

Clashing values could trip Facebook as it tiptoes toward China

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As Facebook founder Mark Zuckerberg ponders a strategy for China, the conditions imposed in the world's largest Internet market were highlighted recently when executives of the country's top Web companies gathered to sing revolutionary songs and wave red flags to commemorate the recent 90th anniversary of the founding of the Chinese Communist Party.

Former Silicon Valley technologist Robin Li, co-founder of [Baidu](#), China's most popular search engine, reportedly proclaimed, "Socialism with Chinese characteristics drives the development of the [Chinese Internet](#)." Some of the attendees at the Shanghai event, which featured a lecture on the party's history and was sponsored by the [government agency](#) that regulates online content, posed uncomfortably before cameras, according to news reports.

The June 8 gathering underscores why "foreign companies are disadvantaged in [China](#)," said Bill Bishop, a Beijing-based independent analyst who follows China's [Internet market](#). "It was a picture-tells-a-thousand-words moment."

Facebook, which aims to "connect the world," says it can't ignore China.

"How can you connect the whole world if you leave out a billion people?" Zuckerberg told a Stanford University audience in October. But to operate in China, Facebook would have to rewrite its philosophy of openness and submit to uncompromising censorship policies - and

face a possible public relations backlash in the United States.

Facebook, now blocked in China, reportedly is negotiating a partnership with Baidu. Beijing-based Baidu would not comment on a possible joint venture, while Palo Alto, Calif.-based Facebook said in a statement, "Right now we're studying and learning about China but have made no decisions about it, or how we will approach it."

Still, Zuckerberg appears to be working on a China strategy.

"I don't want Facebook to be an American company - obviously, we are in America - but I don't want it to be this company that just spreads American values all across the world," he said in October.

But after watching uprisings assisted by Facebook in Tunisia and Egypt, the Chinese government is even more leery of foreign Internet companies whose business is to foster the free flow of information.

"They have been saying this is the risk of Facebook for a number of years," Bishop said. "They were right."

Chinese authorities constantly grapple with hundreds of strikes, protests and riots. Last month, police in southern Guangdong province for three days battled rioters angry about the economic conditions of migrant workers. Any unregulated Facebook-like platform that could be used as a tool by protesters is viewed by the government as a threat to social stability.

For companies like Facebook, China's 450 million Internet users - estimated to grow to 750 million in five years - represent an irresistible market.

"The logic of capitalism exerts a gravitational pull toward China because

it's such a large market," said Greg Sterling of Sterling Market Intelligence. "But the state's control, as well as cultural challenges, makes it very hazardous for many American companies."

LinkedIn, the Mountain View, Calif.-based professional networking website, is a rare [Silicon Valley](#) Internet company that has not been blocked in China. The company, which recently opened an Asia headquarters in Singapore, has about 1.3 million members in China, though it has no office there.

"We're keeping an eye on China and LinkedIn's growth in that country, but we aren't currently in the market and don't have immediate plans to be there," the company said in a statement.

One of China's sovereign wealth funds reportedly is interested in acquiring a \$1.2 billion stake in Facebook - or less than 2 percent of the company - a move experts say has more to do with making a good investment than the government's relationship with the social network.

"I doubt Facebook would sell a meaningful, influential position to a country," said Richard Lim, managing director of GSR Ventures with extensive experience in Asia.

Facebook's mass appeal as a platform for an array of discussions, though, makes it more of a target for censorship in China.

Google, which clashed with Chinese authorities last year when it stopped censoring its searches, decided early not to offer any services that would require user registration and personal information for fear of having to reveal identities of Chinese who run afoul of the government.

In 2005, Yahoo's China-based employees handed over email account information of two pro-democracy journalists to authorities. In 2007,

Yahoo settled a lawsuit with jailed journalists Shi Tao and Wang Xiaoning, who had accused Yahoo of human rights violations. Facebook requires users to register with real names, which would make it especially vulnerable.

Internet companies operating in China are forced to be a part of the country's censorship apparatus, said Rebecca MacKinnon, an expert on Chinese censorship.

"This is part of the China conundrum," she said. "The government requires companies to police and censor most of the Internet for it. I find it hard to see exactly how (Facebook) would organize their business in China in such a way that would insulate them from these problems that nobody else has managed to avoid."

Google's recent dispute with the government has severely damaged its search business in China, and the Mountain View company's free Gmail service recently was disrupted in that country. Google blamed the problems on the government, but authorities denied any interference.

Facebook would face even more scrutiny, said Bishop, who believes Li is sounding out the government about a proposed partnership between Baidu and Facebook.

"I have very little doubt they have been working very hard with Baidu to create this joint venture," he said. "Baidu has good government relations."

Analysts believe a Facebook China social network run by Baidu might shield Facebook from having to directly monitor and censor its Chinese users. But any deal Facebook makes that would be acceptable to the Chinese government risks provoking controversy in the United States.

"They will walk into a storm of negative publicity," Bishop said.

Facebook also faces business hurdles in China; namely, it's probably too late, said Hans Tung, a partner at Shanghai-based Qiming Venture Partners, which backs a number of Internet companies, including social network site Kaixin001. Tens of millions of Chinese already use social networks such as Renren.com and Kaixin001 and Twitter-like services offered by SINA and Tencent.

And a Facebook China site not connected with users outside the country to accommodate censorship laws would strip the network of its global appeal, said Anna Han, a specialist in international business transactions and technology licensing at Santa Clara University.

"In an ideal world, of course, [Facebook](#) should be in China," Bishop said. "But this is not an ideal world."

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