Internet Companies in China
Dancing between the Party Line
and the Bottom Line

Min Jiang

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Executive Summary

With over 500 million Internet users and 900 million mobile-phone subscribers by mid 2011, the Chinese Internet is an enormous market that has produced the spectacular rise of many Chinese Internet companies and attracted substantial foreign investment. This paper argues that, despite a great degree of liberalization of its market over the past 15 years, the Chinese Internet remains authoritarian in nature. Not only did the central government actively shape the infrastructure and rules of China’s information superhighways, but recently it has also vigorously built state-controlled Internet companies, including a national search engine.

The paper starts with an overview of the landscape of the Chinese Internet industry, followed by a review of the developmental trajectories of three important search companies in China – Baidu, Google, and Jike (the national search engine), whose stories are illustrative of the experiences of domestic, foreign and state Internet firms operating in China. The paper then outlines the Chinese government’s regulatory policies towards the Internet industry, which it is argued have undergone three stages: liberalization, regulation, and state capitalism.

It is recognized that the great prospect of the Chinese Internet is shadowed by, and often overshadowed by, the government’s insistence on weaving a China Wide Web. Domestic and foreign Internet companies are invariably used, or restricted, for social control as the government painstakingly transplants its ideology into cyberspace. Such practice is not only morally degrading but also unsustainable in the long run. An assessment of Chinese government policy toward Internet firms operating in China is not merely an academic exercise; it raises ethical and policy concerns for foreign governments, international organizations, and investor communities in China’s expanding Internet market.
Acknowledgments from the Author

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With 500 million Internet users (Xinhua Net, 2011a), over 900 million mobile-phone subscribers, and 318 million mobile-web users (MIIT, 2011a; Xinhua Net, 2011b), the Chinese Internet represents an enormous market that has dazzled investors and produced the spectacular rise of many Chinese IT firms. Two of the top five global Internet companies, Tencent and Baidu (Yahoo! Finance, 2011), are Chinese. Until recently, the conventional wisdom was that no-one could afford not to be in China. Internet companies were no exception.

The open conflict between Google and Beijing called all this into question. On January 12, 2010, Google announced that it would stop censoring its search results in China, citing cyber attacks and security breaches. In a speech given at the Newseum in Washington, D.C. a few weeks later, Secretary of State Clinton (2010) publicly criticized China and vowed to promote Internet freedom worldwide. Google, unable to reach an agreement with Beijing, eventually relocated its servers to Hong Kong, a free-speech zone, and provided a landing page directing mainland Chinese users to its uncensored HK site. Google lost some of its market share to Baidu, the dominant search firm in China, but the burden and cost of censorship has shifted to the Chinese government which blocks “unwanted” information at the border through a filtering system, often referred to as the Great Firewall, or GFW (Vaidhyanathan, 2011). In response to Google, Beijing spelled out its official Internet policy, claiming “Internet sovereignty” over its territory (Jiang, 2010a). Shortly afterward, it rolled out a “national search engine”, Goso (People’s Daily Online, 2010), which within a year morphed into Jike, a general search engine especially targeting young Chinese netizens (Chao, 2011a).

The Google-Beijing clash may be viewed as a striking stand-alone conflict over the control of information between one of the world’s most powerful Internet companies and a highly resilient...
authoritarian state. However, there are symptoms of much deeper divides over the future of the Internet and the roles that states and companies, domestic or foreign, should play.

This paper begins with an overview of the competitive landscape of the Chinese Internet industry. Taking the Chinese search engine market as a case in point, the article discusses Beijing’s regulatory policies for the Chinese Internet industry, with particular reference to the three types of Internet firms in China: indigenous, foreign, and state. This paper argues that government policies toward the Internet sector have passed through three major phases: liberalization, regulation, and state capitalism. Internet companies have increasingly been employed to weave a China Wide Web, more nationalistic in its aspirations, depoliticized in its content, and narrower in its cultural outlook. For Internet firms operating or attempting to do business in China, greater profits and opportunities often come hand in hand with greater moral hazards and risks, a Faustian bargain that many are now reluctant to strike in the aftermath of the Google-Beijing conflict.
The Chinese Internet Industry: An Overview

Enormous Market

Few in the late 1970s could have predicted that China would one day become the powerhouse that it is today, with world-class metropolises, rapid urbanization, a swelling middle class, and a vibrant economy whose size is second only to that of the US. Even fewer would have anticipated that this poverty-stricken nation would turn into a formidable technological contender 40 years later. All under the reign of a communist party.

China connected to the Internet in 1994. By 2010, it had the world’s largest Internet population and cell-phone subscribers, making it a highly attractive market. This is all the more remarkable given the country’s relatively late adoption of the Internet. In the past 15 years, however, the Chinese Internet population has grown by leaps and bounds, from a mere 0.62 million in 1997 to 485 million by the end of July 2011, according to the China Internet Network Information Center, a government-affiliated Chinese Internet research institute (CNNIC, 2011; see Figure1).
Such rapid growth is likely to continue in the near future. Currently, China’s Internet population is 500 million, close to 40 percent of its entire population (Xinhua Net, 2011a). In 2015, the number of China’s netizens is expected to grow to 650 million, roughly the size of the US, Japanese, Indian, and Russian Internet populations combined (Boston Consulting Group, 2010). Mobile-phone subscription in China is projected to be well over 1.1 billion in 2015 (Boston Consulting Group, 2010), adding another 200 million in the next four years.

**Active Users**

Besides the growing numbers, Chinese netizens are also relatively active. They spend on average 18.7 hours per week online (CNNIC, 2011), longer than their counterparts in other BRICI countries (i.e. Brazil, Russia, India, China, and Indonesia). Their use patterns (2.7 hours per day) closely resemble those in the US and Japan (averaging 2.3 and 2.9 hours online per day respectively) (Boston Consulting Group, 2010). Such activity may be attributable partially to large numbers of young Internet users who dominate China’s Internet population and occupy the lower end of the educational spectrum at this stage (see Figure 2 and Figure 3).
Internal Competition

Fueled by a massive, active Internet population, China’s cyberspace is teeming with applications and activities. In 2010, the top ten online applications on the Chinese Internet are: search engine, instant messaging, online music, online news, blog/personal space, online gaming, online videos, email, social networking, and online literature (CNNIC, 2011; see Table 1). Online search, for the first time since CNNIC started its national surveys of the Chinese Internet in 1997, ranked as the most popular application, with 79.6% of users reporting using it. The CNNIC report (2011) notes that, as with all information-saturated societies, search engines have become an effective means for netizens to locate relevant information quickly. In addition, search engines are an indispensable tool for online search for music, videos, and geographic locations, which are highly popular in China. It is also worth noting that instant messaging, with 79.4% rate of use, climbed to the No. 2 spot, trailing only slightly behind search engines. Blogging or personal online space, an important means of self-expression, ranked fifth, up 7.9% from six months ago. A total of 64.4% of Chinese netizens reported using such a service. Last but not least, the microblogging population exploded in China in the first half of 2011; the number of users increased from 63 million to 195 million, constituting 40.2% of Chinese netizens.

Figure 2. Chinese Netizen Age Distribution (2010-2011)

Source: Chinese Internet Network Information Center (CNNIC) 28th Annual Survey Report (2011)
Figure 3. Chinese Netizen Education Distribution (2010-2011)

![Education Distribution Graph]

Source: Chinese Internet Network Information Center (CNNIC) 28th Annual Survey Report (2011)

Table 1. Top 10 Popular Online Applications on Chinese Internet (2011)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Application</th>
<th>User Population (in millions)</th>
<th>Percentage of Total Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Search Engine</td>
<td>386</td>
<td>79.6%</td>
</tr>
<tr>
<td>2</td>
<td>Instant Messaging</td>
<td>385</td>
<td>79.4%</td>
</tr>
<tr>
<td>3</td>
<td>Online Music</td>
<td>381</td>
<td>78.7%</td>
</tr>
<tr>
<td>4</td>
<td>Online News</td>
<td>362</td>
<td>74.7%</td>
</tr>
<tr>
<td>5</td>
<td>Blog/Personal Space</td>
<td>318</td>
<td>65.5%</td>
</tr>
<tr>
<td>6</td>
<td>Online Gaming</td>
<td>311</td>
<td>64.2%</td>
</tr>
<tr>
<td>7</td>
<td>Online Videos</td>
<td>301</td>
<td>62.1%</td>
</tr>
<tr>
<td>8</td>
<td>Email</td>
<td>251</td>
<td>51.9%</td>
</tr>
<tr>
<td>9</td>
<td>Social Networking</td>
<td>230</td>
<td>47.4%</td>
</tr>
<tr>
<td>10</td>
<td>Online Literature</td>
<td>195</td>
<td>40.2%</td>
</tr>
</tbody>
</table>

Source: China Internet Network Information Center (CNNIC, July 2011)

The already enormous Chinese Internet market, estimated at US$ 24 billion by commercial Chinese Internet research company iResearch (2010), has ample room for growth and will give rise to fierce competition in an increasingly information-intensive economy. iResearch projects that e-commerce will constitute almost 45% of the entire market (see Figure 4). Gaming, which accounted for nearly 30% of the market in 2008, is forecast to wane to less than 6% of the market in the next three years. Although the growth of some sectors such as online advertising, Internet search, and online payments is
expected to remain flat, the mobile Internet is forecast to gain momentum in the coming years.

**Figure 4. 2008-2014 Chinese Internet Market by Sector (2011)**

![Bar chart showing the Chinese Internet Market by Sector (2008-2014)](image)


Although foreign competitors are allowed to enter the Chinese Internet market, fierce competition as well as a host of sociopolitical factors (to be discussed later in this paper) have kept many overseas companies out of dominant positions in China’s Internet business sectors. These range from online trade and, social networking to microblogging and online video sharing. The only notable exceptions are Microsoft’s MSN Messenger, which has a considerable market in instant messaging, and Google’s limited search operation, located in Hong Kong. Domestic equivalents of many Western web business types can be easily found in China (Crampton, 2011b; see Figure 5). With its reputation for ‘copycatting’ Western business models, the Chinese Internet industry has given rise to the Copy to China (C2C) model. But, with rich local knowledge, home-grown firms have not only successfully localized many Western products and services, but also come up with their own innovations. For instance, Tencent QQ, which was modeled after an instant-messaging service, ICQ, and launched in 1998 in China, have over the years built its online community to an impressive 701.9 million registered users (Tencent, 2011), whereas its Western counterpart has lost influence. The popularity of Internet bulletin boards, or BBS, in China has also driven millions of users to publish, read, and share information, making commercial services such as Tianya highly successful.

Although some Internet business sectors such as online search and e-commerce are dominated by a single firm (Baidu and Taobao respectively), other sectors are not nearly as monopolized. Social networking sites (SNS) and group buying, for instance, are
among the most contested turfs. With Facebook blocked in China, home-grown brands flourished, with intense competition between Renren, Kaixin, Tencent's QZone, and Douban. The most intensive competition, perhaps, was witnessed in the recent fad of group buying; an estimated 1,664 Groupon-like sites have mushroomed in China over the past few years (J.P. Morgan, 2011).

Figure 5. Infographic: China’s Social Media Evolution

Amidst such rapid developments, China’s gargantuan Internet and mobile user base has helped to elevate a number of Chinese companies, including Baidu, Tencent and Alibaba, to international stardom. As the dominant search firm in China, Baidu is among the world’s top five Internet companies by market capitalization (Forbes, 2010; Yahoo! Finance, 2011; see Table 2), and was the fourth most-visited website in 2010 (Corner, 2010). Tencent, a company that specializes in Internet valued-added services such as instant messaging, online gaming, and virtual currency, is also one of the biggest web companies in the world. Alibaba rules in e-commerce. It took advantage of China’s booming B2B international trade in the early 2000s and later launched Taobao for domestic B2C and C2C trade, to counter eBay’s challenge in China. The three companies, often referred to as the “three mountains” (The Economist, 2011a), clearly dominate, if not nearly monopolize, some of the most
profitable sectors of Internet business in China: online search, advertising, instant messaging, and e-commerce.

Other major Chinese Internet companies include a number of online gaming companies such as Netease, Changyou, Shanda, Giant Interactive, and Perfect World (see Table 3), Sina (online news, microblogging), Ctrip (online travel booking), Renren (SNS, online ads), Qihoo (online anti-virus solutions), Youku (online videos and ads), Sohu (online media, gaming, and search), 51Job (online recruiting and HR), eLong (online travel booking), Dangdang (e-commerce, B2C), and online video-sharing sites Youku and Tudou.

Table 2. Top Publicly Listed Internet Companies by Market Capitalization

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Company</th>
<th>Main Business</th>
<th>Listed on</th>
<th>Market Capitalization (USD, Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Google</td>
<td>Search, online ads</td>
<td>NASDAQ</td>
<td>166.33</td>
</tr>
<tr>
<td>2</td>
<td>Amazon</td>
<td>Online retailing</td>
<td>NASDAQ</td>
<td>102.02</td>
</tr>
<tr>
<td>3</td>
<td>Baidu (CN)</td>
<td>Search, online ads</td>
<td>NASDAQ</td>
<td>41.60</td>
</tr>
<tr>
<td>4</td>
<td>Tencent (CN)</td>
<td>Internet value-added services</td>
<td>HKG</td>
<td>40.32</td>
</tr>
<tr>
<td>5</td>
<td>eBay</td>
<td>Online bidding, commerce</td>
<td>NASDAQ</td>
<td>38.01</td>
</tr>
<tr>
<td>6</td>
<td>Priceline</td>
<td>Online travel</td>
<td>NASDAQ</td>
<td>22.37</td>
</tr>
<tr>
<td>7</td>
<td>Yahoo!</td>
<td>Digital media, online ad</td>
<td>NASDAQ</td>
<td>16.62</td>
</tr>
<tr>
<td>8</td>
<td>LinkedIn</td>
<td>Professional networking</td>
<td>NYSE</td>
<td>7.52</td>
</tr>
<tr>
<td>9</td>
<td>Yandex</td>
<td>Search, online ads</td>
<td>NASDAQ</td>
<td>6.59</td>
</tr>
</tbody>
</table>


1 This table compiles the most valued publicly listed Internet companies by market capitalization. The statistics are based on Yahoo! Finance in consultation with Forbes’s The Global 2000 list (Forbes, April 2011). It excludes firms whose main businesses are not Internet-based. Hence, many notable IT firms, such as Apple (hardware and software), Microsoft (software and services), IBM (IT infrastructure services and business process services), are excluded from the list. So are privately held Internet firms such as Facebook, Twitter, and Groupon.
<table>
<thead>
<tr>
<th>Ranking</th>
<th>Company</th>
<th>Main Business</th>
<th>Listed on</th>
<th>Market Capitalization (USD, Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Netease</td>
<td>Gaming, online community</td>
<td>NASDAQ</td>
<td>5.41</td>
</tr>
<tr>
<td>2</td>
<td>Alibaba</td>
<td>B2B</td>
<td>HKG</td>
<td>5.14</td>
</tr>
<tr>
<td>3</td>
<td>Sina</td>
<td>Online news, microblogging</td>
<td>NASDAQ</td>
<td>4.86</td>
</tr>
<tr>
<td>4</td>
<td>Ctrip</td>
<td>Online travel booking</td>
<td>NASDAQ</td>
<td>4.78</td>
</tr>
<tr>
<td>5</td>
<td>Renren</td>
<td>Social networking, online ads</td>
<td>NYSE</td>
<td>2.15</td>
</tr>
<tr>
<td>6</td>
<td>Youku</td>
<td>Online video sharing, ads</td>
<td>NYSE</td>
<td>2.06</td>
</tr>
<tr>
<td>7</td>
<td>Sohu</td>
<td>Online media, search, gaming</td>
<td>NASDAQ</td>
<td>2.09</td>
</tr>
<tr>
<td>8</td>
<td>Qihoo</td>
<td>Online anti-virus solutions</td>
<td>NYSE</td>
<td>1.79</td>
</tr>
<tr>
<td>9</td>
<td>51job</td>
<td>Online recruiting, HR</td>
<td>NASDAQ</td>
<td>1.17</td>
</tr>
<tr>
<td>10</td>
<td>Changyou</td>
<td>Gaming</td>
<td>NASDAQ</td>
<td>1.48</td>
</tr>
<tr>
<td>11</td>
<td>Shanda</td>
<td>Gaming</td>
<td>NASDAQ</td>
<td>1.13</td>
</tr>
<tr>
<td>12</td>
<td>Giant Interactive</td>
<td>Gaming</td>
<td>NYE</td>
<td>0.77</td>
</tr>
<tr>
<td>13</td>
<td>eLong</td>
<td>Online travel (in China)</td>
<td>NASDAQ</td>
<td>0.57</td>
</tr>
<tr>
<td>14</td>
<td>Perfect World</td>
<td>Gaming</td>
<td>NASDAQ</td>
<td>0.57</td>
</tr>
<tr>
<td>15</td>
<td>Dangdang</td>
<td>B2C, e-commerce</td>
<td>NYSE</td>
<td>0.43</td>
</tr>
<tr>
<td>16</td>
<td>Tudou</td>
<td>Online video sharing, ads</td>
<td>NASDAQ</td>
<td>0.38</td>
</tr>
</tbody>
</table>

Source: Yahoo! Finance (retrieved on October 5, 2011)
A Tale of Three Search Companies: Baidu, Google, and Jike

There is no question about China’s enormous Internet market, the number of active users, and the intensity of competition. Also undeniable is the fact that few foreign Internet companies have fared well in China so far. Neither eBay, Amazon, Google, nor Groupon. A detailed analysis of foreign companies’ underperformance in China’s Internet sector and the myriad factors accounting for it is beyond the scope of this paper; however, observers have suggested that the limited success of foreign Internet companies is attributable to a complex range of reasons including strategic failures of overseas firms, local competition, and governmental barriers (Anderlini, 2010; Chao, 2011b; Hsueh, 2011; Wolf, 2010).

Using online search as a case in point, this paper next outlines an emerging pattern of three-way interaction in the Chinese Internet industry between domestic, foreign, and state players. An analysis of a number of state policies and strategies toward these various types of web companies follows. The co-existence of three different types of search engines is highlighted, to provide a more contextualized picture of the Chinese Internet sector that can also inform the discussion of foreign Internet firms’ status in China.

The rise of commercial search engines such as Baidu (see Figure 6) and its foreign rival Google (see Figure 7) is an inevitable outcome of a world inundated by information. The two companies were founded at around the same time. A decade later, Google has become a global search juggernaut while Baidu almost monopolizes the search market in China, one of the most lucrative Internet markets in the world today. Jike (see Figure 8), a state-sponsored search engine, unveiled in 2011 in Beijing, on the other hand, is quite a different story. The role of the state, first as an arbiter and now as a player in the online search sector, creates rather unique dynamics and policy issues that will continue to shape the environment in which all Internet companies, domestic or foreign, operate in China. The following section outlines the short history of each of the three search engines, draws attention to their major advantages and challenges, and briefly analyzes their likely trajectories in the near future.
Figure 6. Baidu Homepage

Figure 7. Google Homepage

Figure 8. Jike Homepage
Baidu: The “Home-Grown” Darling

Prior to Google’s highly publicized conflict with Beijing, Baidu and Google were the dominant duo. They had about 60% and 35%, respectively, of the search market in China. After the Google-Beijing open conflict, Baidu’s share went up to 75.9% and Google’s down to 18.9% in the second quarter of 2011 (Fletcher, 2011). Other search engines – Sohu’s Sogou, Tencent’s Soso, Yahoo! Search, and Microsoft’s Bing – all trail far behind. In the area of online search, Baidu now has nearly a monopolistic status in China. Chinese netizens sometimes “Google” things, but mostly, they “Baidu it.”

Baidu was launched in Beijing in 2000, founded by Robin Li and Eric Xu who returned to China with Li’s patent RankDex, a link analysis software, and seed money from the Silicon Valley. The company went public on NASDAQ in 2005 (registering as a Cayman Islands company) and grew to a net worth of over US$40 billion in 11 years. Baidu’s success is nothing short of a pinnacle that largely mirrored the trajectory of exponential Internet growth in China over the last decade.

Despite being a Google copycat in some respects, Baidu benefited tremendously from its early-mover status, a carefully crafted “China” brand image, and its aggressive (and sometimes questionable) marketing tactics that have involved paid search ranking, site blocking, and paid removal of negative results (Reuters, 2011). In 2009, the number of Chinese web pages indexed by Baidu reportedly exceeded 10 billion, 30% more than Google (Xiang, 2009). The indigenous firm also took advantage of China’s lax copyright enforcement in its early years to build a large user base by allowing users to find audio and video files easily online (Thompson, 2006). Some of its services, however, are well adapted to domestic users. Baidu Post Bar, for instance, allows users to self-build searchable discussion boards and consequently large user communities.

Baidu was particularly successful in branding itself as a search engine for the Chinese. Its name, taken from a well-known Chinese poem, resonates with many Chinese people. To build brand awareness, Baidu created “Search Billionaire” in 2003, a trivia contest nudging millions to use Baidu for a chance to win a car (Tang, 2011). The company was not afraid of playing the nationalism card either, spoofing its US competitor in a popular viral video as an arrogant foreigner, ignorant of the intricacy of the Chinese language and culture (Tudou, 2007). Painting the company as Chinese and its CEO as a model for aspiring Chinese entrepreneurs, Baidu appeals to a growing sense of national pride in China.

Unlike Google, however, the NASDAQ-listed Chinese Internet giant does not have the kind of “China” problem its foreign competitor has to face. Li openly acknowledges that his company is willing to work with Chinese authorities for business ends (Boudreau, 2010). For its compliance with the authorities’ censorship rules, Baidu, along
with 19 other Chinese Internet firms, received the government’s “China Internet Self-Discipline Award” for “fostering healthy, harmonious Internet development” (MacKinnon, 2010).

Despite promising business growth projections, Baidu has been increasingly mired in scandals and litigations over issues of unfair business practices, copyright violations, and business monopoly. In a rare exposé of Baidu’s malpractice, China Central Television (CCTV, 2008), the Party’s major mouthpiece, revealed that Baidu mixed organic search results with paid ones. A similar CCTV report (2011) railed against Baidu for its questionable use of paid rankings, whereby advertisers who pay the most can bump up their ads to the first page. Such ads are often marked obscurely with “promotion” instead of “cached”, and easily become an accessory for swindlers selling fake products. Moreover, Baidu blocked legitimate sites that refused to pay for search ranking (Netease, 2008; CCTV, 2011). In the notorious Sanlu Poisonous Milk Scandal that resulted in the death of six infants and over 300,000 victims, Baidu was rumored to have deleted negative search results for Sanlu, a big dairy firm, in the name of crisis PR (Sohu, 2010).

Although Baidu has been sued dozens of times for copyright violations and unfair business practices in China, and lost many of those cases, the fines it paid were rather meager compared to the profit it raked in (Law Library, 2011). This may change over time, however. Earlier this year, public censure, led by famous Chinese writers such as Jia Ping’ao and Han Han, of Baidu’s unlicensed distribution of authors’ work in the Baidu Library forced the company to stop its illegal practice and issue a public apology (Reuters, 2011).

In February 2011, Baidu became the target of China’s first anti-trust investigation. Hudong Baike, a Chinese Wikipedia-like site, complained that Baidu had blocked and demoted its rankings in Baidu’s organic search results. It called for a US$120 million fine (People’s Daily Online, 2011). The lack of moral discipline that Baidu has displayed is not only damaging to its international reputation but also sows the seeds of distrust among its users and clients, especially as the company expands its business overseas to places such as Japan, Thailand, and Egypt (Chao, 2011c).

Google: Battered and Bewildered

Google’s journey in China has been tumultuous from the beginning. As early as 2000, Google started to offer online search to Chinese users, but its service was unstable at best and was briefly blocked in China as its servers were located outside Chinese territory (BBC Chinese, 2002). To ensure stable services, firms have little choice but to enter the Chinese market officially and obtain an ICP operating license from the Chinese authorities (MIIT, 2011b), subject to annual renewal and thus to government regulations. This effectively means Google has to adopt self-censorship in exchange for a share of the
Lucrative Chinese market. As a global information company that relies on a sense of trust in its reliability and accuracy among its users and online advertising clients, a commitment to censoring information, especially political information, in China is a significant gamble that is morally degrading (Levy, 2011).

Well aware that self-censorship “runs counter to Google’s most basic values and commitments” (Google Blog, 2006), Google nevertheless betted on making “a meaningful – though imperfect – contribution to the overall expansion of access to information in China” (Google Blog, 2006). Its potential benefits to Chinese netizens have been used to justify the compromise it makes, along with its profit. On entering China with Google.cn in 2006, the company vowed to disclose its filtering as much as possible while maintaining Chinese users’ privacy and confidentiality (Einhorn & Elgin, 2006). Although it is hard to gauge to what extent Google.cn has truly expanded access to information for Chinese netizens, as its founder Brin had wished (Bridis, 2006), research suggests that Google’s self-disclosure of filtering and overall level of transparency were noticeably higher than those of its competitors such as Baidu, Yahoo! and Microsoft (Villeneuve, 2008). In a controversial user blind test conducted by China IntelliConsulting (2006), a Chinese Internet research company, “the foreign devil beats the country bumpkin” in seven out of eight criteria ranging from search results relevance, richness of sources and timeliness to the amount of spamming, repetition, and dead links in search results. Although the research results were dismissed immediately afterwards due to statistical errors, the test raises important issues of freedom from search manipulation and independent evaluation of search results quality.

In attempting to increase its share of the Chinese market, Google had a difficult master to please. Given the authorities’ insistence on licensing and content regulation for foreign firms in China, Google registered and complied. Since no censoring list is ever issued, web companies, domestic or foreign, have to come up with their own. Google built its filtering list by testing what words and information were blocked by its competitors such as Baidu. In addition, such practice is augmented by regular calls from the government demanding Google to block specific sites and information (Levy, 2011). It is one thing to keep up with a constantly changing blacklist, but quite another when all Internet intermediaries are implicated in the spread of “harmful social tumors”. In 2009, for example, Google was caught in a storm when the China Internet Illegal Information Reporting Center (2009) began a campaign aimed at eradicating online pornography and vulgarity. Google was defamed in the mainstream Chinese media for allegedly “disseminating” content that harmed Chinese youth and public morality, and was

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2 Google alerted mainland Chinese users when results were partially filtered or blocked that it did so to comply with Chinese laws.
asked to filter content according to Chinese law (Xinhua Net, 2009). In early 2010, amidst alleged security breaches and cyber attacks, Google ultimately had to move its search servers to Hong Kong (Jacobs & Helft, 2010), but kept its music, translation, shopping and mapping services in mainland China. Today, Google Search is redirected to its HK site but is filtered at the border between mainland China and Hong Kong. A number of Google’s popular services such as YouTube, Blogger, and the newly released Google Plus remain blocked in mainland China.

Given Beijing’s insistence on censorship (particularly political censorship), Google may maintain its status quo in China indefinitely – operating from Hong Kong without censoring its search results and letting the Chinese government assume the responsibility of search filtering. However, the relocation of Google’s servers to Hong Kong reverts to the company’s pre-2006 status and renders its service less reliable, subject to interventions at the border between mainland and Hong Kong. This has been partially confirmed by evaluations by CNZZ (2011), a commercial Chinese online traffic company. Given the size of the Chinese market, it is unlikely that Google will stay out of it completely. While Google may not be able to pursue its search business in China, it could develop and market other products and services in China that do not require active censorship on Google’s part.

**From Goso to Jike: National Search Engine in the Making**

On the heels of a partial “Google exit”, the Chinese State Council Information Office (SCIO) issued the first official white paper on the Chinese Internet on June 8, 2010. A few weeks later, Goso (see Figure 9), a government-backed search engine, was unveiled. On the same occasion, perhaps more importantly, the People’s Daily Online, the government’s official mouthpiece, became incorporated; this was viewed as paving the way for its initial public offering (IPO) (Jin, 2010; People’s Daily Online, 2010). Chinese propaganda officials applauded both efforts, citing the People’s Daily Online as a success for “spreading the Party’s voice, strengthening the mainstream media’s position, issuing authoritative information, and showcasing the Party’s and the country’s image” (People’s Daily Online, 2010). Within a year, Goso morphed into Jike (see Figure 7), with a hipper interface design and a name that sounds like “geek” in English to appeal to Chinese youths who dominate the domestic Internet market.

Goso, or “go search” in Chinese, was first branded as “People’s Search”. It is one of Beijing’s most recent propaganda efforts in the Internet age. The state-backed search engine was formulated as a joint venture, financed by the People’s Daily (official
newspaper of the Chinese Communist Party) and the People’s Daily Online (online arm of the People’s Daily), although it was revealed that China Mobile, the Hong Kong-listed state-owned telecom entity, injected over US$30 million into the search engine’s parent company, People’s Daily Online (Fletcher, 2010; Jin, 2010). As an addition to the “Party press” that already includes the People’s Daily and People’s Daily Online, the national search engine is expected to further advance the government’s vision of a media empire with “multilingual, multimedia, globalizing, global coverage” (People’s Daily Online, 2010).

Figure 9. Goso (beta) (rebranded as Jike)

The fact that Jike does not display ads and draws its financial support purely from state funds makes it an oddity in a market that has heavyweights such as Baidu and Google. Although the motives behind Jike and its future are a matter for speculation, Deng Yaping, Jike’s CEO, made it clear that “Our aim is not to make money but to fulfill national duties” (Netease, 2010). The four-time Olympic champion went on to hire some of the best scientists, engineers and graduates in the industry in China. Liu Jin, former Assistant Dean of the Google China Engineering Research Institute, joined Jike as its chief scientist. Another former Google executive, Wang Jiang, became Jike’s Deputy General Manager (QQ Finance, 2011). By June 2011, the company had about 100 employees and its engineers had already built much of Jike’s core search technology from scratch, its chief scientist Liu claimed (Chao, 2011a). Given its recent emergence, it is not clear how the national search engine is perceived by Chinese netizens. Even less is known about the actual adoption of Jike or its market share at this point.

Although few take Jike very seriously now, given its lackluster performance compared to Baidu or Google based on even the most simple search experience test (Custer, 2011), it would be a mistake to quickly dismiss Jike as entirely irrelevant. Its importance can be both symbolic and substantial. The fact that the government was able to swiftly assemble a team to create a reasonably sophisticated search engine may be viewed by the average Chinese user as a sign of the
government’s technological competence. Moreover, since political filtering occurs on all search engines, including Baidu (self-imposed) and Google (filtered by the Great Firewall), an ad-free Jike may be looked upon more favorably given all the scandals that surround Baidu’s paid rankings. The national search engine may well adopt an ad-supported model later, but for now it can claim relative independence from commercial influence, if not government filtering.

Perhaps more importantly, what Jike has developed so far for the “national team” can be potentially deployed across all official online media platforms, from Xinhua News Agency to People’s Daily Online, to CCTV, and even to mobile search on China Mobile. Essentially, Jike could be a search engine option for all state-owned online properties, including the “tri-network”, which is integrating consumer telecommunication, radio & TV, and the Internet in China, and is expected to generate a US$100 billion market (People’s Daily Online, 2010). Jike may never overtake Baidu or even Google in China, but, with enormous resources at the government’s disposal, it could help the state to retain a greater degree of information control. It is possible to imagine a future where Jike becomes integrated into the entire government online networks, not only to fulfill basic search functions for users but also to track and monitor user behavior, as commercial search engines have been doing through server log, web cookies, and registration information (Zimmer, 2007). Not unlike its commercial counterparts, an active and widely used national search engine can have potentially grave privacy and security ramifications and consequences.
One Socialist Market, Three Tracks: Liberalization, Regulation and State Capitalism

Despite a great degree of liberalization of its market over the last 15 years, the Chinese Internet remains authoritarian in nature. Not only did the central government actively shape the infrastructure and rules of China’s information superhighways, it has in recent times vigorously built state-controlled Internet companies. This section contends that the Chinese government’s Internet policies have undergone three major stages – from liberalization to regulation to state capitalism. Although the three sets of policy orientations are not mutually exclusive and a combination of them can be applied at different points in time, the evolution of Beijing’s Internet policies through these three stages, as will be demonstrated below, is discernible.

Like coal, oil and banking, telecommunications and more broadly the Internet industry are deemed by the Chinese central government to be strategically important. The state has carefully adopted regulatory policies to reap the benefits of the market without engendering widespread political liberalization. The more recent development of state capitalism in China’s Internet sector not only raises flags about renationalization of the Chinese Internet, but also potential regulatory conflict as the state takes on the double role of a media regulator and a market player much more actively than before. As a result, it has created some unique dynamics for the co-existence of indigenous, foreign and state Internet companies in the Middle Kingdom. As the case of the three aforementioned search engines shows, the rules of the game set largely by the state will continue to shape the environment in which Internet companies, domestic or foreign, operate. Overall, the state has allowed for companies of various ownership types to exist, but carefully stewards them toward weaving a “China Wide Web” to preserve the “Chineseness” it desires.

Liberalization: Release the Genie

Well versed in such influential futuristic works as Daniel Bell’s *The Coming of Post-Industrial Society* (1973) and Alvin Toffler’s *The Third Wave* (1980), the Chinese leadership and intelligentsia of the 1980s
and 1990s conscientiously pursued national technology policies aimed at transforming China into an advanced information and knowledge-based economy (Tai, 2006). The Chinese government realized early on that China’s Internet industry could not be run by a handful of bloated, inefficient and unimaginative state-owned enterprises (SOEs). To have a truly vibrant Internet economy with diverse content, products and services, private investment, including foreign companies, had to be allowed to participate while control over the basic telecommunications infrastructure was maintained (Harwit, 2008). Thus, in the decade following the initial introduction of the Internet in China in 1994, the Chinese Internet sector has grown in a manner that is conspicuously not dominated by state-owned firms.

In the absence of strong state-controlled Internet companies, private domestic ones have been flourishing as the major players in China’s Internet industry (see Table 4; Figure 5). As noted above, a handful of domestic companies have risen to international stardom, including such Chinese household names as Tencent, Baidu and Alibaba.

On the other hand, major foreign Web companies have not been so successful in cracking the Chinese market. Most have been either blocked or are floundering (see Table 4). For instance, although less-known foreign social networking, video, blogging, and microblogging services are accessible from mainland China, the well-known ones such as Facebook, YouTube, Blogger and Twitter are blocked entirely. However, in a number of other sectors such as online search, online forums and Internet portals, all three company types – domestic, foreign, and state – co-exist, with different degrees of freedom for foreign firms. Google.cn, since Google’s open conflict with Beijing in early 2010, has been restricted by the filtering of the Great Firewall (GFW), while portals such as Yahoo! China and Microsoft’s MSN China closely follow China’s censorship rules so that online content survives. Yahoo!’s other two services, Yahoo! China Forum and Flickr, also remain accessible in China. In sectors such as instant messaging and online buying, foreign players such as MSN and Groupon are struggling. Although the reasons for various firms’ accessibility as well as their relative success and failure in China are complex, and not always attributable to state interventions or censorship practices, government policies and strategies do prescribe the rules of the game and influence the market environment in which companies operate.
Table 4. Key Internet Players by Sector and Company Type

<table>
<thead>
<tr>
<th></th>
<th>Domestic, Private</th>
<th>Foreign, Private</th>
<th>State-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search Engine</td>
<td>Baidu</td>
<td>Google.cn (in HK)</td>
<td>Jike</td>
</tr>
<tr>
<td>Web Portal</td>
<td>Sina, Netease, Sohu</td>
<td>Yahoo! MSN</td>
<td>People’s Daily Online</td>
</tr>
<tr>
<td>Online Forum</td>
<td>Tianta</td>
<td>Yahoo! Forum</td>
<td>Qianguo Forum</td>
</tr>
<tr>
<td>Micoblogging</td>
<td>Sina Weibo</td>
<td>Twitter (blocked)</td>
<td>Renmin Weibo</td>
</tr>
<tr>
<td>Blogging</td>
<td>QZone, Sina Blog</td>
<td>Blogger (blocked)</td>
<td>Qianguo Blog</td>
</tr>
<tr>
<td>Instant Messaging</td>
<td>QQ</td>
<td>MSN</td>
<td></td>
</tr>
<tr>
<td>Group Buying</td>
<td>Laoshou, Meituan</td>
<td>Groupon</td>
<td></td>
</tr>
<tr>
<td>Photo Sharing</td>
<td>Yupoo, Bababian</td>
<td>Flickr</td>
<td></td>
</tr>
<tr>
<td>Online Video</td>
<td>Youku, Tudou</td>
<td>YouTube</td>
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</table>

In the earlier years of Chinese Internet development, the state encouraged market liberalization within given parameters. The state ensures its command of the strategically important telecommunications industry by owning and controlling the telecommunications backbone operators such as China Telecom and China Unicom, which carry all other Internet and mobile services in the country (Gao, 2010; Harwit, 2008; Zhao, 2006). Broadly defined, the telecommunications industry encompasses many of the Internet-related services. China’s WTO telecommunications ownership agreement in 2000 accepts foreign ownership up to 49%, rising to 50% in two years in the following areas: fixed-line services, valued-added and paging services, Internet Content Provider (ICP), Internet Service Provider (ISP), and mobile services (Zielinski, 2005). Completion of these agreements was expected to take place progressively at varying speeds within a maximum of six years. The process bought SOEs and private Chinese firms much-needed time while stepping up the pressure for them to build their competitive capacity.

Prior to China’s accession to the WTO, domestic private web companies were well under development, offering a variety of services based on the national telecommunications backbones.

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3 This list is by no means exhaustive of either the related Internet companies or the sectors involved. It highlights a few key players in each category. Obviously, although Twitter, Blogger, YouTube and Facebook remain blocked in China, other smaller foreign microblogging, blogging, online video and SNS are accessible in mainland China.

Both private domestic and foreign companies were allowed to thrive within the limits set by the state. In fact, the high-tech sector in general was offered more favorable tax treatment, lower interest rates on bank loans, and access to better infrastructure in high-tech industrial parks and talent pools – all top-down initiatives taking the form of national laws (State Council, 1999). Even lower tax rates, for instance, were provided to foreign companies (15%) but not to domestic private enterprises (33%) since the very beginning of China’s reforms in 1979 (Huang, 2003) until such “super-national treatments” came to an end in 2008 (Hua, 2009). The nullification of such handouts to foreign players signifies the end of an era when foreign direct investment (FDI) was deemed essential. However, friendly business policies continue to be touted to foreign and domestic firms by various high-tech parks set up across China, including the technological hubs in Beijing, Shanghai and Shenzhen (e.g. Shenzhen Municipal Government, 2009). Despite the often-heard outcries of “Chinese protectionism”, some observers note that “regulatory discrimination against foreigners has not been a major issue” in the Chinese Internet industry (Wolf, 2010).

Obviously these “open door” policies were used to absorb FDI, transfer of technological know-how and management expertise. To attract much-needed capital and technique, for instance, China Unicom was willing to explore gray policy areas, circumvent regulations, and indirectly let foreign companies own up to 80% majority stake in dozens of joint-ventures from the mid-1990s onward until 2000, when China’s WTO agreement and the China Telecommunications Decree of 2000 went into effect to strictly regulate such practices (Harwit, 2008). It is also worth noting that WTO agreements have been carefully constructed to acknowledge that “states can legitimately impose regulations for reasons ranging from the protection of consumers to maintaining the overriding public interest or national security” (Hughes, 2004, p.72). Hence, market liberalization does not mandate free speech or limit Beijing’s ideological control of the Chinese Internet, which is deemed to be within its jurisdiction by such international trade agreements.
Regulation: Bottle the Genie

China’s Internet market liberalization has always been accompanied by careful, if somewhat chaotic, state regulation (Mueller & Tan, 1997). Not only have government policies affected indigenous and foreign players differently, but policy influence over Internet companies of different kinds (e.g. e-commerce vs. search engine) also varies. To ensure the industry’s compliance with the government’s wishes and desires, Beijing has implemented four major types of regulatory measures for Internet companies operating in China: ownership rules, licensing, censorship, and “state media watchdog”.

Ownership rules
If “freedom of the press is guaranteed to those who own one”, as American journalist A. J. Liebling observed, the Chinese Internet is by and large controlled by the Chinese government which not only owns an overwhelming stake in the telecommunications infrastructure but also regulates and patrols the boundaries (particularly the political boundaries) of online speech.

Chinese laws and international agreements have clearly stipulated ownership rules for domestic and foreign Internet companies. They bar foreign companies from owning a majority stake in joint Web ventures. China’s WTO telecommunications agreements of 2000 and The Administration of Foreign-funded Telecommunications Enterprises Provisions of 2001 (Gov.cn, 2011a) all provide that foreign Internet companies cannot own a majority stake in China’s telecommunications services. As a result, foreign firms cannot operate Web businesses in China without a local Chinese partner. FDI is strictly prohibited in all basic telecommunications services or Class I Telecommunications Services, although the regulations for FDI in the value-added telecom service sector, or Class II Telecommunications Services, are not crystal-clear (Lee, 2011). These ownership rules would also, in theory, prevent Chinese Internet firms from listing overseas as “going abroad” would invariably violate state regulations restricting foreign ownership and investment in China’s sensitive telecommunications sector.

However, to circumvent such ownership restrictions, the “variable interest entity” (VIE) structure has been used by foreign investors to operate their Web business in China over a decade (Lee, 2011). VIE also gives private Chinese firms access to international capital markets through offshore listings, as Sina.com pioneered in 2000 and as was replicated by other overseas-listed firms including Baidu, Tencent and Alibaba (Southern Weekly, 2011). Recently its legality was called into question by Chinese authorities pursuant to the Alibaba-Yahoo! dispute and accounting scandals involving US-
listed Chinese companies abusing the VIE instrument (Baldwin, 2011). Under the structure, foreign investors and Chinese partners form an offshore entity to control a foreign-owned or –invested enterprise in China. This offshore enterprise, through service agreements or VIE contracts, controls a Chinese domestic company with an operating license in the forbidden business sectors. Foreign investors receive contractual revenue, but do not share ownership of the domestic licensed company (Lee, 2011). Although the Chinese government has formerly acquiesced in VIE and is unlikely to completely repeal it, the prospect of state regulation sends jitters across the entire Internet sector (China Law Blog, 2011).

Licensing
In addition to ownership rules, licensing is another powerful instrument of regulation. The Telecommunications Regulations of the PRC promulgated since 2000 (Gov.cn, 2011b) and the Administration of Foreign-funded Telecommunications Enterprises Provisions of 2001 (Gov.cn, 2011a) require all China-based websites to obtain an Internet Content Provider (ICP) license to operate in China and to register with the regulatory authorities, formerly the Ministry of Information Industry (MII), and now the Ministry of Industry and Information Technology (MIIT). Operating from China obviously is a prerequisite for obtaining such a permit. The regulations require the ICP license to be issued by authority, displayed online, reviewed and renewed. These rules effectively regulate domestic and foreign businesses within China’s jurisdiction. As a result, personally identifying user data that passes through foreign entities’ websites in China all fall under the Chinese prerogative. Google’s ambivalent experience in China is an example of how its business and overall operating strategies have been restricted by such licensing regulations.

Given the expanding areas of business that Internet companies branch into such as advertising, e-commerce, gaming, news and information, it became clear that additional licensing might be required from other Chinese ministries and relevant authorities such as the Ministry of Commerce (MOFCOM), the State Administration of Foreign Exchange (SAFE), the State Administration on Taxation (Lee, 2011), the General Administration of Press and Publication (GAPP) which oversees publication of newspapers, periodicals, books and websites, and China’s State Administration of Radio, Film, and Television (SARFT), which regulates radio, film, television, satellite and Internet broadcasting. As the Internet sector grows in importance and becomes more lucrative, it is not uncommon for these regulatory bodies with overlapping jurisdictions to be involved in regulatory turf wars. In general, the MIIT, MOFCOM and SAFE are more concerned with the technical and economic aspects of the Internet industry, with principal responsibility for assessing qualification for permits, market structure, and the daily operation of Internet businesses, while the other institutions are more preoccupied
with regulation of Internet content, propagating a complex set of laws, regulations, rules and notices (Kariyawasam, 2011).

**Censorship**

Besides licensing requirements, a number of other legal documents issued since 2000 have combined to prevent Internet companies from hosting information that the state finds objectionable. These amount to de facto Internet censorship rules (ONI, 2011). The documents include Administration of Internet Information and Service Procedures promulgated by the State Council in 2000 (Gov.cn, 2011c), Administration of Engagement by Internet Sites in the Business of News Publication Tentative Provisions issued jointly by the Press Office of the State and the Ministry of Information Industry in 2000 (SCIO, 2011), and Administration of Internet Electronic Messaging Services Provisions by the Ministry of Information Industry in 2000 (Gov.cn, 2011d). These laws, targeting online information, news and bulletin boards were built on previous licensing requirements and further specified the restrictions placed on Internet firms operating in China. For instance, Google noted that, during its discussions with the Chinese government in early 2010, it was made clear that “self-censorship is a non-negotiable legal requirement” (Google Blog, 2010).

Internet content providers (ICPs), both domestic and foreign, are required to be part of a large censorship outsourcing program. Expected to follow state directives, ICPs have to create a comprehensive set of rules governing their users and have these rules published prominently on their websites. In addition, ICPs are mandated to set up registration and log-in systems to identify and track subscribers. Subscribers’ usage information is required to be stored for 60 days, and ICPs have to turn over such information to government agencies upon request. Finally, ICPs are asked to monitor all content on their websites and immediately remove and report any inappropriate or illegal postings (ONI, 2011).

Consequently, Internet companies operating in China have to bear both the moral hazard and financial cost of online censorship. Violation may lead to revocation of operational licenses or more damning legal consequences, including criminal charges. However, for companies of different types, the degree of intermediary liability varies. Speech-based Internet businesses such as search, blogging, microblogging and social media are more likely to bear the stigma and risk of censoring practices than other kinds with apolitical foci such as gaming, e-commerce, and online group buying. In addition, microblogging, social networking sites and other types of social media, given their deep integration into people’s everyday life, are more likely to be under closer scrutiny from regulatory authorities. The impact on domestic and foreign firms varies too. Whereas indigenous companies often have no choice but to consent to censoring practices, Western global players need to weigh the moral,
financial and strategic consequences of censorship with a lot more care.

“State Media Watchdog”
On top of ownership, licensing and censorship rules, the state also has at its disposal a vast array of more intangible instruments to shape the business environment, public perceptions and organizational behavior. State media, under the control of various “relevant departments”, are perhaps the most powerful of all. This “watchdog” role taken by state media, both online and offline, can have a mixed set of consequences for Internet companies and the industry at large.

Sometimes, the “state media watchdogs” manage to rein in market excesses. State television CCTV’s two prominent campaigns against Baidu’s unfair business practices of paid ranking and arbitrary blocking and demotion of business search rankings has obvious positive social outcomes. After the first CCTV exposé in 2008, Baidu’s shares plummeted as much as 25% on a single day. By and large, the media campaign admonished unethical organizational behavior and, at least for a short while, fostered a more ethical business environment. However, the intentions behind CCTV’s coverage have been questioned. It was later revealed that, in the first quarter of 2009, a large chunk of Baidu’s advertising spending, about 40 million yuan (US$5.6m) went to CCTV, a move seen as a Baidu attempt to be in the state media giant’s good graces (Ye, 2009).

More often than not, state media have been used to send political signals to the larger online business community. The many waves of anti-vulgarity, anti-pornography and anti-rumor campaigns started by “state media watchdogs” are known to be code names for speech crackdowns aimed at ICPs. Both domestic and foreign ICPs, including Baidu and Google, have been lambasted by state media regulators for demoralizing Chinese netizens, particularly Chinese youth (Xinhua Net, 2009). The most recent round of “truth campaigns” against online rumor (Horn, 2011) in favor of real name registration 4 (Bishop, 2011) on Chinese microblogging and social media services are seen as strong state media reactions in the aftermath of Middle Eastern protests and public anger over the Wenzhou high-speed train crash.

4 The rise of social media such as Sina Weibo in China has made it faster and easier to quickly share news and information. Given the lack of channels to redress grievances, many Chinese netizens have turned to social media to voice their opinions, which often put questionable officials and official conduct on display. Many netizens, for fear of retaliation, use fake online identities. In the eyes of Chinese authorities, however, social media has turned the Chinese Internet into a “rumor” mill. “Truth campaigns” are meant to control public opinion in the name of “eradicating online rumor”. Real name registration, which was rolled out on Chinese microblogging sites since the end of 2011 (Lam, 2011), is supposed to curb the spread of “rumor” by enforcing real online identities.
State Capitalism: Propaganda Inc.

Besides encouraging the development of China’s Internet industry while disciplining it in the same breath, the state propaganda machinery has also moved online in the direction of state capitalism to reclaim its cyber authority through incorporation, capitalization and expansion. This process, driven by a combination of commercial impulse and a desire to be politically relevant in the digital age, is likely to have far-reaching business and political implications both at home and abroad.

It is clear that full privatization of China’s telecommunications industry is simply not on the Party’s political agenda ever since China began building its telecommunications infrastructure. The Chinese economy is highly privatized now. SOEs contribute only about 30% toward GDP and hold around 40% of total industrial assets (Gao, 2010). However, the government has managed to retain control over critical sectors, including telecommunications. The strategy to “retain the large, release the small” was a deliberate move by the State Council in 1995 (Hsueh, 2011). After decades of selective liberalization, operation of the telecommunications backbone and physical access to the Internet still lie in the hands of three enormous SOEs: China Mobile, China Telecom, and China Unicom, all listed on the Hong Kong and New York stock exchange. As long as they remain state-owned, the most critical Internet assets will always be at the beck and call of the government, making Web filtering and blocking all the easier at the infrastructure level.

After securing firm control of the Internet backbone in China and nurturing the growth of world-class indigenous Chinese Internet companies, the central government has recently initiated the public listing of the online propaganda apparatus. At the forefront of this process are many of China’s largest propaganda organs, including the People’s Daily, Xinhua News Agency and CCTV. The process is seen as “state capitalistic” because it is intended to use capitalist market mechanisms to improve efficiency and, more importantly, to better promote the party’s views and extend its influence in cyberspace. Unlike previous state capitalistic endeavors in China’s manufacturing, industrial and media sectors, the latest attempt is ultimately about using the market to produce and sell the Party’s “ideological goods” online.

The process of incorporating state-owned media units and preparing them to go public certainly has a long history. It has been at least 15 years in the making. Ever since Shanghai Oriental Pearl (Group), a subsidiary of the Shanghai Media Group, became listed on Shanghai Stock Exchange in 1994 and Beijing Media, part of Beijing Youth Daily, went public on the Hong Kong Stock Exchange in 2004, more and more state-owned media organs have been pressed to become financially self-reliant (Xing, 2011). With permission from the State Council in 2003 to transition from SOEs to incorporated
companies, a batch of “experimental reforming units” started the march down the path of “Propaganda Inc.”

The latest wave of transition is sweeping across state online media at the highest level. Under the “People” brand, the state’s major web portal, People’s Daily Online, has developed several important components in addition to distributing general news and information: the online discussion forum, Qiangguo Forum (Strengthening the Nation Forum); the online blogging platform, Qiangguo Blogging; the microblogging platform, Renmin Weibo (People’s Microblogging), and the search engine, Jike (see Table 4). According to Alexa data (2011), overall, People’s Daily Online’s traffic ranks 229th globally and 41st in China. Phoenix Media (2009), a well-known Chinese media group, ranked Qiangguo Forum 8th among the most influential Chinese online forums. In January 2012, the online division of the People’s Daily has been approved to be listed on Shanghai Stock Exchange, the first state-level website filed to go public in China (Barboza, 2012).

Besides People’s Daily Online, two other national websites are considered for public offering: CCTV’s China Network Television and Xinhua News Agency’s Xinhua Net. In addition, seven provincial-level websites (mostly affiliated with provincial propaganda organs) have also been selected as candidates: EastDay.com under Shanghai Network Group, eNorth under Tianjin Media Network, Qianlong.com under the auspices of the Beijing Propaganda Department, Public Daily under Shangdong Provincial Press, Zhejiang Online, Hunan Voice Online, and Sichuan News.

While few raise their eyebrows when state-owned oil or banking companies become publicly listed, many more should be taken aback by the public offering of central propaganda media units given their ideological nature. From a democratic standpoint, a government mouthpiece is by definition biased, if not entirely oppressive. One might note that the marketization and capitalization of propaganda seems to be fundamentally at odds with the notion of a free, fair and competitive market. In such an environment, how is it possible for news and information to be delivered in a timely, accurate and complete fashion to serve market needs? How is it possible for a state media regulator to act as a market player at the same time?

However, Chinese state media have been dancing between the Party line and the bottom line for years, since reforms started in the late 1980s (Zhao, 1998). Without a history of a free press, the notion of a marketplace for the media is a recent phenomenon. However, in the reform era, most state-owned print and broadcast entities became increasingly commercialized and dependent on advertising and eventually became completely weaned from state subsidies (Zhao, 1998; 2008). The latest “Party propaganda online” move is a continuation of the already entrenched neoliberal principles that put profit-making above and beyond all else, with the exception of balancing profits with state censorship rules. Although a detailed
discussion of the intricate and often contradictory process of state capitalism is beyond the scope of this paper, it suffices to say that socialistic legacies continue to morph into market-oriented media transformations in China. This shift has resulted in a form of “neoliberalism with Chinese characteristics” (Harvey, 2005), where most Chinese media keep churning out predominantly apolitical and entertainment content, sprinkled with occasional critical investigations, reinforcing class divisions in the country.

Such an informational space is highly distorted, where private and foreign firms continue to be bounded by state regulations to limit free expression despite an enlarged discursive space (Jiang, 2010b). More than likely, commercial state online media will deliver an increasing amount of entertainment, business and depoliticized cultural content that appeals to a growing netizen population. Their incorporation and capitalization will not fundamentally change the nature of a propagandist state although its means of communicating with the public will be more modernized and subtle. With considerable control over informational resources, the state’s “deep pockets” and creative “guiding of online public opinion”, the “People” brand may endure in the near future.

In summary, following a period of liberalization and the establishment of sophisticated regulatory rules, Beijing has not only strengthened its online influence but also started to groom its central propaganda apparatuses to go public. This means that, in addition to being the media regulator for the Chinese Internet market, the central propaganda organs are turning themselves into business players, ready to raise public funds to extend their operations. The dual role the online propaganda organs play – media regulator and media player – is inherently contradictory and is anathema to those who seek market fairness and competition. This issue is likely to raise questions regarding China’s compliance with WTO agreements (Hsueh, 2011). Over the past three decades, through a combination of limited market liberalization, authoritarian regulatory mechanisms, protection of national champions, and most recently the incorporation and capitalization of propaganda organs, the Chinese state has more or less managed to weave a China Wide Web in its own image.
Internet Sovereignty: Between Party Line and Bottom Line

With its rising economic status in the world, China appears to be taking a more assertive stand on Internet regulation, particularly in the aftermath of its conflict with Google. Upon Google’s partial exit, Beijing unequivocally claimed “Internet sovereignty” over its territory, reaffirming its authority over the country’s informational space (Jiang, 2010a). To put this into historical perspective, it has been three decades since the state started to loosen its grip over the media, particularly through commercialization. However, the fundamental expectation of the media in China that they must serve both the party line and the bottom line (Zhao, 1998) has not changed, despite growing numbers of media outlets, better technologies, faster Internet connections, and an unprecedented number of netizens.

In other words, in the state-initiated economic reform that started in the late 1970s, the market was brought in to save socialism, not to dismantle it (Huang, 2003). Chinese reforms, in essence, were largely economic in nature, and were not preceded by a radical ideological break with the socialism of the past. Contrary to the prevalent Western myth of “liberation technology”, Beijing imported technologies instead to enhance China’s economic and political strength and prove its superiority as a socialist nation (Kluver, 2005). This self-imposed path of development favors “reform” but shuns Western-style liberal-democratic “transformation” (Mueller & Tan, 1997). Although the introduction of capitalist elements has changed various aspects of Chinese society and made it more open than before, it has not fundamentally altered the “reform” path that China has been on. There is some concern today that the marriage between socialism and capitalism has produced a new form of crony capitalism, more pernicious than either alone (Pei, 2006). What this implies is that the sociopolitical contexts in which Internet companies operate will continue to pose political risks and moral hazards.

An Intranet without Purpose?

Given a colossal Internet population and active Web use, the Chinese Internet holds great promise as a market for profit and a platform for massive participation. Meanwhile, its democratizing potential has
been largely curtailed by a powerful state bent on weaving a China Wide Web using private and foreign firms as a proxy for social control. Not only are companies bounded legally by ownership, licensing and censorship rules, they are also often at the mercy of state media campaigns orchestrated in the name of security, morality and protection, with mixed social consequences (Hughes, 2004). In the case of three search engines, Baidu, Google and Jike are acting not only as businesses but, in the eyes of the central government, as an extension of the state ideological apparatus. In addition to bearing the cost of censorship and content regulation, both domestic and international firms carry the risk of moral hazards. More peculiarly, not only does the state attempt to regulate as much online content as possible “within its territory”, but recently it has also hastened to rush state-funded Web companies to the stock market.

All this is not to say that the China Wide Web, driven increasingly by apolitical consumerism, is devoid of business and cultural innovations, serious and playful resistance, enlarged spheres of expression and raging intellectual debates (Hu, 2008; Jiang, 2010b; Yang, 2009). As a platform through which more than 500 million Chinese conduct their daily business and lives, the Internet in China reflects every facet of an ancient civilization in radical transformation, its hopes and wants. However, one cannot help but realize that the problem facing the Chinese Internet today is not so much one of access as one of purpose, i.e. what should one do with that access and who has a say in its future?

Will the Chinese Internet truly empower its netizens? Give them a voice? Deliver the information and knowledge they desire? Facilitate their collaborations? Unlock the innovative potential of each Internet user? Or will it turn into an astronomic glittering shopping mall that enriches powerful corporations and domestic and international capital by catering to consumerism and, most importantly, the government’s wishes and whims? When the state preemptively embeds censorship into business practice and self-censorship into personal consciousness (Tsui, 2003), the future of the Chinese Internet seems rather bleak. A national Internet policy officially endorsing “active use, scientific development, law-based administration and ensured security” (SCIO, 2010) yet systematically curtailing individual rights to speak and act does little to empower average netizens. Instead, it reinforces the power of political and economic elites.

To Be or Not to Be?

At a celebration of the 90th anniversary of the founding of CCP, Baidu CEO Robin Li reportedly said: “Walking the path of socialism with Chinese characteristics is the wellspring of strength that will allow the Chinese Internet to continue its healthy and rapid development” (Chao, 2011a). Eager to grab a share of an expanding domestic
market, domestic Web companies have little choice but to write off censorship as an operational cost. Setting aside this issue, however, these companies – especially big firms such as Baidu, Tencent and Alibaba – should, at a minimum, refrain from unfair business practices that harm either their clients or users. Not only does this bear on the rule of law, it is also a matter of decency, business ethics and corporate social responsibility (Carroll, 1999), which fundamentally define the role Internet businesses play in an information society.

For Chinese Internet companies listed overseas, the moral hazard of censorship has been largely accepted as part of “national conditions”. The American investment community, MacKinnon (2010) argues, has been willing to fund Chinese censorship technologies and systems without much objection. However, some investors do take issue with the ethical implications of investing in censoring firms. In 2005, for instance, 25 US, Canadian, Australian and European investment funds signed a pledge to respect freedom of expression and to call on Internet firms to make information public that would enable their investors to assess a firm’s actions to ensure that its products and services are not being used to commit human rights violations (Human Rights Watch, 2006). As Chinese firms aim at overseas expansion, their social responsibility records are likely to be scrutinized even more closely than before. The recent experience of Chinese IT giants ZTE and Huawei being shut out of business bids in the US over security concerns highlights the security and moral barriers that Chinese IT and Internet companies have to overcome as they strive to create their brand image abroad and build trust with overseas clients and user communities.

On the other hand, in the wake of the Google incident, foreign firms operating in China are becoming more keenly aware of issues of cyber security and handling of user data. Google, for example, has since upgraded its Gmail security measures (Fallows, 2011) for user protection and self-protection, and started publishing government censorship requests from around the world (Google, 2011). More importantly, foreign companies, operating in China or China-bound, are now more likely to vigilantly assess the cost of censorship and self-censorship and the return on investment, not only for the short but also for the long term. The Chinese Internet is undoubtedly important but a future based on censorship and self-censorship is not sustainable. While appropriate, measured and open standards of content filtering applied to extremely objectionable material may be justified given the consent of the relevant community, the widespread, arbitrary, opaque operation of content blocking and deletion is not only an insult to Web users but also a violation of internationally recognized rights conventions. In addition, given the importance of the Internet sector to many information societies, there is growing recognition that censorship poses a barrier to trade (Black, 2011). Given that the contribution of search engines alone to the global economy is estimated at US$780 billion annually (Bughin et al., 2011), a transnational alliance is likely to emerge in the coming years.
to more vigorously pursue more principled informational trade through international trade bodies such as the WTO.

**Whose Sovereignty?**

It is clear that, after two decades of development, the Internet has become indispensable, commercially, socially, culturally and politically. However, deep divides exist over the future of the Internet and the roles that states and companies should play. The China model, laid out in the Chinese white paper “The Internet in China” (SCIO, 2010), is diametrically different from the US model articulated by Secretary Clinton. Each is based on distinct assumptions about what the Internet is, who inhabits such a space, and how the Internet should be governed (Jiang, 2010a).

The US model is centered on the idea of Internet freedom. Depicted through a libertarian lens, the future of the Internet is one with unlimited computer access, free information and empowered individualism, ideals that are reminiscent of hacker ethic and the counterculture movement of the 1960s (Levy, 1984). The Chinese view of the Internet, on the other hand, is fundamentally utilitarian. Beijing does not see the Internet as an extension of individual freedom or a marketplace of ideas, but has embraced it because it is conducive to socio-economic development.

Individuals who inhabit the cyberspace are assigned distinct sets of values too. The US model is in essence the First Amendment in cyberspace. Just as individuals in the offline world would have the rights to free expression, worship and peaceful assembly, netizens are supposed to have the same freedoms online. These rights, framed as universal, are seen as the basis of a form of global citizenship that transcends national boundaries. Nominally, Beijing also provides online freedom of speech. The public, according to the Chinese Internet white paper (SCIO, 2010), has the “right to know, to participate, to be heard and to oversee in accordance with the law”. In practice, though, institutional protection for these basic rights is lacking despite considerable improvements. According to the white paper, the government forbids Internet information

> “being against the cardinal principles set forth in the Constitution; endangering state security, divulging state secrets, subverting state power and jeopardizing national unification; damaging state honor and interests;”

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5 The pervasive, and even abusive, use of the ambiguous term “Internet freedom” has been derailed by critics such as Morozov (2010) who fears the US government’s hypocritical pursuit of the Internet freedom agenda stems from a desire to further its own interest, often to the detriment of the cause in other countries. The problem, in my view, does not necessarily spring from a set of worthwhile values, but rather an instrumental implementation of it tainted by ulterior motives and power abuse.
instigating ethnic hatred or discrimination and jeopardizing ethnic unity; jeopardizing state religious policy, propagating heretical or superstitious ideas; spreading rumors, disrupting social order and stability; disseminating obscenity, pornography, gambling, violence, brutality and terror or abetting crime; humiliating or slandering others, trespassing on the lawful rights and interests of others; and other contents forbidden by laws and administrative regulations.”

Given the wide spectrum of prohibited content, coupled with often arbitrary interpretations and enforcement of the law, it is not surprising that netizen rights are frequently sacrificed for the sake of “social stability”. Thus, the claim to sovereignty, which tends to bring out a sense of national pride in the country, ironically reduces the protection for netizen rights and interests.

In summary, the US model presumably advocates a single connected Internet that is, to a degree, sovereign in its own right, while China is pushing for an Internet with borders, based on territorial sovereignty. The former approach is individual-based, rights-centered and market-driven; the latter is state-centered with an emphasis on personal responsibilities over personal rights, economic growth, and minimal political risk for the one-party state.

Although Washington claims the moral high ground here, it remains to be seen if Western democratic countries can truly live up to such principles before trying to hold other countries to account. This admittedly will not be easy as governments and large Internet corporations around the world are prone to power control and manipulation (Morozov, 2011). There is ample evidence of the deterioration of media as a democratic institution in countries traditionally known as Western democracies (McChesney, 1999), a trend that seems to persist in the digital era (Bagdikian, 2004; Wu, 2010). However, the failure to live up to democratic ideals should not be equated with the bankruptcy of democratic principles themselves, although many smug Chinese intellectuals refuse to acknowledge the inherent limitations of an authoritarian China model (Fukuyama & Zhang, 2011). They seem to have quickly forgotten that Beijing owes its success, in large part, to the gradual retreat of the state from people’s day-to-day affairs and the release of the energy of its people in their economic, cultural, and political lives, not the other way around.

The divergent rhetoric from Beijing and Washington indicates that the world’s two most powerful Internet countries have a clash of approach to Internet governance that directly affects the operation of Internet companies within their borders. The limits placed on businesses and users by censorship and self-censorship not only cost a company financially and morally, but also put fences around innovation and creativity. Such restrictions confine the flow and growth of culture, media and Internet business. China insiders complain that it is entirely counter-productive for individuals and
companies to waste their time and energy on dealing with censors and red tape rather than implementing creative and innovative ideas (Goldkorn, 2009).

Moreover, the intractable clash of approaches complicates the sociopolitical environment in which companies navigate. It seems that, in many cases, the Internet has not transcended the nation state and particular cultures. Despite the fact that the Internet has been popularly referred to and used as a border-crossing infrastructure, its governance is far from borderless, especially when it comes to issues of security, confidentiality, privacy, morality, religion and political expression. Various states have erected architectural, legal and political barriers in order to make the Internet “space” conform to their national “place” (Price, 2002).

Although Internet companies have complied for the most part with local laws and regulations, they have also been pushing back, not only individually (Rosen, 2008) but also collectively (Palfrey, 2011). Google, Microsoft and Yahoo!, for instance, joined in 2008 the loosely structured Global Network Initiative (2011) to implement a voluntary code of conduct upholding civil liberties around the world. Such collective resistance, although not always unanimous and effective, suggests that the approach foreign Internet companies take toward China is likely to become more sophisticated, cautious and perhaps more vocal than previously. The notion of multiple “sovereign intranets” corresponding to absolute “sovereign nation states” will continue to be challenged by individuals, groups, governments and companies alike (Jiang, 2011; Palfrey, 2011). The Chinese Internet will not be an exception.
Concluding Remarks

There is little doubt that the Chinese Internet has tremendous potential. With an expanding market and rising numbers of active users, it has witnessed the rise of many domestic Internet giants such as Baidu, Tencent and Alibaba. Besides traditional market players, a new category of “competitors” has also entered the scene. As the stories of three search engines – Baidu, Google and Jike – illustrate, domestic and foreign Web companies now have to cope with the emergence of state Internet firms that are media regulators and media players at the same time. In addition, the government’s regulatory policies toward the Internet industry have undergone three important stages: from liberalization to regulation to state capitalism. At the government’s insistence, in order to weave a China Wide Web, both domestic and foreign Internet companies have been invariably used or restricted for the purpose of social control as the government painstakingly transplants its ideology into cyberspace. We are also at the cusp of witnessing the incorporation and capitalization of state Web companies, a new breed of central propaganda organs.

So far, China’s Internet development has been guided mainly by an Internet governance approach that emphasizes both economic growth and information control. This combination of capitalism and authoritarianism seeks to unleash market forces and contain their political consequences at the same time. This state-centered, market-driven model, however, has its limits. It favors arbitrary state power over netizen rights and puts profit above and beyond social responsibility and personal integrity. The use of Internet companies in China as proxies for censorship and self-censorship is not only morally degrading but also unsustainable in the long run. It is hard for a China Wide Web to be genuinely vibrant or respectable without adequate protection for user rights or fair market rules. A truly sovereign Internet is not one with thick walls, but one where users have the tools, knowledge and experience to govern themselves – a “people’s” Internet.
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