

PC makers race to comply with China's Web filter

June 25 2009, By JOE McDONALD , AP Business Writer



Sales staff stand behind computers in a store in Beijing, China, Thursday, June 25, 2009. Washington is calling on Beijing to revoke an order to personal computer makers to supply Internet-filtering software with every PC, adding to an array of disputes between the major trading partners. Beijing told manufacturers in May to install "Green Dam Youth Escort" Web-filtering software or supply it on a disk with every PC made beginning July 1 for sale in China. PC makers say they are studying the order. (AP Photo/Greg Baker)

(AP) -- Days before a deadline abruptly imposed by China, computer makers are scrambling to comply with an order to supply Web-filtering software with PCs amid concerns about what it might do to their reputations.

Dell Inc., Hewlett-Packard Inc. and Taiwan's Acer Inc. - the top three global producers - are asking regulators for details of the order that takes

effect July 1 to provide Green Dam Youth Escort software with every laptop and desktop PC sold in China.

The conflict reflects the clash between the authoritarian government's efforts to control information and China's high-tech ambitions.

China is important to PC suppliers both as a major manufacturing site and a fast-growing market. It accounts for up to 80 percent of world production and sales that state media say rose to 147 billion yuan (\$21 billion), up 12.8 percent from 2007.

The conflict comes as Beijing launched new criticisms this week against search giant Google Inc., which a foreign ministry spokesman accused Thursday of spreading pornography. Chinese users were unable to connect to Google's main site or its China-based service, google.cn, from late Wednesday into Thursday. But spokesman Qin Gang, speaking at a regular briefing, sidestepped questions about whether the government was blocking access.

Washington has already called on Beijing to revoke the order to supply the software, calling it a "serious barrier to trade" and saying the software could pose a security risk.

Government regulators say Green Dam must be supplied with every computer to prevent children from surfing the Internet for pornography. But technical analyses of the software - developed by a previously unknown Chinese company - have shown embedded programs to filter out content the government deems politically objectionable.

Manufacturers could face the same criticism that U.S. Internet services did in 2006 after complaints they cooperated with Chinese censorship, said David Wolf, a technology consultant in Beijing. At that time, the U.S. Congress held hearings and some lawmakers accused the companies

of aiding dictators.

Yahoo had provided e-mail account information to the Chinese government that led to a jail sentence for a political activist and writer. Microsoft had disabled some blogging services critical of China, while Google had agreed to remove some political content from its Chinese service.

The threat to the reputations of companies that comply with the new order is real, Wolf said.

"That's a concern that they have to have. The overall credibility of the brands will be at risk," said Wolf, president of Wolf Group Asia.

The move has also touched off criticism among China's 298 million Internet users, raising the possibility that sales of brand name PCs domestically might suffer too. Chinese consumers who object to the filter may switch to buying generic components that come without software, said JP Morgan analyst Charles Guo.

In its battle to control information, China has assembled the world's most extensive system of Internet monitoring and filtering. Despite those efforts, the Web in China is far more freewheeling than rigidly controlled state television and newspapers. Requiring Green Dam to be supplied and possibly installed with computers would take the controls to a new level, placing monitoring technology inside the individual's computer.

Under the order, which was given to manufacturers in May and publicly released in early June, producers are required to pre-install Green Dam or supply it on disc with every PC sold in China from July 1.

Last week, it appeared the government backed away from requiring

compulsory installation by users, but manufacturers are still being required to provide the software.

Taiwan's Acer Inc., the No. 3 PC maker, says all its computers sold worldwide are produced by contractors in China. No. 2 Dell exports from one Chinese factory to Japan, South Korea and Hong Kong and operates another for sales in China. HP, the world's biggest producer, and China's Lenovo Group did not respond to questions about how much of their China production is exported and to where.

"We are reviewing the policy initiative and are working with government officials and others to understand its application," a Dell spokesman, Jess Blackburn, said in an e-mail.

HP is trying to get more information about the order and "clarify open questions," the company said in a statement. It declined further comment.

Manufacturers' immediate problem is the cost of complying at a time when the global economic slump is slashing profits, said Duncan Clark, chairman of BDA China Ltd., a Beijing research firm.

"Given how razor-thin margins are, anything that adds costs, even if it's just dropping a CD into the box, is not welcome," Clark said.

Wolf said costs could rise if regulators decide the software must be pre-installed on every PC. That would force makers that sell computers without software, such as in corporate bulk orders, to pay for operating systems to support the filter.

"It's another one of those great ideas that somebody had that nobody thought all the way through," Wolf said.

The top U.S. trade officials said the lack of transparency and inadequate notice may violate World Trade Organization rules. In a letter to Chinese officials this week, U.S. Secretary of Commerce Gary Locke and Trade Representative Ron Kirk called on Beijing to revoke the order.

On a technical level, researchers at the University of Michigan who studied Green Dam say they found "serious security vulnerabilities due to programming errors" that could allow any Web site a PC user visits to take control of the computer.

A California company, Solid Oak Software of Santa Barbara, says parts of its own filtering software were used in Green Dam, raising questions about possible violations of intellectual property rights.

The fracas adds to a series of disputes between the U.S. and China over trade and the use of regulation to protect Chinese companies. The United States and European Union filed complaints this week over China's curbs on exports of industrial raw materials, saying they unfairly favored its domestic industries.

Last year, Beijing ordered foreign sellers of computer security technology to disclose how their products work. Following U.S. protests, the government agreed in April to postpone that for a year. The order still applies to products sold to Chinese government agencies.

On the Net:

Government's order to PC makers (in Chinese): <http://www.miit.gov.cn>

Google Inc.: <http://www.google.com>

Dell Inc.: <http://www.dell.com>

Hewlett-Packard Inc.: <http://www.hp.com>

Acer Inc.: <http://www.acer-group.com>

Lenovo Group: <http://www.lenovo.com>

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