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Google Sends Right Message to China's Police State: David Pauly
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Commentary by David Pauly

Jan. 19 (Bloomberg) -- Here's hoping Google Inc. makes good on its threat to quit China.

It's time someone in the U.S. stopped coddling the Chinese police state. The American government can't, or won't.

Though Google is late coming around as an advocate of free speech in China, it still deserves applause. The company said last week it would stop censoring its Chinese search engine, Google.cn, as the communist government dictates -- and might even close the business.

Google got religion after discovering that last month hackers -- read Chinese government technicians -- tried to access accounts of, and managed to steal information from, human-rights activists who used Google e-mail.

Hackers went after at least 20 other companies' computers, Google said. Adobe Systems Inc., the leading maker of graphics design software; Juniper Networks Inc., the second-biggest maker of computer networking gear; and Rackspace Hosting Inc., which manages Web sites, said they also had been attacked.

Google can exit China without hurting its stockholders, at least in the short run. The company's revenue from China would be as much as \$350 million this year, about 1.5 percent of total sales, according to a report from Citigroup Inc.

Still, the potential market is huge. Some 330 million Chinese use the Internet. The company could sell its Nexus One mobile phone to the Chinese.

Market Shares

Google's departure would benefit search rival Baidu Inc. no end. The Beijing-based company now has 58 percent of the country's Internet search market against Google's 36 percent, according to researcher Analysis International.

With only 6 percent of the market left for others, Google's U.S. competitors in China clearly could afford to thumb their noses at the police state. Yahoo! Inc. and Microsoft Corp. do business there with partners. Microsoft Chief Executive Office Steve Ballmer said he has no plans to leave the country.

It's easy to see why most companies choose Chinese profit over political stands. China is now the U.S.'s No. 2 trading partner after Canada, with 2008 transactions of \$409 billion. U.S. companies manufacture there. Money managers invest there.

American companies keep doing business with the communist state in the face of complaints from the auto parts, steel, insurance and electronics industries that China manipulates its currency to help its exporters, prices products at unfairly low levels and protects its home markets from competition.

Look Elsewhere

Perhaps U.S. companies should seek cheap labor elsewhere.

The U.S. government has both economic and political reasons for not challenging a government that muzzles its people and kills them if they get too obstreperous.

China has been the biggest purchaser of U.S. debt at a time when the U.S. is borrowing massively to right its economy and financial system. China held about \$800 billion of Treasury securities on Oct. 31.

Still, China has nowhere else to invest its huge trading gains. The U.S. won't have to borrow so heavily if its budget deficits begin to decline.

The political front may be tougher. Barack Obama's administration needs China's cooperation, for example, in its effort to curtail the nuclear weapons capability of Iran and North Korea.

Google may eventually compromise with China. That would be a shame. Someone in the U.S. has to let the dictatorship know what we stand for. Google slamming the door as it leaves China would be a welcome step.

(David Pauly is a Bloomberg News columnist. The opinions expressed are his own.)

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