very strong sense of pride in supporting the local guy”* (C. Thompson, 2006).

All the more that Yahoo! was not prepared to stand against another significant factor in Chinese life, namely uncontrolled piracy. In the West, music or movie piracy is considered as illegal and indictable activity, whereas in China downloading illicit copies of software, movies or music could be classified as something normal as to check online what the weather will be. Baidu’s CEO found out that the young Chinese users were mostly using internet to seek for pirated MP3’s. In Cyber Cafés, was full with netizens who were downloading movies for free and brand new “pirate” albums of favorite singers, also for free. Based on that, Baidu created an interface, easy to work with and made especially for this purpose. Baidu’s CEO and founder, Robin Li, said in an interview: *“Right now I think that the record companies may not be happy about the service we are offering, but I think digital music as trend is unstoppable”* (C. Thompson, 2006).

In general Baidu was focused to attract young MP3 huntsmen, while Google relied on different package of applications- in the main Chinese cities, there were professionals who were spreading among Chinese people the Western style, interspersing the conversations with many English words and teaching others to be cosmopolitan instead of nationalistic. In comparison, Google succeed to establish a good reputation and in 2002 gained 25% of Chinese search traffic - something that Yahoo! couldn’t do (C. Thompson, 2006).

7.2.1.1 Company background

Yahoo! was founded in 1995, when Jerry Yang and his fellow-student David Filo decided to create a system to organize the enormous sources of information, which internet provided. Since then, the company believes that internet can bring positive transformation

in people's daily round, social life and economy. Internet should be open, easy to access and provide information globally. It allows people to reach the information they need, want, anytime, anywhere. The information is power and Yahoo! believes it will bring positive effect in China- to build one more open society (Callahan M. , February 15, 2006). The company committed to protect human rights worldwide.

Data showed that 87% of the online consumers used Yahoo! China service in 2005 and more than 400 million queries were asked every day. This was 1600% more compared to last three years- 2002, 2003 and 2004 (Callahan, 2006). At the end of 2007, Yahoo! had more than 500 million users per month; those were half of all I-net consumers in the world (J. Yang, 2007).

Yahoo! services, like Yahoo! Mail or Yahoo! Messenger, as the most well-known communication tools, were connecting family members, friends, colleagues, etc. who were apart for one or another reason. Other services were helping people to create groups of interests, to comment and share information, opinions and simply to speak their minds online. The company was focused on empowering their customers and its business was concentrated on building trust between Yahoo!- the company and its users all over the world, including also its partners and publishers (J. Yang, 2007).

In the late of 1990s, the American technology company grew rapidly and became popular. Meanwhile, the United State government decided to restore its business relationship with China. Despite not very stable Republican- Democratic relation, U.S government was encouraging American businesses to expand its operations by entering Chinese market. The technology companies, including Yahoo! and many other American firms from different sectors of the market decided to take this opportunity and to set up local offices in order to serve Chinese citizens (J. Yang, 2007).

Three years after entering China, Yahoo! signed documents committing the internet company with Chinese ethical norms- agreed to protect Chinese culture, state security and to control internet information which can impact negatively to social state stability. At that moment, Yahoo! was the first western company, which has been signed this pledge (Khanhle, June 2, 2011).

However, since October 2005, Yahoo! Inc. operated no more in China. The company established long-term partnership with Alibaba.com (Chinese multinational e-commerce online retailer). Based on their agreements, Yahoo! China and Alibaba.com merged. Under their contract again, Alibaba.com became official owner of Yahoo! China. The Alibaba's managers were taking the decisions, mostly alone. Yahoo! held one of the four Alibaba board seats, but they were a minority and had no influence of the company's operations in China. Alibaba was applying strict control on the research in response to the Chinese governmental censorship regime (Callahan, 2006).

Despite the important role which internet played as a mass media, there was a fundamental clash. The technology companies entering China had the power and possibilities to expand

their communication services and access to any kind of information, but they didn't really have the freedom to do it (Callahan, 2006).

7.2.1.2 Shi Tao Case

The Shi Tao case raised important questions about basic human rights.

Chinese journalist Shi Tao was sentenced to 10 years in prison, “thanks” to Yahoo!. Shi Tao was distributing information about the Tiananmen massacre to a pro-democracy website abroad by using his Yahoo! email account. Great Firewall detected the sensitive content and the government sent an email subpoena to Yahoo! China. This email demanded for more personal information about the net- user account, saying that the data was needed to investigate this person, who was suspected of “illegal provision of state secrets to foreign entities” (Singel, 2007). In February 15, 2006, Michael Callahan, a Senior Vice President of Yahoo!, announced in a testimony, that they didn't dispose of enough details about the kind of investigation, before they actually provided user's private data to the police. Meanwhile, some critics said Yahoo! was well informed with the situation from the very beginning. Dui Hua's Joshua Rosenzweig shared that person does not have to be a prophet to know what “state secrets” in China means (Singel, 2007).

Mr. Callahan said that when Yahoo! China in Beijing had to assist Chinese police in providing personal information about the user, they had no details what this investigation was all about. Usually, the law agencies do not give any explanations about their missions to internet companies, or any other kind of businesses. According to the documents, Shi Tao case was “state secret”. Yahoo! learnt more facts for the Shi Tao case thanks to the news, but after they gave user's data to the police. Yahoo! executives affirmed that they had no idea about the identity of this individual since many users don't give their real names by subscribing. At that time, Yahoo! China was obligated to cooperate with Chinese law enforcement. Before Yahoo! to give the operational control to Alibaba, the company would comply with such requirements only if they were made by legal enforcement officers; the violation contradicted local law and the demand for information followed the established protocol in the country (Callahan, 2006).

“When we receive a demand from law enforcement authorized under the law of the country in which we operate, we must comply. This is a real example of why this issue is bigger than any one company and any one industry”, said the Senior Vice President of Yahoo! in his Testimony from February, 2006. According to him, any other company in this situation would do the same. This would be like a foreign information technology company operating in American market being asked to concur with American law enforcement. Then the company should comply or would act against the local law. In addition, the refusal to comply with Chinese government could bring anyone serious consequences (including incarceration). Generally, American companies dealing in Chinese market had two options: to follow Chinese law or to quit the country (Callahan, 2006).

Yahoo! came under attack for assisting Chinese authorities to identify a possible rebel by checking its web content. In fact, that was not the only case where a leading technology company helped the Chinese government. That provoked the question whether those firms interfere or support the censorship regime in China. In April 2007, two Chinese journalists sued Yahoo! for violating their human rights by delivering their personal data that allowed government in China to find them. They used 218 years old American law to penalize enterprises like Yahoo! who trampled human rights. Yahoo! provided information to Beijing authorities, which contradicted to its own ethical duties, to international law and angered Yahoo! consumers. The World Organization for Human Rights USA (WOHR) accused Yahoo! of participation in the arrest of Wang Xiaoning and other I-net activists in China. In 2001, Mr. Wang, a 57 years old activist, was using its Yahoo! email account to publish anonymous posts. A short time afterwards, Yahoo! under the pressure from the government, had to ban the account. Wang continued his activity by making new Yahoo! account. According to some sources, Yahoo! had no choice this time and had to give all necessary information about this user to Chinese police. In September 2002, Mr. Wang was arrested and was sentenced to 10 years. Yahoo! was pointed as a main actor in the process. Another example, but similar situation was the Shi Tao case. *“They assumed the risk of harm when they chose to use Yahoo China email and group list services to engage in activities that they knew violated Chinese law”*, commented one of Yahoo!’s lawyer (Cohn, Yahoo’s China defense Hou western companies are helping China to filter democracy, 2007).

Meanwhile, Yahoo!’s executives turned to California’s anti-Strategic Lawsuits Against Public Participation agency to defence the company. This California law was protecting people/ organizations with different views by stopping big corporations to silence them in one or another way. Morton Sklar, WOHR’s executive director, commented the current situation as pretty ironic- Yahoo! was calling to free speech protection and at the same time violated the free speech rights of its own I-net users. In general, Yahoo!, as any other company, was obligated to comply with international law, when it decided to do business abroad. Of course, each country has its own peculiarities. For example, American law prohibited US- based corporations to pay bribes, regardless of the situation.

Yahoo! was not the only I-net firm accused of cooperating with the Chinese government. Google, Microsoft and Skype agreed to add self-censorship to their services to operate in China. Even Cisco was part of the filtering mechanism.

7.2.1.3 Additional details about Shi Tao Case

Yahoo!’s Executive Vice President explained in a testimony from November 6, 2007 about the events leading up to the February 2006 case.

Yahoo! China didn’t know a lot about the Shi Tao case, until September 2005 when the press made a report about that. The press media announced that Shi Tao had been found guilty for publishing governmental secrets abroad and the judgment declared that Yahoo!

Hong Kong had given all the information they had had to Chinese officials. Michael Callahan made clear that he was not informed of Chinese authority's specific law order or of the response Yahoo! China provided (Callahan M. J., November 6, 2007).

We have to add, based on the Testimony of Michael Callahan from February 2006, that Yahoo! China and Yahoo! Hong Kong "always operated independently of one another". There wasn't and still there is no exchange of consumer's data between both – Yahoo! China and Yahoo! Hong Kong. Mr. Callahan asserted that Yahoo! Hong Kong was staying apart of this case. Actually, Yahoo! China had been asked to cooperate with Chinese investigation (Callahan, 2006).

Right after the press boom- employees from Yahoo! Inc. made a contact with Yahoo! China employees for more details around the case. Yahoo! China confirmed that it had to comply with Chinese governmental demand and provided user's ID (later known as Shi Tao) to the authorities. The reply was handled one hundred percent by Yahoo! China in Beijing. Although, the response was made under the legal law orders, Yahoo! Inc. declared public that all responsibilities for that case would be taken by Yahoo! China (Callahan, 2007).

Critics said that Yahoo! China was collaborating with government in China, voluntarily and with full knowledge of the situation. There were no evidences for that. By contrast, Mr. Callahan maintained those were unsubstantiated accusations. Yahoo China! responded to lawful requirements without knowing details about the case, the exact name and identity of the internet user, that he was a reporter and his political activities. In fact, any refusal for cooperation with Chinese government would face Yahoo! China employees to serious consequences, including imprisonment (Callahan, 2007).

7.2.1.4 Further steps

Apart from the Shi Tao case, Yahoo! officials still believed the growing power of internet would help advance and empower the society in China. The alternative choice would be to withdraw China. In fact, such action would intercept Chinese progress by limiting the access to Information and the ability to communicate; they said (Callahan, 2006).

Based on the engagements to offer wide access to any kind of information, Yahoo! committed to the following:

- **Collective action**

Yahoo! announced it will work with Non-Governmental Organizations, industry, academia, etc. to investigate policies to manage industry operations in nations where information content is more restricted than in U.S. and to popularize the concept of free speech and expression.

- **Respecting local law**

Yahoo! will keep on serving Chinese users within Chinese law. Of course, users' safety and inviolability of personal information is on 1st place, but the company will comply with the government when there are evidences for criminal intentions.

- **Data Restrictions**

If the local government asks for information filtering, Yahoo! will restrict search results, but only in a way where the influence of the results due to restriction is minimized. *"If we are required to restrict search results, we will strive to achieve maximum transparency to the user"*, added Michael Callahan.

- **Governmental commitment**

The American telecommunication company will engage in existing policy negotiation with governments with the idea to promote and help the free flow of information in internet.
(Callahan, 2006).

7.2.1.5 *Clash of interests*

The presence of an internet company like Yahoo! in Chinese market would lead to some transformations in local economy, as well as in Chinese citizens' lives. The unlimited access to information could change everyone's worldview. That was (and still is) one of the main Yahoo!'s goals- to provide unrestricted access to information, and the other – to fight for free expression and users' privacy (J. Yang, 2007).

To work on its principle, in 2007, Yahoo! built a global team only from Yahoo! senior employees in every country where Yahoo! had offices, who had to coordinate their business steps and to help creation of free speech. The senior-team included workers from different Yahoo! disciplines and departments (For example: security, governmental relations, international operations, global law department, PR, etc.). Meanwhile, the team members were taking consul from American governmental agencies. Based on Yahoo!'s experience in China, the senior employees learnt more about what the possible impact of new products could be, more about different market entry strategies, how to limit the risk of leaking personal information and of course- what was needed to design plan supporting free expression (J. Yang, 2007).

Since 2006, Yahoo! is taking part of human rights discussions. Other well-known internet technology companies, many academics and big investors, different non-governmental organizations are also participators in those dialogues. They have a forum where they can share their ideas. This organization created a set of concepts and operations to help other companies to establish right laws, policy and regulations and to guide them when they

meet human rights restrictions. They all work hard on “promoting free expression and privacy in the online world” (J. Yang, 2007).

On the other side, Yahoo! believes governments play a crucial role – they can help companies to arrange some agreements by teaming with other governments and institutions. In February 2006, the State Department and Global Internet Freedom Taskforce (GIFT) reported public that governments as a leading force should support developing international environment “where internet freedom is a priority and where people are not imprisoned for expressing their political views online” (J. Yang, 2007).

As we said many times, internet is power- it could be disruptive or constructive. This is why some governments feel in danger- people have an uncontrollable open access to information, which can work against governments’ strategies. Yahoo! believes the international technology companies could help markets like Chinese to use in a responsible way this I-net information, not to restrict it. Market with constantly growing number of internet users (like Chinese one) is very attractive on one hand, on other- those multinational enterprises educate people providing knowledge about environmental issues, health problems, politics, job opportunities, international situation and about many other fields. Internet drives innovation across many different sectors and Yahoo! would like to be part of it (J. Yang, 2007).

“We continue to believe that engagement with China is the better course, and that disengagement would not further the goal of a more open and informed society in China”, said Michael Callahan (Callahan, 2007).

7.2.2 Case Study: Microsoft

7.2.2.1 Company background

In 1975 two friends from childhood- Bill Gates and Paul Allen developed a computer programming language (BASIC) for PC’s use. A bit later, Bill and Allen established Microsoft, which name was combining the words “microcomputer” and “software”. Shortly after, they improved BASIC and created other programming languages. In 1980, IBM assigned Microsoft a task to make an operating system for IBM’s first PC. Microsoft produced MS-DOS (Microsoft Disk Operating System). By 1990s, the company sold more than 100 million of its product. Soon after, the recently –born company increased its position with creation of Windows. Now, Microsoft Corporation is one of the leaders on the electronic market (Hall & Zachary).

“Achieving our mission all depends on building trust with people and organizations around the globe- our goals are only possible when people trust Microsoft and trust our technology” (Microsoft official website; Our values and Vulture).

These values would be partially broken when Microsoft decided to operate in Chinese market.

7.2.2.2 *China as a special case*

The Chinese governments control over the mass media- news, reports, blogs about military affairs, politic, economy, public affairs, etc., reflected on the services offered by Microsoft's MSN (Krumholtz, 2006).

Putting on one side, all the consequences and the individuals who have been arrested due to the censorship regime, the internet was transforming the culture, economic and political view of China. A survey from 2005 found that 48% of Chinese netizens can learn more about politic by going online. Meanwhile, 60% of internet users in China were saying that internet can help them in criticizing the government by providing an option to express their minds. Likewise, internet was informing users about one of the most important topics, namely health disease- HIV/AIDS, water contamination, SARS, etc. All points mentioned above display the significant need of internet service providers (Krumholtz, 2006).

Microsoft launched China when MSN space blogging has been introduced to Chinese market in May 2005. For a short time, it became very popular- more than 3.5 million Chinese were using it and had more than 15 million readers, which made it in its category number one service in China. *"We think that blogging and similar tools are powerful vehicles for economic development and for creativity and free expression (...) We believe that it's better to make these tools than not"*, commented Brad Smith, General Counsel of Microsoft. For that reason, Microsoft's executives believed they should not stop operating in Chinese market. Mr. Krumholtz shared that they were well aware there was a chance Microsoft to be forced to withdraw due to some reasons, mainly imposed by Chinese government. In that case, Chinese users would be the losing party (Krumholtz, 2006).

7.2.2.3 *Microsoft Concerns. "Michael- Anti" case*

The customer security and internet content are important values for Microsoft Company. The internet as a reliable source of information and communications should be safe on one side and encouraged on other. Therefore, Microsoft supporting those objectives provides free services like Hotmail email, MSN Spaces -blogs and personal websites, and access to MSN portal – place for entertainment and commerce and where users can post their expressions, opinions, and can communicate (Krumholtz, 2006).

Microsoft (from the leaders of the company, through the management till the employees) was taking care of the influence of Microsoft's products on its consumers. The internet company was constantly reviewing its strategies and policies to improve its protection services and to provide a vast access to information sources (Krumholtz, 2006).

The case which gained the most public attention with Microsoft's participation was about the deletion of blogging website, called "Michael-Anti", on MSN Spaces at the demand of the Chinese authority. That was a blog belonging to Zhao Jing, one of the most read and famous political Chinese bloggers, who was writing under the name Michael Anti. In an interview with The New York Times' journalist Clive Thompson, Mr. Jing was telling how internet had changed radically China. Before, the party was controlling all information coming from the media, but after- Chinese people started joining online groups and discussions and setting up blogs. Every published opinion could be considered as a bit of revolution, regardless if it's about the weather or local sport, he said. In December 2004, Zhao Jing started his own blog with political influence, where the blogging service he used was hosted in the United Kingdom. Shortly after, he gained thousands of followers. In August 2005, Chinese government used Great Firewall to limit the access to his web blog, so no one in mainland could read it. Right after, Mr. Jing made a new blog using MSN Space blogging tool. He continued writing, although he knew the government was still monitoring his posts. Zhao Jing said despite everything he felt safe, because *"If you talk every day online and criticize the government, they don't care, because it's just a talk. But if you organize- even if it's just three or four people – that's what they crack down on. It's not speech; it's organizing"* (Thompson, 2006). However, his blog was censored again. According to a CNN reporter, the blog was not blocked by Chinese government itself, but actively deleted by MSN. It was unusual situation, namely because that blog was hosted in the United States. That raised the question what was Microsoft's motivation or may be justification to comply with Chinese law. Mr. Jing commented the current situation, using the blog of one of Microsoft's own in-house blogger: *"It's one thing to pull a list of words out of a blog using an algorithm. It's another thing to become an agent of a government and censor an entire blogger's work"*, (Donoghue, 2006).

This case was carefully re-examined. Based on given situation, Microsoft did not have any other option and had to comply with Chinese government, although according to Mr. Krumholtz- they regretted afterwards. However, this case was an example which Microsoft used to build a new strategy if they had to deal with similar requests in the future. The improved policy was focused on:

- **Creating standards for better content access protection**

Microsoft Company would remove a certain post/ blog/ content then and only this material tramples on Microsoft's principles and MSN's term of use or if the company receives an official governmental notice (from the government, where the company services) showing that this information is against contrary to the local law.

- **Maintaining global access**

Microsoft underlined the content in question will be inaccessible only for users in the country where the government request has been made. The

banned online information will be approachable for the rest of Microsoft's consumers. This was a new function which Microsoft created and implemented in the MSN Spaces infrastructure.

- **Providing transparency**

Microsoft's new policy will inform users every time when certain content has been censored. It will display notification that this online content is normally available, but the access in this country has been restricted from the government.

(Krumholtz, 2006)

Additionally, the technology company was meeting Non-governmental organizations and taking active part of discussions about the human rights in China- how the situation in China could be improved and how China could follow this dynamic developing world (Krumholtz, 2006).

7.2.2.4 Industry influence

The new Microsoft's strategy was focused on changing standards, imposed by Chinese authority whether it would act alone or in cooperation with other internet technology companies. The executives wanted to choose the manner in which they would collaborate to the government. Some critics said that Microsoft was in good position to set its conditions and to negotiate its degree of compliance with the Chinese law without to lose their permission to do business in Chinese mainland (Krumholtz, 2006).

At the beginning of 2006, witnesses, taking part of the Congressional Human Rights Caucus, even suggested that non-local internet companies should not be obligated to provide any kind of personal user's information to the governments or to imply filtering on its online content. The reality was quite far away from this. No one government would allow private company to break through every restraint. In fact, there is an international jurisdiction principle that "global internet companies have to follow the law in the countries where they provide services to local citizens, even when those laws are different from those in their country of origin" (United States, February 15, 2006). Considering this principle, the local government could set sanctions to the enterprises and could restrict partially or even completely the business operations of the company in the given market (Krumholtz, 2006).

Of course, when there are serious criminal cases such as cyber-attacks, kidnapping, and child abuse, there is no doubt that compliance is needed. In such situations, cooperation with local authorities will not be considered as political repression. Moreover, when company faces this kind of government request, there won't be questions about the motivation of the requirement and it won't be criticized by the mass (Krumholtz, 2006).

Not only in China, but there are many countries where political and cultural values may contradict the norms of openness and free speech. Microsoft's managing director of federal government affairs said that company would keep on doing its best to provide its consumers all over the world the possibility to use maximum of the vast internet power (Krumholtz, 2006). Today Microsoft operates its services according to the information control in China.

I would like to finish the case studies with the response of Bill Gates about the internet censorship:

"You may be able to take a very visible Web site and say that something shouldn't be there, but if there is a desire by the population to know something, it is going to get out".
(United States, February 15, 2006)

8 DISCUSSION AND CONCLUSION

Entering new market is a challenge. The electronic market is one of the fast developing. Any internet company wanted to offer products on Chinese market, needs first a detailed approach and very well- organized strategy- when would be the right moment, how to convert its own product to be attractive for the new consumers, what kind of clients the company would like to attract and the best way to do it.

As we tracked in this paper, during the years (2010-2016) the percentage difference in the gender structure by Chinese online population decreased. Meanwhile, the numerous group using internet stays almost the same – between 20 and 40 years old, although there is a slight growth by the older generation using internet. On the educational level- the number of poorly educated netizens increases, where the biggest group of people has graduated junior middle school. If a company wants to cover those groups of potential users, its strategy needs to be oriented to their needs.

Negotiating with Chinese businessmen also needs preliminary preparation. Chinese citizens are intuitive, self-restrained, very punctual and patient during the negotiation process, implicit, group- oriented, respect skilled and trained men, and believe in the hierarchy (it won't be wrong to say they are opposite of Americans). Making a personal relationship and friendship (Guanxi) comes first and then stable business relations could be established.

Meanwhile, to provide better internet service in China, some difficulties need to be taken into account: the underdeveloped Chinese online payment system, the lack of centralized settlement system, where the costs for logistics are very high and the consumers are not willing to pay them, cyber-crimes (although there are common problem) and the most significant one- the censorship technologies, in particular: Great Firewall.

Of course, local companies do not have to be underestimated. They better know their consumers- their needs, necessities and how to satisfy them and are always ready to compete for the leading positions on their market. For example, the domestic Chinese internet companies provide “friendly atmosphere” websites with more colorful designs, 24-hours call center service with real- time live chat which links buyers and sellers, and forums where online users can share their experience and opinions about offered products and services. American technology companies provide almost the same services and goods, but the way how certain good is offered on the market or how attractive its design is -are very important factors which can make one firm more desirable than other.

When I started writing this thesis I thought the biggest hitch for American companies would be cultural differences. It required efforts to negotiate with society totally different from yours. It turns out I was quite wrong. American companies entered Chinese market better prepared and ready to do business. What they actually ignore- was the power of Chinese government and its key role in every field of the economy (the power of this control easily can be seen in Microsoft’s case where the banned blog of Zhao Jing was not even hosted in China). May-be too confident and self-reliant, American companies tried to change China. Leading from their principles of freedom of speech and expression and that everyone deserves to have access to uncensored information, they wanted to open the eyes of Chinese people and show that the government still controls them. Some sources said that Chinese users are well- aware of that fact, but cannot do anything, because every act of revolution has been suppressed by the government. Others prefer the GFW control, because they feel safer and if some content is banned- there was a reason why. Despite all efforts- Hearings on International Congresses, Speeches, Testimonies, Online Statements, Public announcements, etc., could not really change China, just the contrary- China change the American companies. Each of the mentioned enterprises (Google, Microsoft, Yahoo!) had choice – either to comply with Chinese authority or to ignore the censorship regime and to “give” their market shares to the local rivals, but living up to their principles. They all decided to stay on the market and implemented self-censorship systems, maintaining that this is the way to start transferring China from inside, because providing limited information is better than no information. Or maybe that was an excuse to avoid the follow-up critics from human rights activists. However, neither one of them had the courage to fight for its convictions by offering uncensored information to Chinese users. Yes, sometimes it will be slow loaded. Yes, sometimes it could be restricted, but still users could have a chance to approach it. In a business point of view, that would not be a profitable decision, because losing such a market with an enormous number of consumers would be step back. From a human-rights point of view, this could be the only one possible choice. Clash of interests.

From everything, that has been said and studied above, I am still wondering how in such developed world, where internet is almost everywhere and there is free access of information, a huge country as China can still control the mind of its people on such level. At the same time, there is an enormous amount of information that Chinese people can get to when they are abroad- maybe even then they won’t do it, because of the governmental

mind restrictions received all the way back in school. Despite all information sources accessible from abroad, China is perfect example that if a government receives such power, it can maintain the mind control of its own citizens everywhere in the world, so it basically creates a mind prison. I can conclude that if the American companies find a way somehow to jump over the Great Firewall in a legal way and provide unfiltered websites, maybe they will be able to change the conservative political ideals and to make the government think more liberally in order to soften the restrictions in some ways. Of course, here comes another factor- if they survive long enough on Chinese market, there is a real possibility Chinese authority to find other way to bring new restrictions to the marketplace just to stimulate domestic companies and benefit them from the absence of any foreign competitors. This could mean that the only solution China to become a modern country with more liberal understandings and different human-rights vision could be to change its governmental politics and priorities.

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