

A report on conflict between china and google economics essay



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This report helps us to understand the reason why there was a conflict between China and Google. It also gives details about China's economy and explains how the MNCs are effected with IPR policies of these countries.

CHINA ECONOMY

The people's republic of China is the world's second largest economy after United States of America. With an average growth rate of 10% for past 30 years, China is the world's fastest growing economy. It is also the second largest importer of goods in the world and also the largest exporter. The country's per capita income is \$6, 567. The provinces in the costal China are tending to be more developed than regions in the hinterlands of China.

In the modern era, till 1980 China's influence on world economy was minimal. China now contributes extensively in the world market and private sector companies play a major role in the economy. According to the statistics the poverty percentage has fallen from 53% in 1981 to 2. 5% in 2005. However in 2006 10. 8% of people still lived on an earnings of 1\$ per day. The maternal mortality rate fell by 41. 1% and the infant mortality rate fell by 39. 5%.

In the year 1949 China's economic system was made a communist system. China can be defined as one of the leading examples of state capitalism today. As its contribution in world trade has steadily grown, its importance to international economy has also increased. China's foreign trade has grown faster than its GDP for the past 25 years. Chinas growth comes from both heavy industry and huge state investment in the infrastructure and from private sector in light industry instead of just exports. The foundation of <https://assignbuster.com/a-report-on-conflict-between-china-and-google-economics-essay/>

national growth is smaller but highly concentrated public sector which is dominant by 159 large SOEs, which provide key inputs from utilities, heavy industry, and energy resources that helps in private sector growth which helped in bringing in investments in the country.

In the year 2008 thousand of private companies were shut down and the Chinese government announced to expand its public sector so that they could deal with the global financial crises. By 2010 there are approximately 10 million small businesses in China.

The government's decision to permit China to be used by a multinational corporation as an export platform has made this country as a major competitor to other Asian countries such as Singapore, Malaysia and South Korea. The government has started given a lot of attention to foreign trade as a tool for its growth.

The two most important sectors that contribute to about 60% of China GDP are agriculture and industry. These sectors employed to about 70% of the labour force in China. China is the world's largest producer of rice and also produces wheat, soybean, peanuts and coconuts on a large scale. The country is also one of the largest producers for industrial and mineral products, such as antimony, tungsten and cotton cloth. It is also an important producer for crude oil, coal, cotton yarn and many other products.

There were a lot of subsidies given in China during the year 1970-80 which were brought to a standstill when China joined the world trade organization in the year 2001. China's economic transformation not only has an impact on China but on the whole world.

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Although everybody is praising the growing economy of China, there are people such as Wayne M. Morrison of the congressional research service, who believe that although the Chinese economy gives positive outlook China faces a number of difficult challenges such as pervasive government corruption, over dependence on exports, inefficient banking system, and fixed investments for growth. Economic consultant David Smick also says that the recent decision of the Chinese government to stimulate the economy has further added to a huge industrial overcapacity and commercial real estate vacancy problems.

UNDERSTANDING THE RIFT

It is said that things happen really fast over the internet, but even this fails to explain us the rapid collapse between the Chinese government and Google. The entire conflict between China and Google started and ended in few weeks. It started in January and by March 23 Google was out of China as Google took the decision to redirect its Chinese users to its Hong Kong site instead. This decision of Google further irritated the Chinese government.

The whole Google China conflict began when an unidentified hacker tried to break into the server of Google. It was difficult to predict at that time that this event could lead into such a big battle between the world's giant corporate and the Chinese government. This conflict became so huge because the internet attacks were not limited only to Google but many other big American companies.

Responding to the attacks Google hinted at the Chinese government that these attacks could be avoided by them. This became the bursting point for the years of tension that was culminating between China and Google.

China has this concept of great fire wall - it is a set of filters and blockades which prevent ordinary web users from viewing politically sensitive materials. In the year 2006 Google decided to enter the Chinese market with its censored version of its search engine. This decision was not supported by the co-founders of the company, Sergey brin and Larry page, but the chief executive of the company Eric Schmidt carried on with the idea. Once the decision was made to enter the Chinese market there were suggestions made that they were leaving themselves to a the whims of a very authoritarian government but the company argued this statement by saying that all though it is censored Google will give access to more information to its users than before.

But however, it did not take very long for Google to regret its actions. Its vast websites and services such as YouTube, blogger and Gmail were regularly hit by blockades from China's " great fire wall". Hence this chipped away the previous friendly image of the company.

All this conflict also grew the tension between the top officials of the company as within months brin admitted that " on business level, the decision to censor was net negative". There were not only attempts to block but also to steal secrete codes from the Google server. This grew the rift between the senior management of the company.

The tension between the partners of the giant company was also felt in Washington so the president, Barack Obama, opt for diplomatic solution to ease the tension of the company with China where as the secretary of states, Hilary Clinton wanted a robust response.

It can be observed that Google was able to take such a drastic step because financially Google had very little to loose. Although the company did spend a huge amount of money in China the amount of revenue earned was relatively less. In other parts of the world Google dominates by acquiring around 90% of the market share where as in China it has acquired only 30%. The rest of the 70% of the market share is acquired by a China based search engine called Baidu.

Many economic researchers agree to the fact that although in short-run the revenue loss does not affect much on Google but in long-run basis , since China has a huge population and is world's fastest growing economy, it will act as a strategic loss to the company.

But researchers also say that shifting itself to Hong Kong will act as a compromise with the communist leaders of the country. It was vital of the company to do so as Google had much higher things at stake, than the advertisers and the search engine in the country, like its Chinese staff and other business such as manufacturing cell phones with Android software.

Hence we can say that shifting its users to Hong Kong based search engine is a very balanced decision.

INTELLECTUAL PROPERTY RIGHTS.

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The intellectual property rights law of any country has immense effect on the business conducted in and out of that country. In today's modern world lot of emphasis is given to rights owned and practice by the companies around the world. China and South Korea are two big emerging economies of the world. The law in these countries for IPR has come a long way since both these countries are a part of the WTO.

Today when an MNC decides to venture in the market of these countries it is very important to have an idea of the IPR laws of these countries. First let us understand the IPR laws in China:

IPR IN CHINA: due to lot of external pressure and its growing economy China has been forced to change its intellectual property rights laws. As the Chinese economy is changing from manufacturing based to knowledge-based production there are lot of introduction of comprehensive laws which leads to a number of IPR infringement cases. Allowing IP owners to recover from their economic damage from infringers is an important aspect of a system for IPR protection.

The IPR laws in China were very weak which did not give much scope to the damaged party to recover its losses. IPR owners are generally compensated for only a very small proportion of their losses under the existing law. This factor generally discourages the owners to file complaints against the culprits. The fine laid on the infringers of the law is so low that they manage to earn profit even after paying the penalty. A study show that the fine laid is only a small fraction of the estimated sales revenue lost by the IPR holders. The IPR laws and rights laid in China are very low as compared to the United

States. Furthermore it is observed that although the frequency of damage awards has been increased in China the average amount awarded has not increased. Since the damaged awards tend to be low, the IPR owners tend to make low damage claims.

IPR LAWS IN SOUTH KOREA: south Korea frame work for IPR is similar to that of the United States. In fact, South Korea ranks 4th in the world for applications and reforms for the IPR. The intellectual property rights are monitored by a body named Korean industrial property office, in South Korea. Today this country has changed lot of its laws since the 1980s due to its membership with the world trade organisation and the dissatisfaction United States had with their laws.

The most effected industry due to lose laws for IPR was the technological industry. The streets of South Korea were filled with pirated cds of music, movies and software's. The American company's faced allot of loss due to this hence they pressurised the WTO to take action against the loose laws laid in this country for IPR. Hence in December 1986 South Korean government took steps to change the legal framework for IPR laws in the country.

Though lot of changes are made in patents , copy rights and trademarks , the issue of piracy still stays in the country due to lack of enforcement on these laws.

In the year 2003 United States again pressurised the South Korean government to tighten their laws. Hence the government came up with a comity which now had the right to have raids on the company which were <https://assignbuster.com/a-report-on-conflict-between-china-and-google-economics-essay/>

suspected of using pirated or illegal software. If they were found guilty the suspects would be firmly prosecuted.

South Korea and the United States both are members of the Madrid protocol which makes the procedures for doing copy rights, patents, trade mark, etc, more easily.

CONCLUSION

From the above explanation we can say that the lesson that the multinationals can get for the intellectual property rights in these countries is that although both these countries have really evolved their IPR laws in a certain period of time, the risk of loss due to infringement still exist.

As far as China is concerned there is no special legal body to deal with the IPR issues like in South Korea. But since China is also a part of the world trade organisation one can rely on its credibility for its laws. Still China will have to really improve on the application of its laws and reforms. So the MNC risk for their rights still remains.

South Korea on the other hand is at a better position than China as far as laws for intellectual property rights are considered. The South Korean government is striving hard to straighten its laws so that there are more foreign direct investments in the country. If an MNC decides to invest in this country it can rely on its judicial system as there is a proper separate legal body to deal with these matters.

Both these countries are one of the fastest growing economies of the world hence lot of multinationals are bound to be attracted to their markets. It is <https://assignbuster.com/a-report-on-conflict-between-china-and-google-economics-essay/>

obvious that these countries would also not like losing any of its business hence they are trying to improve their laws as much as possible.