

THE DISPARATE EFFECTS OF APPLE AND GOOGLE ON SINO-AMERICAN
RELATIONS

By

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To my Mom and Dad for their constant support, both emotional and monetary

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LIST OF ABBREVIATIONS

AMCHAM	The American Chamber of Commerce
CCP	The Chinese Communist Party
MNC	Multinational corporation(s)
NATO	The North Atlantic Treaty Organization
NGO	Non-government organization
PRC	The People's Republic of China; used interchangeably with "China"
RMB	Renminbi, the currency of China.
SEZ	Special Economic Zone

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This paper seeks to explore the effects of multinational corporations on international relations by delving into the differing impacts that two technology companies, Google and Apple, have on Sino-American relations. Using the works of political economy scholar Robert Gilpin as a theoretical framework, this paper attempts to unpack the multinational corporation in order to demonstrate that evaluating the role of the multinational corporation in international relations as a monolithic entity is overly reductive.

Through the juxtaposition of Google, a company that is heavily dependent on the free access to information, and Apple, predominantly a manufacturing company, this paper elucidates how the former is significantly more problematic for the Chinese government. Because of Google's commitment to a free internet and the inherent problems its business model poses for authoritarian governments, it tends to be a tension-producing in Sino-American relations. On the other hand, Apple's business model dovetails nicely with the neo-Mercantilist, export-based model that the Chinese

government has embraced. As a result, Apple tends to produce far less tension in Sino-American relations than Google.

CHAPTER 1

INTRODUCTION

Premise

Sino-American relations, while composed of many facets, is largely influenced by matters of economic importance; identifying which economic factors drive this relationship is critical to understanding this relationship. In light of the fact that multinational corporations have grown increasingly larger and more powerful over the past few decades, using multinational corporations with vested interests in both China and the United States as a unit of analysis could provide new insight into Sino-American relations. Previous explorations of the role of multinational corporation's role in international relations have often relegated multinational corporations to a secondary position, preferring nation-states as the primary unit of analysis. A prime example of this is the manner in which Robert Gilpin explores the role of the multinational corporation in *U.S. Power and the Multinational Corporation*. For Gilpin, the multinational corporation is unequivocally a significant factor in the realm of international relations; however, the works of Gilpin largely treat multinational corporations as a monolithic entity. In this paper, I will look to demonstrate how individual multinational corporations can have divergent effects on international and bilateral relations. In order to more accurately identify the role of individual corporations, I will 'un-pack' the multinational corporation into individual entities – in this case, Google and Apple -- to show how these two companies can differently influence the relations between China and America. Specifically, by delving into the impact of two these two prominent American multinationals, I look to explore how these two darlings of the tech sector have drastically different effects on Sino-American relations. I posit that, while

ostensibly both competitors in the field of technology, the manner in which they operate in China (Apple, as primarily a manufacturer of goods and a provider of high-end goods to well-heeled urban Chinese customers, and Google, as primarily a purveyor of intangible goods and information) ensures that the actions of Apple and Google have dramatically different ramifications for Sino-American relations.

Argument

I argue that, because Apple lacks true Chinese competition and its China initiatives, in a broad sense, dovetail nicely with China's pre-existing manufacturing framework for foreign entities and its neo-mercantilist policies, Apple's influence on Sino-American relations is confined to the realm of widely noted piracy problems (and, in many ways, is analogous to that of other companies with manufacturing outfits in China). On the other hand, Google's business model poses a number of problems for the Chinese Politburo: it deals mostly in intangible goods with minimal manufacturing; it allows for unprecedented access to information; it is competitive with nascent Chinese firms; it is on the forefront of a new paradigm in the global economy; and indirectly party to the murky world of cyberwarfare. Given the lack of a true international framework for disputes involving matters of twenty-first century technology, it is not surprising to find that Google and its peers that don't manufacture or provide goods but share information and foster uncensored interaction have been problematic to Sino-American relations. Relying on Gilpin's work on the multinational corporation as a theoretical foundation, I will explore the role of these two corporations and the differential effects of their Chinese interests through evidence of disruptions (or lack thereof) in Sino-American relations from various publications, news articles, press releases, and academic papers. The principal conclusion I will draw is that companies that produce tangible goods and

those that peddle in intangible ideas have drastically different effects on Sino-American relations. I will further conclude with informed speculation as to what this means for the future of Sino-American relations, and Chinese and American foreign policy as a whole.

Literature Review

During the 1970s, when Gilpin wrote his seminal work on multinational corporations, the debate in international political economy raged over the proper role of government in the economy. Proponents of liberalism, stemming from the Smithian rebuttal to mercantilism through David Ricardo, long advocated the diminished role of government in matters of the economy. Liberal thinkers of the time, including neoclassicists and members of the Austrian and Chicago Schools all proposed the deregulation of state-controlled industries and the increase of free trade, although each division of liberalism championed different specific prescriptions for what constitutes an ideal economy. Since then, liberalism's appeal has grown as trade has become progressively more free as nations have increasingly adopted more "liberal policies" towards the economy.¹

In addition to liberalism, Marxist thought maintained a prominent position in mainstream political economy, coinciding with the apex of Soviet power. Since then, as powers espousing Marxism have mostly dissipated, the influence of the doctrine has declined in the real global economy. As Gilpin notes in his later work *Global Political Economy: Understanding the International Economic Order*, "Marxism as a doctrine of how to manage an economy has been thoroughly discredited."² However, Marxism remains useful "as an analytic tool and a critique of capitalism,"³ especially pertaining to pernicious elements of capitalism like the boom-bust cycle and pervasive poverty coexisting alongside unabashed wealth.⁴

The third broad interpretation of the international political economy is realism, the school of thought to which Gilpin subscribes. It should be noted that realism for Gilpin, as well as for many other international relations and political economy theorists, is not necessarily a normative endorsement of this manifestation of economic exchange (for example, Gilpin is a self-proclaimed neoliberal in a normative sense).⁵ Rather, many realists such as Gilpin subscribe to realism because it best depicts the actual functionality of political economy, even if some elements of the theory are not necessarily in the best interest of global society. Specifically, Gilpin believes in state-centric realism in the anarchic structure of international relations as the most accurate diagnostic approach to political economy because it most accurately reflects the fact that “power- military, economic, and or psychological (forces) will be vitally important in international affairs,”⁶ and that “(t)he relationship of economics and politics is interactive.”⁷ While they are indeed interactive, the nation-state is the determining force behind international political economy because they “establish the rules.”⁸ Although nation-states are the driving force behind political economy, Gilpin also claims that markets, technology, and multinational corporations contribute substantially, but do not mold the rules of the game.⁹

This paper will focus on the multinational corporation and its role in the interaction between nation-states by using Gilpin’s perspectives on the multinational corporation’s role in international political economy as its theoretical framework. Gilpin defines the multinational corporation as “any business corporation in which ownership, management, production, and marketing extend over several jurisdictions,”¹⁰ (even though he recognizes that this is largely a misnomer because “these corporations are

seldom multinational in either ownership or control").¹¹ Gilpin continues by outlining the goals of multinational corporations: "(to) seek...to perpetuate its predominant position with respect to technology, access to capital, sources of supply, or whatever else gives it competitive advantage and market power," potentially at the expense of its home nation.¹²

Gilpin goes on to raise a number of important points and questions about American multinational corporation expansion abroad. Gilpin posits that "(t)he multinational corporation, along with the phenomenon of foreign direct investment, constitutes a major innovation in the history of international politics, in that it seeks to enable the industrial/technological leader to maintain its dominant economic position... direct investment becomes, therefore, essentially a strategy by which to arrest relative political and economic decline."¹³ However, Gilpin also indicates that the "opportunity cost"¹⁴ to the U.S. from increased foreign direct investment from multinationals could be detrimental to overall U.S. interests. Put more succinctly, multinational corporations will look to "influence American foreign policy in directions which benefit them...But it is equally true that American foreign policy has frequently run counter to corporate interests."¹⁵

Evidently, interests of a multinational corporation that differ from those of the home country of a multinational corporation or a country in which it is operating has the potential to cause problems in these complex relations. As well, Gilpin rightly argues that competing economic centers will have disputes over trade and investment resources,¹⁶ in which multinational corporations serve as a disruptive influence. However, Gilpin does not address the idea that individual multinational corporations

could have drastically different effects on the relations between a multinational's home country and on the foreign countries in which these multinationals operate. Gilpin tends to treat all multinationals as a monolithic entity; this paper is not looking to disprove the works of Gilpin, but rather, to build upon the framework outlined by Gilpin by unpacking the multinational corporation to demonstrate how these firms have disparate effects on bilateral relations.

Notes

¹ Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton: Princeton University Press, 2001) 13.

² *Ibid.*, 13.

³ *Ibid.*, 13.

⁴ *Ibid.*, 13.

⁵ *Ibid.*, 14.

⁶ *Ibid.*, 19.

⁷ *Ibid.*, 23.

⁸ *Ibid.*, 23.

⁹ *Ibid.*, 17.

¹⁰ Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment*, (New York: Basic Books, Inc., 1975), 8.

¹¹ *Ibid.*, 9.

¹² *Ibid.*, 214.

¹³ *Ibid.*, 142.

¹⁴ *Ibid.*, 179.

¹⁵ *Ibid.*, 142.

¹⁶ *Ibid.*, 214.

CHAPTER 2

A BRIEF HISTORY OF SINO-AMERICAN ECONOMIC RELATIONS

Opium Wars to Nixon

Although informal relations between China and the United States date back to the Opium Wars, for the sake of brevity and relevance to the topic at hand, this overview of the history of Sino-American relations will be rather cursory until the point of Nixon's landmark visit to Beijing, as delving into the intricacies of World War II, the Korean War, and the Chinese Civil War would be both superfluous and overwhelming. Simply, prior to rapprochement, as a result of the United States' support of Chiang Kai-shek during the Chinese Civil War, unwillingness to recognize the People's Republic of China (PRC), its concomitant support of the Republic of China (Taiwan), China's policies of isolation,¹ ideological discord, and sparring between China and the United States in the Korean and Vietnam Wars, antipathy festered between these two mutually unrecognized giants. (Although high-level diplomats did meet in neutral locales throughout the 30 year period of frozen relations, at one point, tension in the mid-1960s grew to such a level that President Johnson even considered a preemptive strike against the Communist government in response to their development of a nuclear program).²

While diametrically opposed from an ideological perspective, by the late 1960s, the United States and China had a more pressing concern in the form of the extant threat of the Soviet Union. Although China and the Soviet Union were ostensibly on the same side of the Cold War, their relationship devolved as a result of ideological and geopolitical differences.³ By 1969, border skirmishes flared between China and the Soviet Union, rendering the Chinese unable to remain isolated internationally and

seeking potential counterbalances to Soviet Union projections and projectiles. Given the United States' concurrent Cold War with the Soviet Union, both China and the U.S. had a vested interest in mending bilateral relations. However, due to the pervading international climate (namely, a bifurcated global system based on two competing ideologies), clandestine diplomacy, replete with note-passing through intermediary countries and a secret trip to Beijing by U.S. National Security Advisor Henry Kissinger, was imperative.⁴ Kissinger's 1971 trip allowed the Chinese to formally invite President Nixon to Beijing through diplomatic channels. Nixon ventured to China the next year, where he and Mao Zedong signed the Shanghai Communiqué which had both China and the United States pledge to begin the process of formalizing diplomatic relations. Six years later, on January 1, 1979, Premier Deng Xiaoping and President Jimmy Carter signed the Joint Communiqué on the Establishment of Diplomatic Relations by the U.S. and China officially switching American recognition from the Taiwan-based Republic of China to the Mainland's People's Republic of China.⁵

Normalization to September 11th

The normalization of relations resulted in the opening of embassies in Beijing and Washington, D.C. as well as the implementation of a number of bilateral accords over the next decade. Although Sino-American relations started auspiciously, the relationship took a dramatic turn as a result of the Chinese Communist Party (CCP)'s violent crackdown against protesters at Tiananmen Square. In the wake of this incident, the United States condemned the actions of the CCP, dismantled high-level engagement, and imposed economic sanctions on the PRC.⁶ The sanctions were pernicious to the Chinese, and included the suspension of activities by the U.S. Trade and Development Agency, the elimination of American manufactured weapons exports to the PRC, and a

withdrawal of support for most International Monetary Fund credits destined for China. The post-Tiananmen tension between China and the U.S. lasted for the next decade, further fueled by incidents such as the provocative PRC naval exercises in the Taiwan Strait in 1996, the accidental bombing of the Chinese Embassy in Belgrade during NATO's Balkan campaign in 1999, and the downing of a U.S. spy plane over Hainan Island in 2001.

In the wake of the terrorist attacks on September 11, 2001, America's foreign policy priorities morphed rapidly and drastically; formerly adversarial relationships with nations like Russia and China became more amicable with a shared goal of combating Muslim extremism. Russia and China, having long dealt with Islamic uprisings in Chechnya/Dagestan and Xinjiang, respectively, were understanding of the American cause; in the case of the PRC, the government actively supported the American invasion of Afghanistan and the War on Terror as a whole.⁷

21st Century Sino-American Relations and the Chinese Economy

Present-day Sino-American relations echo previous contentions between the two giants; Concerns pertaining to human rights, military relations, and Taiwan remain at the forefront of the relationship between these two giants. However, as the PRC has embraced market socialism, veered away from more dogmatic interpretations of Communism, and grown substantially to become the world's second largest economy (in terms of Purchasing Power Parity), the economics and business components of Sino-American relations is one of the primary driving forces in their relationship: Trade deficit/surplus, debt, outsourcing, and currency manipulation are at the forefront of any discussion on Sino-American relations.⁸ Although economic and corporate concerns

have become arguably more important in Sino-American relations over the past decade, they have been an integral aspect of the relationship since rapprochement in the 1970s.

Although realism-derived geopolitical concerns pertaining to the Soviet Union unequivocally served as the primary catalyst for the U.S. to unfreeze relations with China, economic and corporate concerns did serve as a factor in the American decision to reconcile with China. Even though China was in the midst of Mao's aggressively communist Cultural Revolution when Sino-American relations thawed, a number of corporations advocated the opening of relations with China. Simply, they viewed China's communist sympathies to be ephemeral, especially in light of their concurrent quarrel with the global communism flag-bearer, the Soviet Union. Once the obstacle of communism was removed, American corporations would potentially be able to access a billion consumers. These prognostications became a reality when Deng Xiaoping became leader of the CCP and implemented "Gaige Kaifang,"⁹ or the opening of China to a restricted form of capitalism. Through the creation of Special Economic Zones (SEZ), in which both domestic and foreign entities could trade with impunity, China embarked on its first meaningful steps toward market socialism.¹⁰

While many pundits frequently claim that China is communist in name only, China's current economic regime is by no means capitalist either. The current system under which China operates is often called both 'Communism with Chinese characteristics'¹¹ and 'market socialism.'¹² No country portends to maintain a purely capitalist regime, although, incidentally, the Chinese-controlled Special Administrative Region of Hong Kong operates as one of the most purely capitalist entities in the world, Chinese markets maintain a number of cumbersome restrictions on non-Chinese

multinational corporations in China. Corporations in certain sectors are required to enter joint ventures with Chinese firms. The rule of law does not always apply to multinational corporations in China. Laws pertaining to trade that would be considered protectionist in other WTO signatory nations are flaunted in China. Thus, China still has a long way before its capitalism resembles those of Western nations. As a result, these hurdles will continue to pose problems for multinational corporations doing business in China.

Notes

¹ At one point in the 1970s, China had only one formal ally: Albania.

² William Burr and Jeffrey T. Richelson, “The United States and the Chinese Nuclear Program 1960-1964,” *National Security Archive*, 2001, Internet, <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB38/> (date accessed: January 12, 2012).

³ Sergey Radchenko, *The Cambridge History of the Cold War (Online)*, Vol. 2: Ch. 17, Internet, http://histories.cambridge.org/extract?id=chol9780521837200_CHOL9780521837200A018 (date accessed: 12 January 2012).

⁴ “Getting to Beijing: Henry Kissinger’s Secret 1971 Trip,” *USC U.S.-China Institute*. 21 July 2011 Internet, <http://china.usc.edu>ShowArticle.aspx?articleID=2483> (date accessed: 12 January 2012).

⁵ Joint-Communique on the Establishment of Diplomatic Relations, 1 January 1979, Internet, <http://www.taiwandocuments.org/communiqué02.htm> (date accessed: 12 January 2012).

⁶ Yu Taifa., “The Conduct of Post-Tiananmen U.S. China Policy: Domestic Constraints, Systemic Change, and Value Incompatibility,” *Asian Affairs*, Vol. 19, No. 4, 1993, Internet, <http://www.jstor.org/stable/30172167> (date accessed: 12 January 2012).

⁷ Huang Yingjia, “Ambassador Clark Randt on ‘The Crucial Relationship,’ ” *USC U.S.-China Institute*, 30 April 2008, Internet, <http://china.usc.edu>ShowArticle.aspx?articleID=1021> (date accessed: 12 January 2012).

⁸ Peng Yuan, “Sino-American Relations: New Changes and New Challenges,” *Australian Journal of International Affairs*, Vol. 61, No. 1, 2007, 98.

⁹ 改革开放

¹⁰ John Naisbitt and Doris Naisbitt, *China Megatrends: The 8 Pillars of a New Society*, (New York: Harper Collins, 2010), 76-77.

¹¹ Matthew Yglesias, “Communism with Chinese Characteristics,” *Think Progress*, 2 June 2010, Internet, <http://thinkprogress.org/yglesias/2010/06/02/197416/communism-with-chinese-characteristics/?mobile=nc> (date accessed: January 13, 2012).

¹² “China: Market Socialism or Capitalism?” *DePaul University: Global Studies Association*, 13 May 2006, Internet,
<http://www.luc.edu/faculty/dschwei/ChinaCaGSA.pdf> (date accessed: 13 January 2012).

CHAPTER 3

A BRIEF HISTORY OF APPLE AND GOOGLE IN CHINA

Apple in China

Like many American multinationals, Apple's first foray into the Chinese market was in the realm of manufacturing. As China's production moved up the value-chain from low-end textiles to high-end technology, foreign companies took advantage of China's comparatively cheap labor; Apple was no exception. Up until the mid-90s, Apple's manufacturing was largely concentrated in the Western United States with plants in Elk Grove, California and Colorado Springs, Colorado.¹ The expansion of Apple's portfolio of offerings from personal computers to handheld devices coincided with the increased sophistication of China's manufacturing capability. As it became apparent that Sino--Taiwanese outfit HonHai (better known as Foxconn) was able to offer a substantially lower manufacturing cost basis than Apple's American domestic production could while also providing a comparable if not equivalent standard of quality, Apple began to shift production of its wares to Guangdong Province. As the iPod®'s popularity soared globally and Mac computers made a resurgence, Foxconn's business increased exponentially while American plants suffered. By 2004, Apple had scuppered its manufacturing plants in Colorado Springs and Elk Grove (although the Elk Grove campus remains open as a logistics center).² Conversely, Foxconn's massive growth from manufacturing goods from Apple, Microsoft, Dell, and others resulted in the company becoming the largest manufacturer of electronics in the world; its two Shenzhen campuses (including the infamous Longhua factory) alone employ 400,000 people.³ The company has over 1,000,000 employees total⁴ and a market capitalization of over \$30 billion.⁵

Apple and Foxconn's rise in China has not been without controversy. Apple's first serious foray into the Chinese consumer market roughly coincided with a string of high-publicity suicides at Foxconn's Shenzhen factories. Within a year of opening its first Apple store in China, reports surfaced of employees of Foxconn committing suicide, ostensibly over poor working conditions and unfair pay.⁶ Both Apple and Foxconn have endured some public backlash as a result of this adverse publicity. China Labor Watch, a New York-based NGO claimed that the working conditions at Foxconn "dehumanized" their laborers.⁷ However, the negative headlines do not appear to have tarnished the Apple brand and have had no discernible effect on its core business. Any moral qualms that potential customers may have appear to be trumped by a desire to own Apple products and the cachet they confer: sales of Apple's wares continue to grow at a brisk pace globally (profit was up 52% year-over-year as of last quarter),⁸ in particular in China. Apple's growth in China last year was an astounding 600% year-over-year equaling \$3.8 billion in revenue⁹ as iPads® and iPhones® have become status accessories amongst the Chinese urban elite even though Apple's history in the Chinese retail sector spans a mere three years.¹⁰

Google in China

Comparatively, Google's history in China has been both more fractious and more brusque; Google only opened its first China office in 2005. While the first few years of its operations in China were relatively uncontentious, the convivial atmosphere dissipated quickly in the wake of a reported cyberattack against the company. Up to that point, Google (as well as most other Western companies operating in the tech sector) had tacitly agreed to censor searches that the Chinese government deemed sensitive.

However, as a result of claims that hackers stole “proprietary computer code and attempted to spy on Chinese democracy activists’ Gmail™ accounts,”¹¹ Google decided to halt searches on google.cn; internet users in Mainland China who attempted to access google.cn were re-directed to the Hong Kong-based Google site.¹² This superficially appeared to be a rather elegant solution to the impasse, due to China’s sophisticated web censorship apparatus, colloquially known as the Great Firewall, the Google.hk site is “plagued with frequent service disruptions.”¹³ The culmination of this dispute resulted in a January 12, 2010 announcement that Google would shut down its operations in Mainland China. While certain voices in the company, namely CEO Eric Schmidt, aired concerns about the company abandoning the world’s largest netizen market, the opinions of co-founder Sergey Brin prevailed. Brin, born in the Soviet Union, possesses an almost visceral antipathy for censorship as it reminded him of the ‘totalitarianism’ which he endured as a child. In an interview with the *Wall Street Journal*, Mr. Brin said of China’s behavior in censoring the Internet: “In some aspects of their policy, particularly with respect to censorship, I see the same earmarks of totalitarianism, and I find that quite personally troubling.”¹⁴ As a result of this pseudo-departure, Google’s share of search in China dropped from 36% in 2009 to 17.2% in the fourth quarter of 2011; Now, China represents only 2% of Google’s annual revenue.¹⁵ Further discord erupted in the summer of 2011 when Google accused the Chinese government of attempting to hack the Gmail™ accounts of U.S. officials and Chinese dissidents, which sparked further acrimony between Google and the Chinese government.¹⁶ However, in a surprise about-face, exactly two years after its previous withdrawal on Jan. 12, 2012, Google announced a new strategy for Mainland China.

While their concerns pertaining to cyberattacks and censorship remain, Google has opted to “win over Chinese consumers with services that don’t require official censorship.”¹⁷ Principal among these services is Google’s Android Market.TM In an integral component of Google’s strategy to gain share in emerging markets is through its AndroidTM platform for smartphones and tablets. In order to maintain a competitive platform, it is imperative that a tech player offers a broad base of applications (or ‘apps’). Until this reversal in Google policy, such apps were unavailable in Mainland China. This prevented AndroidTM platform phones (which make up 60% of Chinese smartphones) from offering potentially lucrative Google applications, like their vaunted search engine. Evidently, Google has modified its China strategy in order to more adequately compete in the smartphone and tablet market so as to gain market share in the gigantic Chinese market without compromising the company’s ideals.

Notes

¹ Donald L. Bartlett and James B. Steele, “Apple’s America Jobs Disaster,” *The Philadelphia Inquirer*, 20 November 2011, Internet, http://articles.philly.com/2011-11-20/news/30422175_1_elk-grove-plant-desktop-computers-power-book (date accessed: 13 January 2012).

² *Ibid.*

³ David Barboza, “After Suicides, Scrutiny of China’s Grim Factories,” *The New York Times*. 6 June 2010, Internet, <http://www.nytimes.com/2010/06/07/business/global/07suicide.html?pagewanted=all> (date accessed: 14 January 2012).

⁴ Frederik Balfour, “IPad Assembler Foxconn Says It Has More Than 1 Million Employees in China,” *Bloomberg*, 10 December 2010, Internet, <http://www.bloomberg.com/news/2010-12-10/foxconn-says-its-china-workforce-exceeds-1-million-employees.html> (date accessed: 12 January 2012).

⁵ “Google Finance: Hon Hai Precision Industry Co., Ltd.” Internet, <http://www.google.com/finance?q=TPE%3A23171> (date accessed: 12 January 2012; TWD = 0.033 USD).

⁶ Reports surfaced later that some of the suicides were directly attributed to the generous death benefit package that Foxconn issued which included suicide victims. After suicide notes expressly mentioned this motivation, Foxconn removed the suicide death benefit. Further, after the reports of the suicides began to make global headlines, increased scrutiny elucidated the fact that Foxconn's suicide rate was actually below the national average and only a quarter of that of the American suicide rate. In hindsight, although it appears the suicides at Foxconn were exaggerated by the media as it fostered a compelling narrative (Apple employing a company that used slave-like conditions and meager pay so that the Western world could obtain the fanciest gadgets with little concern for those who manufactured them), the notion of suicides over poor working conditions at Foxconn's plants still resonates both within China and abroad. See: Joel Johnson, "1 Million Workers. 90 Million iPhones. 17 Suicides. Who's to Blame?" *Wired*, 28 February 2011, Internet, http://www.wired.com/magazine/2011/02/ff_joelinchina/all/1 (date accessed, 12 January 2012).

⁷ David Barboza, "After Suicides, Scrutiny of China's Grim Factories," *The New York Times*.

⁸ "Apple Reports Fourth Quarter Results," Apple.com, 18 October 2011, Internet, <http://www.apple.com/pr/library/2011/10/18Apple-Reports-Fourth-Quarter-Results.html> (date accessed: 13 January 2012).

⁹ Josh Ong, "Apple's China Boom Continues with 6x Revenue Growth to 3.8B," *Apple Insider*, 19 July 2011, Internet, http://www.appleinsider.com/articles/11/07/19/apples_china_boom_continues_with_6x_revenue_growth_to_3_8b.html (date accessed: 13 January 2012).

¹⁰ Juliet Ye, "iPhone's Long March to China," *The Wall Street Journal*, 27 August 2009, Internet, <http://blogs.wsj.com/chinarealtime/2009/08/27/iphone%E2%80%99s-long-march-to-china/> (date accessed: 13 January 2012).

¹¹ Amir Efrati and Loretta Chao, "Google Softens China Stance," *Wall Street Journal*, 12 January 2012, B1.

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ *Ibid.*

CHAPTER 4

GOALS OF CHINA AND THE UNITED STATES

Goals of China

Prior to delving into the role of the Apple and Google in Sino-American relations, it is imperative that we first outline the goals of both China and the United States in Sino-American relations. After these goals have been delineated, it will be far easier to elucidate the role that the given multinational corporations play in this relationship.

Foreign Policy

Chinese foreign policy with all nations, not just the United States, revolves around one principal concern: the preservation of power. In order to maintain control, projection of power is imperative. While domestically, this is evident through pervasive censorship and a foreboding intolerance of dissent, in terms of foreign policy, it is most often manifested through the Chinese Communist Party's insistence of only "One China." The One China policy, as the name indicates, states that there is only one China, meaning that recognizing the Republic of China (Taiwan) is verboten. China's foreign policy, other than enforcing the notion of "One China," revolves around the projection of power through both a massive standing army and sizable military expenditures, and the notion of "indisputable sovereignty" over contested land with neighbors such as India (over Sikkim and Arunachal Pradesh) and Vietnam, the Philippines, Malaysia, Brunei, and the Republic of China (over the Paracel and Spratly Islands).¹ Most recently, China has butted heads with Japan over islands in the East China Sea known as Diaoyu and Senkaku to the Chinese and the Japanese, respectively. While these are principal concerns of China, traditional military and sovereignty aren't particularly pertinent to this analysis. Given their importance to the CCP, it was important that they were addressed;

however, this paper will not delve much further into these aspects of Chinese foreign policy.

Economy

Obviating perceptions of weakness by the CCP is not confined to the realm of military policy; perceptions of economic prowess are an integral component of the CCP's grip on power, and given the global nature of modern economics, Chinese economic policy naturally has a foreign policy component. The CCP's autocratic nature renders it susceptible to pressure from an increasingly well-off population's desire for more autonomy. Over the past twenty years, the Chinese populace and the CCP have entered a tacit "Grand Bargain" which allows the CCP to continue to rule in autocratic fashion, as long as they continue to provide the country with massive growth opportunities. Implicitly, the majority of the population has forsaken certain individual liberties in order for a higher monetary standard of living. In order to maintain such control, the CCP cannot be perceived as excessively yielding to foreign demands to the potential detriment of the economic climate in China. This theme manifests itself continually in the individual facets of Chinese foreign policy pertaining to economic matters. Specifically, this paper identifies three economic goals of Chinese foreign policy vis-à-vis the United States that are crucial to China's continued economic rise and, in turn, the CCP's continued grip on power, although some of which are not stated explicitly or even outright denied: maintaining a relatively weak Renminbi allowing China to maintain a trade surplus, protecting nascent tech industries, and ensuring the continued worth of their large collection of United States' Treasury bills.

On a macro level, Chinese economic policy is centered on a neo-mercantilist agenda. Gilpin describes modern mercantilism as emphasizing "the priority of *national*

economic and political objectives over considerations of global economic efficiency.”²

Mercantilism can manifest itself in a number of ways but, in particular, “the desire for a balance of payments surplus...(and) the imposition of import or export controls, or both.”⁴⁹ Both of these objectives feature prominently in Chinese economic policy, with a particular emphasis of protection over state-owned firms and domestic champions.

Currency

More specifically, maintaining a weak RMB is another integral component of China’s neo-mercantilist agenda (an amalgamation of mercantilism and certain elements of neoclassical economic thinking). China’s extant economic strategy is contingent upon maintaining a large trade surplus through exporting more goods than it imports (a simplification of the intricacies of the process, but an accurate generalization nonetheless). As basic economic theory and practice state, the weaker a given state’s currency, the more enticing said state’s exports become. Therefore, the Chinese Communist Party has a vested interest in ensuring its currency is not particularly strong in order to keep its export sector strong.³ China, however, maintains that it is not a currency manipulator, as was evident when Wen Jiabao balked at such a claim in a *Financial Times* interview in 2010. Wen Jiabao claims that:

To allege that China is manipulating its currency exchange rate is completely unfounded. From the second half of 2005 we started to conduct the reform in China’s exchange rate regime. With more than three years of the reform, the Renminbi has appreciated by 21 percent in actual terms against the US dollar and 12 percent against the Euro.

Now we have in place a market based managed floating exchange rate regime with a reference to a basket of currencies. This regime is consistent with China’s actual conditions and meets China’s actual needs. I want to make very clear here that it’s to maintain the basic stability of the Chinese Renminbi on a reasonable and balanced level.⁴

However, a number of Western analysts from disparate theoretical camps disagree with the Chinese assessment of their currency. For example, noted neo-Keynesian and Nobel Laureate Paul Krugman aggressively claims that “China is deliberately keeping its currency artificially weak.”⁵ Moderate neoliberal and Secretary of the Treasury, Timothy Geithner, also expressed his opinion that he was not satisfied with China’s progress in allowing its currency to float.⁶ Further, former Federal Reserve Chairman Alan Greenspan claims, “what they are doing is the definition of currency manipulation.”⁷ Evidently, there exists a widespread perception outside of China that the RMB continues to be artificially depressed.

In order to alleviate some foreign pressure, as well as inflationary concerns, the CCP, as Wen Jiabao illustrated above, has allowed its currency to appreciate roughly 25% against major currencies over the past six years. However, the CCP still maintains tight monetary control over the RMB, not allowing the currency to float freely for fear of a substantial appreciation of the RMB that would render their exports uncompetitive compared to other low-cost rivals. As well, Wen Jiabao claims “drastic fluctuations in the Renminbi exchange rate...will only be a big disaster.”⁸ If the CCP were to allow its currency to float, the theoretical ramifications include a massive economic slowdown and concomitant political upheaval. Evidently, maintaining a relatively weak RMB is an integral component of the CCP’s economic agenda in order for continued economic expansion in their neo-mercantilist system and, in turn, to maintain political order.

Protectionism

Although not an explicitly stated interest by the Chinese government, protectionism of both nascent and mature domestic industries, as habitually evidenced by Chinese actions since their accession to the WTO, continues to remain at the forefront of Sino-American economic relations. At its most basic, Chinese law is implicitly protectionist; in order to operate within the country, many foreign companies, in particular in the manufacturing sector, are required to form joint ventures. Hence, this is why Honda is known as the Guangqi Honda Company or Dongfeng Honda Company, depending on the model. The legal structure regarding joint ventures ensures that Chinese-foreign partnerships are inherently one-sided and onerous for the foreign-side. Most joint ventures are required to be majority Chinese-owned. Because there exists very little legal protection for the foreign investment contingent in a joint venture, the Chinese side is afforded the ability to engage in unscrupulous practices to the detriment of the foreign partner simply because he can. This is symptomatic of joint ventures across the entire spectrum, from very small ventures (a friend in Beijing had his pizza chain taken out from under him)⁹ to some of the very largest (Yahoo owns a large stake in Chinese firm Alibaba, an outfit similar to Ebay. Alibaba sold its lucrative Alipay service, think: Paypal, from underneath Yahoo. The issue was later resolved, but Yahoo is entitled to less than what the company assumed it owned with a 43% stake in the company and clouded the possibility of a long-awaited global IPO for Alibaba given cited concerns about the Chinese government wishing to keep the company Chinese-owned).¹⁰

Not every foreign company operating in China must be a joint-venture; some (like Apple and Google) operate as a Wholly Foreign-Owned Enterprise (WFOE). WFOEs,

while they may not be preoccupied with an unscrupulous partner siphoning off their assets, are hampered by both petty and onerous regulations and unnecessary interference. As a result of increased pressure on foreign companies of late (see below), a multitude of WFOEs have faced thinly-veiled protectionist maneuvers by the CCP. According to *Businessweek*:

Unilever was fined \$308,000 for publicly announcing it was considering price hikes, allegedly sparking hoarding. In July fast-food giant KFC was pilloried in the state media for its use of powdered soybean milk, instead of the fresh variety, in outlets in Shanghai and Guangzhou.¹¹

Further, Wal-Mart was forced to close 13 stores, pay more than \$500,000 in fines, and fire two high-level executives. Such actions have been perceived in the business community as thinly-veiled attempts at protectionism, in particular in the case of Wal-Mart where officials fear that foreign competitors are edging out local outfits in the fast-growing domestic grocery market.¹²

In the wake of China joining the WTO in 2001, foreign multinationals were finally granted authority to operate in China, as it had previously been verboten. Foreign companies were not only eager to enter the billion-person strong market; the Chinese government actively sought foreign multinational investment and expertise in order to modernize China's moribund economy. However, by the mid-2000s, Chinese government and public opinion had soured on the influx of foreign MNCs into the country. There existed a perception that stakes in previously state-owned corporations were being sold off for less than their intrinsic value. This nationalist resentment of foreign influence manifested itself palpably in 2006: 70 percent of all announced deals involving foreign companies failed to go through.¹³ Since this discernible shift in attitudes, the CCP has become increasingly more protectionist of its own domestic

firms. The protectionism isn't confined to the bricks and mortar outfits mentioned above; technology and Internet firms have felt the squeeze of the Chinese government as well. Though I will delve into this subject in a more substantive fashion later in this paper, it is important to note here that companies such as Google, Twitter, and Facebook have all lost share in China because of censorship measures employed by the CCP. While the primary motivation behind such measures was to stymie platforms for potential dissent as part of the larger scheme to ensure the perpetuation of CCP power, such measures served the secondary purpose of eliminating more sophisticated competition for Chinese domestic firms like search engine outfit Baidu, Sina's microblogging portal Weibo, and social networking sites like Tencent's QZone and Renren. Not coincidentally, these firms are more pliant to the will of the CCP and their censors.

The American Chamber of Commerce (AmCham) has noted that protectionism has by no means dissipated of late. As noted in their 2010 White Paper, AmCham expressed their concern with enhanced protectionist mechanisms by the Chinese government. In particular, the AmCham expressed concern about protectionism in light of the opaqueness of bidding processes for government procurement projects,¹⁴ over the lack of protection of intellectual property rights,¹⁵ and the inability of multinational financial services firms to penetrate the Chinese domestic financial industry.¹⁶ American MNCs have also complained of increased protectionism of late; General Electric CEO Jeff Immelt told the *Financial Times* that the CCP policies favored local outfits and that he was "worried about China" and that he was "not sure that in the end they (the Chinese government) want any of us to win, or any of us (foreign companies) to be successful."¹⁷

The consternation is not confined to American outfits; the European Chamber of Commerce in China echoed similar sentiments, as reported in *Le Figaro*, when it claimed that “the Chinese market is less and less hospitable for foreign enterprises...in its annual report, the European Chamber of Commerce in China claims that despite the promises, Beijing increased the obstacles,”¹⁸ in particular in the areas of renewable and green energy.¹⁹

Even more jarring to some Western observers is the fact that protectionism extends to the preservation of industries that actively peddle pirated goods. In spite of WTO directives that supposedly protect intellectual property amongst signatory states, the Chinese government has coddled producers of pirated goods mainly because such outfits are, in the short-term, beneficial to the Chinese economy. As Professor Daniel C. K. Chow testified, “the PRC’s own State Council Research and Development, in 2001 China was flooded with between \$19-\$24 billion worth of counterfeit goods,”²⁰ with the market likely increasing substantially year over year. For years, China has embraced the myopic perspective of allowing piracy and protectionism to run rampant (although the government has claimed to score some significant victories over piracy of late, as Vice Minister of Commerce Jiang Zengwei indicated in July, pirated goods remain omnipresent on the streets of Beijing and Shanghai).²¹

China observers tend to be at odds over the long-term viability and efficacy of the government’s approach due to the increased risk of the flight for foreign multinationals which face unfair competition and risk the loss of proprietary technology. Unequivocally, China understands the importance of Foreign Direct Investment, because, as Chow points out, “China’s goal is to dominate in all sectors – from the lowest, most labor-

intensive sectors to the highest and most advanced technological sectors – as quickly as possible. To accomplish these goals, China must have access to advanced technology. FDI gives China this access.”²² However, not all of this technology is acquired in legal fashion: “much of it is through unauthorized copying, theft, and counterfeiting, all of which allows China to obtain technology transfer without the payment of fees.”²³ Thus, it remains an implicit goal for China to maintain the delicate equilibrium of continuing to attract lucrative FDI to the country without ostracizing MNCs who risk losing proprietary technology to piracy and contracts to favored domestic players in order to gain access to the billion-person strong Chinese domestic market.

Consumption of U.S. Debt

A third Chinese economic concern is its consumption of United States via U.S. treasuries and dollar-denominated assets. China’s ravenous appetite for U.S. Treasuries stems from its positive balance of trade with the United States and its unwillingness to engage in normal trade practice. In theory, when one country has a positive balance of trade (in this case, China), said country would buy their own currency on the open market using the excess currency of the partner country (in this case, the United States) which would eventually serve as a correcting mechanism for the balance of trade as the currency of the country with the positive balance of trade strengthens. However, as previously illustrated, China does not want to see a trade equilibrium through a strengthening of the RMB as this would render their exports less competitive which, given the importance of exports to the greater Chinese economy, could yield destabilizing consequences to Chinese society as a whole. Instead of purchasing RMB on the open-market (and concomitantly strengthening the RMB as the result of increased demand), the CCP limits the convertability of the currency and,

instead, sterilizes its currency through the purchase of U.S. Treasuries, which has the effect of forcibly removing the trade balance from global currency markets.

The Chinese decision to purchase dollar-denominated assets is not haphazard. While the Chinese have somewhat diversified their holdings, including euro and yen-denominated instruments. As of late 2011, China's largest holdings continue to be in dollar-denominated assets with \$1.13 trillion worth of Treasuries,²⁴ even though the U.S. is not China's largest trading partner. Simply, China has long opted for U.S. Treasuries because there exists no rival bond market that possesses the depth and liquidity of that of the United States. Further, the next two largest bond markets, Japan and Italy, are not only a fraction of the size of the American bond market, but the structural economic flaws of the two issuing countries render debt investments inherently more risky. Thus, until the creation of a true, unified Eurobond market that could theoretically have the depth and liquidity of the American bond market, China must continue to use the U.S. bond market to sterilize its currency reserves.

Given China's vested interests in U.S. Treasuries, the Politburo was understandably miffed by the debt-ceiling debacle in mid-2011 when Congressional Republicans and Democrats were unable to negotiate a solution to the budgetary impasse. This brinksmanship eventually cost the United States' its AAA credit rating, as assessed by Standard & Poor's. Given China's trillion-dollar plus holdings in US Treasuries, China expressed considerable dismay at the American handling of the situation. Chinese Central Bank Advisor Li Daokui urged the United States government to "stop playing with fire,"²⁵ given the global ramifications of a U.S. default. Government-backed news agency Xinhua released an editorial imploring the United States to get its

act together because “such political brinkmanship in Washington is dangerously irresponsible, for it risks, among other consequences, strangling the still fragile economic recovery of not only the United States but also the world as a whole.”²⁶ Further, the editorial posits that “(w)ith its debt approximating its annual economic output, it is time for Washington to revisit the time-tested common sense that one should live within one's means.”²⁷ Given China's usual reticence on matters pertaining to the domestic policies of foreign countries, such candor is indicative of China's level of concern over the fiscal health and policy-making decisions of the United States.

Goals of the United States

The goals of the United States in Sino-American relations are manifold and wide-ranging. The U.S.-China Economic and Security Review Commission, in its annual Report to Congress in 2009 explicitly outlined the following objectives as priorities in the Sino-American dyad: proliferation practices, economic transfers, energy, United States capital markets, regional economic and security impacts, United States-China Bilateral programs, World Trade Organization compliance, and freedom of expression.²⁸ Although the full spectrum of American objectives within said dyad include rather disparate topics, from the security of the Straits of Taiwan to human rights concerns, this section will focus primarily on the economic goals of the United States as these are most pertinent to this paper, while addressing less relevant concerns only as they relate to the economic matters.

Security

Any discussion of American objectives within the Sino-American relationship must address security given its prominent role historically between the two powers. Briefly, the U.S. maintains an armed presence in the Far East in order to ensure stability

while projecting its own power. Namely, the U.S. wants to prevent potential hot spots such as Chinese-claimed Taiwan and Stalinist North Korea from flaring up and causing regional conflict. While the motivations behind U.S. security in the Far East are multifaceted, U.S. commercial interests are unequivocally a factor. Given the large U.S. multinational presence in countries within this sphere of interest like Japan, South Korea, and China/Taiwan, ensuring security in the Far East and, concomitantly, a stable business environment is an integral component of American security policy in Sino-American relations.

American security concerns *vis à vis* the Chinese are not confined to the realm of traditional conflict; 21st century security invariably encompass threats from cyberspace as well. The Pentagon's recent appointment of Keith Alexander, a four-star general, to the new U.S. Cyber Command post is tangible evidence of an increased American emphasis on this relatively new dimension of warfare.²⁹ As illustrated in a paper produced by Northrop-Grumman as a recommendation for the US-China Economic and Security Review Commission titled "Capability of the People's Republic of China to Conduct Cyber Warfare and Computer Network Exploitation," China has enhanced its cyber warfare prowess over the past decade. The report indicated that in the decade spanning from 1999-2009, 30-40 cyber attacks took place that could be traced back to Chinese IP addresses.³⁰ However, discerning exactly who is behind said attacks proves to be inordinately troublesome. Experts in the space refer to this difficulty as the attribution problem, explaining it thusly:

The Internet was never built with security as a priority. The current version of the Internet's address assignment system, IP V4, provides a wealth of loopholes and methods by which a perpetrator can mask his or her real identity and location. Online identities and servers can be cleverly hidden...

connections can be masked and redirected through multiple servers. A clever attacker can often hijack a machine belonging to an otherwise innocent organization and use it as a base or launching attacks.³¹

Because obfuscation is relatively simple for an experienced hacker, entities such as the United States' government are unable to state unequivocally that a given state or non-state actor was behind an attack. However, in the abovementioned paper to the U.S.-China Economic and Security Review Commission, Northrop-Grumman felt they could reasonably infer that “(t)he depth of resources necessary to sustain the scope of computer network exploitation targeting the US and many countries around the world coupled with the extremely focused targeting of defense engineering data, US military operational information, and China-related policy information is beyond the capabilities or profile of virtually all organized cybercriminal enterprises and is difficult at best without some type of state-sponsorship.”³² Evidently, the United States would consider the protection of its classified information a security priority, as well as the proprietary information stored on servers of other U.S.-based entities, such as Google (its servers were hacked in 2009 from IP addresses in China, attempting to gain access to e-mail accounts of known Tibetan dissidents).³³

Human Rights

Another principal concern of the United States in the Sino-American dyadic relationship is the PRC's stance towards human rights.³⁴ The U.S. wants China to subscribe to their ideals of what constitutes human rights: namely through increased freedom of religion, speech, working conditions and imprisonment. While facets of human rights such as religious freedom and wrongful imprisonment are integral components of Sino-American relations, they are of little pertinence to this paper; however, worker's rights and freedom of speech are very much relevant to this paper,

as a result of Apple's labor practices in China and Google's antipathy towards repression of free speech, respectively. Specifically, the United States has championed the notion of global internet freedom; for example, Hillary Clinton has spoken harshly towards governments who have restricted access to uncensored information to their netizens.³⁵

Trade

Dominant in any examination of American objectives in the realm of Sino-American relations are issues pertaining to trade and related fiscal matters. American trade policy is frequently molded by the current political climate. As posited by Gilpin, "the domestic political order and public policies are important in that they influence the capacity and the propensity to invest abroad."³⁶ America's role in Sino-American relations often reflect the veracity of Gilpin's assertion. One such example is the recurring accusation from the American side that China is a currency manipulator.³⁴ In October, Congress debated whether to apply sanctions to countries whose currencies are deemed "misaligned,"³⁷ although the Treasury Department later declined to explicitly label China a currency manipulator given the RMB's 12% appreciation against the dollar since June 2010 (although, the Treasury maintains that the RMB remains undervalued).³⁸ Further, Presidential candidate Mitt Romney has made highlighting China's supposed currency manipulation a cornerstone of his foreign policy platform.³⁹ Politicians from both sides of the aisle maintain that, through having an undervalued currency, Chinese outfits are taking jobs away from American workers because a weakened currency makes a given country's exports more attractive, and, conversely, a strong currency will ensure more difficulty for a given country to keep exports

competitive. With unemployment at high levels, using China and its supposedly unfair trading practices makes for a convenient scapegoat.⁴⁰

While it is en vogue politically to loudly denigrate Chinese currency manipulation, large corporations seem to be far more reticent. It is reasonable to infer that their silence on the issue stems from many multinationals' large manufacturing presence in Mainland China. A number of American-based MNCs take advantage of low-cost labor in China as a method to increase profit margins. MNCs with a large manufacturing presence in China benefit from China's undervalued currency, and thus have little reason to protest. Conversely, one would assume that companies with large retail presences in China would prefer a stronger currency. However, one can reasonably infer that this is not necessarily the case because a number American firms selling in the Chinese market are on the higher end and have demonstrated pricing power: companies like Boeing and Caterpillar that manufacture in the United States do not sell to Chinese firms at a discount because of an undervalued currency (the notion of pricing power will be addressed further when discussing Apple). Only American companies targeting lower and middle-class consumers would see substantial currency appreciation as beneficial, and even in such a scenario, there would be significant trade-offs (a lot of the goods that said retailers are selling are manufactured in China, and thus, the price of said goods would appreciate as a result). Evidently, currency concerns are an integral aspect of American concerns in Sino-American relations in terms of political, economic, and corporate interests.

China and U.S. Debt

Matters of fiscal importance to the United States in the Sino-American dyad are not confined to currency issues; there exists an undertone of fearmongering amongst

populist politicians on the subject of the amount of U.S. debt controlled by China. While fiscal hawks are primarily concerned with the debt in and of itself, much has been made of the fact that China is supposedly subsidizing our debt-fueled growth. In reality, this reductionist perspective largely obscures the reality of the situation. The vast majority of American debt is owned by domestic bondholders and the Social Security fund; China owns around eight percent of American debt. Further, China has recently reduced their holdings in American treasuries (shifting reserves to needy European countries), leading some market surveyors to posit that Japan will soon overtake China as our largest foreign debt holder; at the end of 2011, China owned \$1.1 trillion of Treasuries, compared to Japan's \$1.04 trillion.⁴¹ Although the gravity of Chinese ownership of American debt is largely overstated, because it is a frequent refrain in American political discourse, its role in Sino-American relations remains prominent.

Intellectual Property

As 21st century American economic concerns rely more and more on proprietary knowledge and sophisticated information technology, the protection of American companies' intellectual property rights abroad has become paramount. Since the PRC's accession to the WTO in 2001, Western countries have expressed dismay at China's seemingly callous disregard for copyright protection, while imposing high barriers to entry for foreign companies into their domestic market (although, many of these tariffs are legal under WTO regulations because of loopholes negotiated into China's accession treaty).⁴² Although an announcement by the Office of the United States Trade Representative announced in 2009 that "World Trade Organization (WTO) dispute settlement panel has found important aspects of China's intellectual property rights (IPR) regime to be inconsistent with China's obligations under the WTO Agreement on

Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement),⁴³ the piracy problem in China persists. A study by the International Trade Commission and echoed by Gordon Chang indicates that if China only somewhat upheld preexisting intellectual property rights agreements, U.S. companies would retain an extra \$48 billion and could restore another roughly million U.S. jobs.⁴⁴ As long as American companies and interests are disadvantaged by Chinese lax enforcement of piracy laws, the United States will continue to press China on this issue.

Notes

¹ John Pomfret, "Beijing Claims 'Indisputable Sovereignty' over South China Sea," *The Washington Post*, 30 July 2010, Internet, <http://www.washingtonpost.com/wpdyn/content/article/2010/07/30/AR2010073005664.html> (date accessed: 14 January 2012).

² Robert Gilpin, *U.S. Power and the Multinational Corporation*, 232.

³ *Ibid.*, 232.

⁴ As economic history so manifestly demonstrates, artificially controlling one's currency is not as simple as it may appear; in fact, it can be fraught with severe economic consequences. Many of the repercussions stem from a straight currency peg; China obviates some of this concern by pegging the renminbi to a basket of currencies. Further, artificially undervalued currencies are particularly susceptible to inflation, especially in the modern, globally-connected economy where the regular exchange of goods denominated in other currencies is pervasive and because of China's need to print excessive money to sterilize the influx of dollars from their positive balance of trade. In the past, a number of countries that attempted to artificially determine the price of their currency found such practices unsustainable given their limited reserves (such as Thailand in 1997) against the formidable prowess of Western hedge funds. China, because of its favorable balance of trade with the United States and the European Union, and the limited convertability of its currency, has little reason to fret over foreign speculation in their currency (simply, en masse buying which would lead to the strengthening of the RMB which would make Chinese exports less competitive isn't possible at this point); although, if the rate of growth in the global economy were to pick up over the next year, China could continue to face inflationary pressures as a result of its artificially undervalued currency, which could force the government to allow the RMB to appreciate in order to create a more balanced currency exchange mechanism with the U.S. Dollar and concomitantly minimize the effect of inflation on consumer prices.

⁵ Lionel Barber, “Transcript: Wen Jiabao,” *The Financial Times*, 2 February 2009, Internet, <http://www.ft.com/intl/cms/s/0/795d2bca-f0fe-11dd-8790-0000779fd2ac.html#axzz1j70Opuna> (date accessed: 15 January 2012).

⁶ Paul Krugman, “China, Japan, America,” *The New York Times*, 12 September 2010, Internet, <http://www.nytimes.com/2010/09/13/opinion/13krugman.html?ref=opinion> (date accessed: 15 January 2012).

⁷ Deborah Solomon, “Q&A: Geithner on the Economy, Tax Cuts, and China,” *The Wall Street Journal*, 12 September 2010, Internet, http://blogs.wsj.com/economics/2010/09/12/qa-geithner-on-the-economy-tax-cuts-and-china/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+wsj%2Feconomics%2Ffeed+%28WSJ.com%3A+Real+Time+Economics+Blog%29&utm_content=Google+Reader (date accessed: 15 January 2012).

⁸ Mark Drajem, “Greenspan Says China Currency Mistakenly Used to Boost Jobs,” *Bloomberg*, 17 June 2011, Internet, <http://www.bloomberg.com/news/2011-06-17/greenspan-says-china-currency-mistakenly-used-to-boost-jobs-1-.html> (date accessed: 15 January 2012).

⁹ Lionel Barber, “Transcript: Wen Jiabao,” *The Financial Times*.

¹⁰ Damjan DeNoble, “Kro’s Nest, End of Days,” *China Divide*, 11 May 2010, Internet, <http://chinadivide.com/2010/kros-nest-end-of-days.html> (date accessed: 15 January 2012).

¹¹ Evelyn M. Rusli, “Yahoo and Alibaba resolve Alipay Dispute,” 29 July 2011, Internet, <http://dealbook.nytimes.com/2011/07/29/yahoo-and-alibaba-resolve-alipay-dispute/> (date accessed: 15 January 2012).

¹² Dexter Roberts, “China’s New Protectionism,” *Businessweek*, 27 Oct 2011, Internet, <http://www.businessweek.com/magazine/chinas-new-protectionism-10272011.html> (date accessed: 15 January 2012).

¹³ *Ibid.*

¹⁴ “Facts and Details: Foreign Companies and Foreign Investments in China,” Internet, <http://factsanddetails.com/china.php?itemid=349&catid=9&subcatid=62> (date accessed: 15 January 2012).

¹⁵ “American Business in China (美國企業在中國): 2010 White Paper,” American Chamber of Commerce, 26 April 2010, 86, Internet, <http://web.resource.amchamchina.org/news/WP2010LR.pdf> (date accessed 13 January 2012).

¹⁶ *Ibid.*, 108.

¹⁷ *Ibid.*, 204.

¹⁸ Guy Dinmore and Geoff Dyer, “Immelt Hits Out at China and Obama,” *Financial Times*, 1 July 2010, Internet, <http://www.ft.com/cms/s/0/ed654fac-8518-11df-adfa-00144feabdc0.html#axzz1j70Opuna> (date accessed, 13 January 2012).

¹⁹ Arnaud De la Grange, “Les Européens se plaignent de l'accès au marché chinois,” *Le Figaro*, 8 September 2011, Internet, http://recherche.lefigaro.fr/recherche/access/lefigaro_fr.php?archive=BszTm8dCk78atGCYonbyzvkEl%2BHAX5XQGTrH3ImcLkVg%2FntGWnFdaR7MOgoH%2BHsLu2IGtjAq08M%3D (date accessed: 16 January 2012).

²⁰ *Ibid.* Quote translated: “Le marché chinois est de moins en moins hospitalier pour les entreprises étrangères...Dans son rapport annuel, la Chambre de commerce européenne en Chine estime que malgré les promesses, Pékin multiplie les obstacles.”

²¹ Daniel C. K. Chow, “Counterfeiting and China’s Economic Development,” 8 July 2006, (Washington, D.C., U.S.-China Economic and Security Review Commission Hearing), Internet, http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_06_08wrt/06_06_7_8_chow_daniel.pdf (date accessed: 16 January 2012).

²² Michael Martina, “China says Piracy Problem ‘Not Extremely Serious,’ ” *Reuters*, 12 July 2011 <http://www.reuters.com/article/2011/07/12/us-china-piracy-idUSTRE76B1WH20110712> (date accessed: January 16, 2012).

²³ Daniel C. K. Chow “Counterfeiting and China’s Economic Development,” 8 July 2006.

²⁴ *Ibid.*

²⁵ “Major Foreign Holders of Treasury Securities,” The United States Treasury, 12 January 2012, Internet, <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt> (date accessed: 16 January 2012).

²⁶ Aileen Wang and Kevin Yao, “China Cbank Advisor Chines US on Mulling Debt Default,” *Reuters*, 29 July 2011, Internet, <http://www.reuters.com/article/2011/06/08/us-china-treasuries-idUSTRE75721Z20110608> (date accessed: 16 January 2012).

²⁷ Deng Yushan, “Bring Some Sense of Global Responsibility to Brinksmanship-Obsessed Washington,” *Xinhua*, 28 July 2011, Internet, http://news.xinhuanet.com/english2010/indepth/2011-07/28/c_131015312.htm (date accessed: 16 January 2012).

²⁸ *Ibid.*

²⁹ “2009 Report to Congress,” *U.S.-China Economic and Security Review Commission*, November 2009, iii-iv, Internet, http://www.uscc.gov/annual_report/2009/annual_report_full_09.pdf (date accessed: 16 January 2012).

³⁰ Peter Beaumont, “U.S. Appoints First Cyber Warfare General,” *The Guardian*, 22 May 2010, Internet, <http://www.guardian.co.uk/world/2010/may/23/us-appoints-cyber-warfare-general> (date accessed: 18 January 2012).

³¹ Bryan Krekel, “Capability of the People’s Republic of China to Conduct Cyber Warfare and Computer Network Exploitation,” Northrop-Grumman Corp., 67-74, 9 October 2009, Internet, http://www.uscc.gov/researchpapers/2009/NorthropGrumman_PRC_Cyber_Paper_FIN_AL_Approved%20Report_16Oct2009.pdf (date accessed: 18 January 2012).

³² “Tracking GhostNet: Investigating a *Cyber Espionage Network*,” *Information Warfare Monitor*, 29 Mar 2009, Internet, <http://www.scribd.com/doc/13731776/Tracking-GhostNet-Investigating-a-Cyber-Espionage-Network> (date accessed: 18 January 2012).

³³ Bryan Krekel, “Capability of the People’s Republic of China to Conduct Cyber Warfare and Computer Network Exploitation,” Northrop-Grumman Corp.

³⁴ David Drummond, “A New Approach to China,” *The Official Google Blog*, 12 Jan 2010. <http://googleblog.blogspot.com/2010/01/new-approach-to-china.html> (date accessed: 18 January 2012).

³⁵ It should be noted that the Chinese perceive American lecturing on human rights grievances as hypocritical. The Chinese release an annual White Paper outlining the human rights violations perpetrated by the United States, focusing largely on the U.S. facility in Guantanamo Bay and its role in the conflicts in Afghanistan and Iraq.

³⁶ Brandon Sasso, “Clinton Urges Countries not to Crack Down on Internet Freedom,” *The Hill*, 9 December 2011, Internet, <http://thehill.com/blogs/hillicon-valley/technology/198377-clinton-urges-countries-not-to-clamp-down-on-internet-freedom> (date accessed: 18 January 2012).

³⁷ Robert Gilpin, *U.S. Power and the Multinational Corporation*, 61.

³⁸ While there is compelling evidence that China is indeed a currency manipulator, the claim comes off as somewhat disingenuous and largely politically expedient when the U.S. refrains from labeling allies like Switzerland and Japan as ‘currency manipulators,’ even though both countries have explicitly manipulated their currencies in the past year as their central banks intervened to halt the rise in the Franc and the Yen, respectively. Both countries’ currencies appreciated substantially last fall due to concerns over the Eurozone, as traders moved assets into these perceived safe haven currencies. Further, others have considered such labels somewhat hypocritical, as some view the

Federal Reserve's Quantitative Easing programs, by artificially weakening the value of the dollar, as a form of currency manipulation.

³⁹ "Is China a Currency Manipulator?" *The Economist*. 11 Oct 2011.

⁴⁰ Steve Goldstein, "U.S. Treasury: China Not a Currency Manipulator," *MarketWatch*, 27 Dec 2011, Internet, http://articles.marketwatch.com/2011-12-27/economy/30895526_1_currency-manipulator-exchange-rate-flexibility-economic-dialogue (date accessed: 19 January 2012).

⁴¹ Mitt Romney, "How I'll Respond to China's Rising Power," *Wall Street Journal*, 16 Feb 2011, Internet, http://online.wsj.com/article/SB10001424052970204880404577225340763595570.html?mod=googlenews_wsj (date accessed: 20 February 2012).

⁴² I would contend that such a moncausal assertion as to why manufacturing jobs are less abundant in the U.S. than in previous decades. is intellectually disingenuous. While China's undervalued currency is certainly a factor, it is not the primary factor; further, such a line of reasoning ignores the reality of 21st century globalization. The decline in U.S. jobs can also be attributed to increased automation as a result of technological development and the movement of integral components of the supply chain abroad. However, because the perception persists that China's currency manipulation is paramount in American loss of jobs, it remains a political issue in the U.S.

⁴³ Morgan Housel, "What Happens When China Stops Buying Our Debt?" *The Motley Fool*, 17 February 2012, Internet, <http://www.fool.com/investing/general/2012/02/17/what-happens-when-china-stops-buying-our-debt-.aspx?source=isesitlnk0000001&mrr=1.00> (date accessed: 20 February 2012).

⁴⁴ Keith Bradsher, "China's Ten Year Ascent to Trading Powerhouse," *New York Times*, 8 December. 2011, Internet, <http://www.nytimes.com/2011/12/09/business/global/chinas-10-year-ascent-to-trading-powerhouse.html?pagewanted=all> (date accessed: 20 February 2012).

⁴⁵ Office of the United States Trade Representative, "United States Win WTO Dispute Over Deficiencies in China's Intellectual Property Rights Laws," January 2009, Internet, <http://www.ustr.gov/about-us/press-office/press-releases/2009/january/united-states-wins-wto-dispute-over-deficiencies-c> (date accessed: 20 February 2012).

⁴⁶ Matt Nesto, "Chinese Piracy Costs U.S. 1 Million Jobs: Gordon Chang," *Yahoo! Finance: Breakout*, 27 June 2011, Internet, <http://finance.yahoo.com/blogs/breakout/chinese-piracy-costs-u-1-million-jobs-gordon-131950276.html> (date accessed: 20 February 2012).

CHAPTER 5 GOALS OF APPLE AND GOOGLE

Goals of Apple

The primary, overarching goal of any corporation doesn't need unpacking: it is to achieve a profit in order to reward shareholders. Modern multinational corporations without state-ownership¹ will usually seek profits rather than restrict potentially profitable activities at the behest of their home government.² Hence, there exist myriad MNCs that have moved certain production and services abroad in order to gain or maintain a competitive advantage, even if it is potentially detrimental to an MNC's home nation. Evidently, both Apple and Google share the long-term goal of profitability; however, their goals for achieving profitability and how said profitability pertains to China, differs drastically.

Apple's objectives in China can be split into two separate categories that reflect Apple's two distinct sets of operations in the country: manufacturing and retail. Apple benefits from the abundance of cheap labor available in China's coastal manufacturing provinces while the company simultaneously strives to cater to the moneyed, urban class with its chic wares.

Manufacturing

For more than a decade, as pointed out earlier in this paper, Apple has shifted much of its manufacturing to Mainland China, the reasons for which are manifold. Unequivocally, a driving force behind this exodus was the cost advantages afforded by outsourcing production to Sino-Taiwanese outfit Hon Hai (Foxconn) and their more cost-efficient labor force found in Guangdong Province and, more recently, Sichuan Province. Factory workers make between \$3,000³ and \$6,000 (not taking into account

Purchasing Power Parity),⁴ depending on level of experience and factory location (Foxconn has opened more plants in China's poorer interior in places like Chengdu, Sichuan Province that allows Foxconn to employ workers at even lower wages than at their plants in Shenzhen, Guangdong Province).

However, to cite decreased labor cost as the sole driver behind Apple's manufacturing move to China would be overly reductionist. Simply, end-product manufacturing isn't the only facet of production that moved abroad; other components of the supply chain have shifted to China and other parts of East Asia, as well.⁵ "For technology companies, the cost of labor is minimal compared with the expense of buying parts and managing supply chains that bring together components and services from hundreds of companies."⁶ For Apple to operate efficiently and profitably, it behooves the company to have its suppliers and manufacturers in close proximity, affording the supply-chain increased efficiency and flexibility.⁷ Further, Apple has embraced Chinese manufacturing because of its abundance of engineers and semi-skilled labor. According to a piece in the *New York Times*, Apple needed 8,700 industrial engineers to supervise roughly 200,000 assembly-line workers. To find that number of skilled and semi-skilled would have taken nine months in the United States; "in China, it took fifteen days."⁸ As well, China's workforce provides a flexibility that is unavailable in other developed countries. While the methods may be questionable, in the run-up to a product launch, workers at Apple's suppliers will work for anywhere from 6 to 13 days straight in up to 12-hour work shifts.⁹ Normative judgments aside, strictly from a supply-chain efficiency standpoint, it would be difficult to replicate such efficacy with more stringently-enforced labor laws.

The cost-benefit of cheap labor, the flexibility of Chinese workers, and supply chain synergies are not the only functions Chinese workers play in Apple's China strategy. Part of Apple's allure is the cachet of its brand and subsequent appeal to progressive urbanites worldwide; Apple does not want its brand to be tarnished by accusations of slave labor which could turn-off some of its more hip customers. Apple has struggled with such allegations recently as the result of multiple scathing pieces in *Wired*, *The New York Times*, *the Huffington Post*, and others elucidating the less-than-ideal conditions (from a Western perspective) in which Foxconn employees work, as well as highlighting the number of suicides at Foxconn's Longhua plant.¹⁰ While I will refrain from passing judgment on the working conditions in China, the perception of these working conditions abroad is unequivocally important to Apple.¹¹ In the wake of these allegations, Apple has made a concerted effort to ensure they do not appear complacent about the state of Foxconn labor. For example, in the wake of this backlash, the company ordered a thorough investigation of all practices by Foxconn, from hiring to overtime to pay.¹² In order for this facet of Apple's China goals to remain successful, Apple has to be able to take advantage of labor cost efficiency and supply-chain synergies without substantial backlash over working conditions from media outlets both foreign and domestic that could markedly change the perception of Apple.

Although not an explicitly stated goal of Apple in China, the company tacitly supports a weak RMB for multiple reasons. Evidently, indirectly employing Foxconn workers with an undervalued currency, Apple can compensate workers in China substantially less than they would have to pay employees in developed markets. Further, it is unlikely that Apple would support any United States government measure,

such as labeling China a currency manipulator, that could catalyze a trade war, as was insinuated by former Republican Presidential candidate Jon Huntsman.¹³ Given Apple's vast interests in China, the company understandably wants to avoid any potentially punitive, retaliatory trade barriers that the PRC could theoretically enact as a response to American anti-currency manipulation measures.

Retail

While Apple's manufacturing interests in China benefit from an undervalued RMB, in theory, their Chinese retail operations should suffer as a result of an undervalued currency, because, once again in theory, Chinese consumers would be unable to pay inflated, developed-world prices for tech gadgets. However, such a simplistic view would neglect the largely bifurcated nature of Chinese society. Wealthy urban residents have disproportionately large purchasing power compared to their counterparts in the countryside. These consumers have demonstrated a propensity to purchase high-end goods, from expensive cars to couture, and of course, Apple products.¹⁴¹⁵ Apple's goods have benefited from their global cachet, and as a result, have afforded the company remarkable pricing power in China. In spite of China's weak currency, Apple's goods are usually more expensive in China than elsewhere in the developed world.¹⁶ For example, iPads® are significantly more expensive in China (~\$585) than in the United States (\$499) or neighboring Hong Kong (~\$500), and even slightly more expensive than more advanced regional economies like South Korea (~\$568) and Japan (~\$571).¹⁷ From a retail perspective, it appears that the relative weakness of the RMB is largely irrelevant in its effect on domestic sales.¹⁸

Whereas RMB policy is of little consequence to Apple's retail strategy, the element of piracy and the issue of intellectual property rights are crucial to the efficacy

of Apple's retail operations in China. Concerns over piracy and intellectual property rights in China are not unique to Apple: knock-off designer handbags, pirated DVDs, and illegal software are ubiquitous on the streets of China's major cities. In fact, the Business Software Alliance (a group of multinational technology firms including Adobe, Apple, Intel and Microsoft) estimates that 78% of the software in use in China is pirated which has cost the industry roughly \$7.8 billion.¹⁹

Although other multinationals struggle with piracy and intellectual property right infringement in China, few companies have inspired black market businessmen go to the lengths to copy their wares that Apple has. As was reported originally by blogger BirdAbroad, the city of Kunming possessed not only unlicensed distributors of Apple products, but entire fake outlets purporting to be real Apple stores (the stores were so convincing that some employees were even under the impression they were working for Apple).²⁰ A total of 22 unauthorized distributors (five of which were Apple-exclusive) were eventually found and shut down by the government for violating Apple's trademarks.²¹ While Apple did not make detailed statements on the issue, other than confirming that the stores were indeed unauthorized,²² it is reasonable to infer that Apple petitioned the Chinese government to shut them down as the preponderance of unauthorized retailers would certainly diminish the value of the Apple brand in China.²³

Goals of Google

Like Apple and all other corporations, Google's primary goal is to achieve a profit. However, unlike traditional MNCs, Google does not consider maximizing profitability to be sacrosanct; Google has repeatedly shown that it will forsake some profitability in order to maintain its corporate ideals.²⁴ Google, more so than Apple, is a multinational

that is a “product of the history, culture, and economic system of their home societies,”²⁵ as state-centric realists like Gilpin characterize multinationals.

Ideals

Although Google obviously wishes to make a profit, they are unwilling to do so by sacrificing their ideals as a company. Stemming from Sergey Brin’s upbringing in the Soviet Union and the “totalitarianism” he witnessed there, and sees presently in the CCP’s censorship of the internet, Google refuses to pander to the Chinese government and censor searches in order to merely enhance its profitability. Google outlined their perspective on this dilemma when they first opened their Chinese offices in 2006, saying that “in the belief that the benefits of increased access to information for people in China and a more open Internet outweighed (Google’s) discomfort in agreeing to censor some results,” and that this constituted “a judgment that Google.cn will make a meaningful – though imperfect – contribution to the overall expansion of access to information in China.” Evidently, Google’s strategy in China is not as straightforward as simply attaining profitability; it is an amalgamation of corporate success and the upholding of its core values like freedom of information and freedom of speech.²⁶

Cybersecurity

As addressed in the Goals of America section, cyber security is a prominent concern not only for nation-states, but for multinational corporations as well. In particular, companies that store vast amounts of private information are particularly concerned with the protection of their proprietary and personal information. In December 2009, Google “detected a highly sophisticated and targeted attack on (their) corporate infrastructure originating from China that resulted in the theft of intellectual property from Google.”²⁷ Google was able to determine that the goal of these attacks

had been to gain access to the Gmail™ (Google's email service) accounts of Tibetan dissidents.²⁸ While the hackers were unable to infiltrate these accounts, this attack understandably miffed Google. Further, the discovery that "the accounts of dozens of U.S.-, China- and Europe-based Gmail™ users who are advocates of human rights in China appear to have been routinely accessed by third parties (probably through phishing scams or malware, and not because of a security breach at Google),"²⁹ ultimately influenced Google's decision to revamp their China strategy. Given that Google's reputation as a company is contingent on ensuring that people's private information is inaccessible to potentially prying eyes, be they independent hackers or a state's cyber army, and given the about-face in Google's China policy after this incident came to light, it is reasonable to assume that Google considers keeping its information safe an integral component of both its global and its Chinese objectives.

Business Model

As previously discussed in the section pertaining to Google's history in China, Google's operations strategy in China differs from its normal business model in America and throughout the world. Google relies heavily on search-related advertising revenue to bolster its bottom line. Because Google has largely retreated from search in China, the company has to rely on ventures that are not beholden to government censorship in order to exploit the Chinese market. As the company indicated earlier this year, Google will be opening an Android Market™ store for the Chinese domestic market in order to increase the profitability of its widely-adopted Android™ mobile platform. Further, Google has introduced additional internet services that compete with entrenched Chinese internet firm Baidu that cater to the Chinese consumer without running afoul of the internet censors. Last year, Google introduced Shihui™ which allows Chinese

customers to find discounts at local merchandisers, while giving Google's all-important advertising revenue a Mainland boost.³⁰

In addition to internet-based offerings, Google expanded its asset base last year with its acquisition of Motorola Mobility. Although the \$12.5 billion takeover was primarily to gain the rights to Motorola's extensive patent portfolio, the acquisition has given Google a small manufacturing footprint in China. Interestingly enough, even though both U.S. and European regulatory authorities have already approved the deal, the Chinese Commerce Ministry also has the right to review the merger: "According to Chinese law, those enterprises that has business in China and earns 10 billion yuan (\$1.55 billion) yearly revenue globally and 400 million yuan in China must have government approval for an acquisition proposal."³¹ However, as of now, Google intends to operate Motorola as a separate entity; it remains to be seen what will happen with its manufacturing unit and if the company will decide to make their own Google phone.³² Thus, Google's China strategy is unlikely to change drastically (for example, changing course from an internet firm to a predominantly manufacturing-based one) as a result of this acquisition.

Intellectual Property

Although Google has temporarily ceded the Chinese domestic search market in order to maintain its ideals pertaining to freedom of speech and information, as a result of its other services aimed at Chinese consumers, Baidu remains one of Google's biggest competitors in the Chinese domestic internet space.³³ Both companies have similar profit models, collecting advertising revenue from their search engine functions. As well, both companies offer a wide-ranging portfolio of internet platforms, from specified search portals to smart phone operating systems (Baidu recently created

BaiduYi® which is a ‘fork,’ or a source code copy, of Google’s Android™ OS). While Google is no longer actively promoting itself in the Chinese search space, if the CCP ever were to decide to ease censorship requirements, Google would likely return with alacrity to the world’s largest internet market, creating substantially more competition between these two internet giants.

Globally, Baidu is actively staging a challenge to Google in a number of new markets, such as Brazil. However, analysts see Baidu as little competition to Google outside of Mainland China. Baidu is able to maintain a dominant position in the Chinese search market because of its willingness to censor internet search results and to condone internet piracy,³⁴ as well as the patriotic pride it inspires in ordinary Chinese citizens,³⁵ and not because of superior technology. In fact, Baidu’s algorithms are nowhere near as sophisticated as Google’s; as explained by the blog Search Engine Watch, Baidu tends to rely on quantity of links as opposed to the quality of links, as Google does.³⁶ As a result, Google, in both English and Chinese, tends to produce more accurate, more desired results. The reason why Google did not surpass Baidu before its pull out of the Chinese market in 2010 is that, simply, most Chinese netizens are young and searching primarily for entertainment like music and movies (Baidu, because it allows for easy access to pirated music and movies, has a definitive advantage over Google in this area) and less frequently for information. It is reasonable to infer that Google ideally would like to re-enter the Chinese search market without having to compromise its ideals, while being able to compete on a level playing field in accordance with WTO guidelines on piracy; until then, Google will look to maintain its

visibility to the average Chinese consumer by competing with Baidu in internet services indirectly related to search.

Notes

¹ Coincidentally, in China, such definitions do not apply to a number of state-owned enterprises, as their neo-Mercantilist system renders them beholden to the state as well as shareholders. However, these exceptions are not of great importance in our comparison between Google and Apple.

² Here, I slightly disagree with Gilpin. He implies that those who subscribe to state-centric realism in international political economy also “assume...that multinational firms are essentially national firms...MNCs are actually deeply embedded in and very much a product of the history, culture, and economic system of their home societies,” as he wrote in *Global Political Economy* on pages 288-289. While I don’t deny that these factors helped mold companies and their products, one could argue that Apple’s unbounded creativity are unequivocally American, but that its supply chain tactics are not a reflection of the values of their home country. On the other hand, I feel that Gilpin’s assertion is very much pertinent to Google which embodies inherently American values, such as freedom of speech. Again, this is why it is important to unpack the multinational corporation because these individual companies both are and aren’t reflective of disparate American values.

³ Gethin Chamberlain, “Apple’s Chinese Workers Treated ‘Inhumanely, like Machines,’” *The Guardian*, 30 April 2011, Internet
<http://www.guardian.co.uk/technology/2011/apr/30/apple-chinese-workers-treated-inhumanely> (date accessed: 10 February 2012).

⁴ Charles Duhigg and David Barboza, “In China, Human Costs Are Built into iPads,” *New York Times*, 25 Jan 2012, Internet,
http://www.nytimes.com/2012/01/26/business/ieconomy-apples-ipad-and-the-human-costs-for-workers-in-china.html?pagewanted=7&_r=1&sq=Apple%20China&st=cse&scp=4 (date accessed: 10 February 2012).

⁵ Certainly, the initial move of certain component manufacturers abroad can be traced to lower wages, as well as de facto Chinese government subsidies. However, now that component manufacturers have moved abroad, they’ve created an ecosystem that is self-sustaining, independent of the lower wages provided.

⁶ Charles Duhigg and Keith Bradsher, “How the US Lost Out on iPhone Work,” *New York Times*, 21 January 2012, Internet,
http://www.nytimes.com/2012/01/22/business/apple-america-and-a-squeezed-middle-class.html?_r=1&pagewanted=all (date accessed: 10 February 2012).

⁷ *Ibid.*

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ It should be noted that the suicides themselves were largely blown out of proportion because it fit in with the easy narrative elected by the Western media; in fact, Foxconn's suicide rate is well below that of both the Chinese and U.S. national rates. Further, there were a spike in suicides over a few month span in the summer of 2010; however, these numbers dropped dramatically after Foxconn stopped paying a death benefit to the victims' families (a substantial factor given the collectivist nature of Chinese culture).

¹¹ It appears to yet to have materially affected Apple's brand recognition; on February 13th, 2012 the company was named as number one Harris Interactive Poll of corporate images. <http://www.bloomberg.com/news/2012-02-13/apple-tops-google-for-no-1-image-as-buffett-s-berkshire-slips.html>

¹² Tim Culpan, "Foxconn Says Apple Assessments Begin," 13 Feb 2012, *Bloomberg*, <http://www.bloomberg.com/news/2012-02-14/foxconn-says-apple-assessment-begins.html> (date accessed: 15 February 2012).

¹³ Beth Marlowe, "Jon Huntsman on China Currency: 'I Don't Want to Find Ourselves in a Trade War,'" *Washington Post*, 11 October 2011, Internet http://www.washingtonpost.com/blogs/election-2012/post/jon-huntsman-on-china-currency-i-dont-want-to-find-ourselves-in-a-trade-war-debate-video/2011/10/11/gIQAAmUudL_blog.html (date accessed: 20 September 2012).

¹⁴ As stated earlier, Apple's sales in China totaled \$3.8 billion in 2011, representing an increase of 600% year-over-year.

¹⁵ Mark Lee, "Apple Surpasses Lenovo Revenue in China on Strength of iPhone, iPad Sales," *Bloomberg*, 22 July 2011, Internet, <http://www.bloomberg.com/news/2011-07-21/apple-surpasses-lenovo-revenue-in-china-on-strength-of-iphones.html> (date accessed: 14 February 2012).

¹⁶ Interestingly enough, the only country that has a substantially higher iPad® premium than China is fellow BRIC, Brazil, where an iPad® costs about 1600 Reais, or 950 USD apiece. However, this is mostly due to onerous tariffs on technology imports.

¹⁷ Prices courtesy of Apple.com. Currency conversions as of February 14, 2012. All prices are for the basic iPad2®.

¹⁸ That being said, any currency-related shock to the economy would probably have an effect on sales. Said effect on sales would not be a product of currency manipulation, but rather a reflection of consumer perceptions towards the economy.

¹⁹ Kathrin Hille, “China ‘not doing enough on software piracy,’” *Financial Times*, 24 October 2011, Internet, <http://www.ft.com/intl/cms/s/2/1e8c65ba-fe27-11e0-a1eb-00144feabdc0.html#axzz1nVqepzvy> (date accessed: 15 February 2012).

²⁰ “Are You Listening, Steve Jobs?” *BirdAbroad*, 20 Jul 2011, Internet, <http://birdabroad.wordpress.com/2011/07/20/are-you-listening-steve-jobs/> (date accessed: 15 February 2012).

²¹ “Chinese Authorities Find 22 Fake Apple Stores,” *BBC Online*, 12 August 2011, Internet, <http://www.bbc.co.uk/news/technology-14503724> (date accessed: 15 February 2012).

²² Ted Thornhill, “The Fake Apple Store in China So Convincing that Even Its Staff Are Fooled,” 22 July 2011, Internet, <http://www.dailymail.co.uk/news/article-2016885/Fake-Apple-store-China-convincing-staff-fooled.html> (date accessed: 15 February 2012).

²³ Interestingly enough, the goods in the stores were actual Apple products and not pirated. Likely, the goods had been smuggled in from Hong Kong where, as discussed previously, the iPad® is significantly cheaper.

²⁴ George G. Brenkert, “Google, Human Rights, and Moral Compromise,” *Journal of Business Ethics*, July 2008, Vol. 85, No. 4, 453-474.

²⁵ Robert Gilpin, *Global Political Economy*, 288.

²⁶ Elliot Schrage, “Testimony: The Internet in China,” *The Official Google Blog*, 15 February 2006, Internet, <http://googleblog.blogspot.com/2006/02/testimony-internet-in-china.html> (date accessed: 18 February 2012).

²⁷ David Drummond, “A New Approach to China,” *The Official Google Blog*.

²⁸ *Ibid.*

²⁹ *Ibid.*

³⁰ Amir Efrati and Loretta Chao, “Google Softens China Stance,” *Wall Street Journal*.

³¹ Ravi Mandalia, “Anti-Monopoly Bureau Reviewing Google’s Motorola Acquisition Bid,” *IT Pro Portal*, 20 February 2012, Internet, <http://www.itproportal.com/2012/02/20/chinese-anti-monopoly-bureau-reviewing-googles-motorola-acquisition-bid/Chinese> (date accessed: 18 February 2012).

³² Terril Yue Jones, “Chinese Commerce Ministry Reviewing Google/Motorola Deal,” *Reuters*, 16 February 2012, Internet, <http://www.reuters.com/article/2012/02/16/us-google-motorola-china-idUSTRE81F0GW20120216> (date accessed: 18 February 2012).

³³ Interestingly enough, Google was actually one of the initial investors in Baidu. However, the company sold its stake in the company in 2006 when it decided to start its own venture in the Chinese market.

³⁴ Baidu makes it inordinately easy for the average Chinese internet user to download pirated material. The U.S. Trade Representative claimed that Baidu intentionally guided users to third-party websites where illegal downloads were available.

³⁵ Michael Bonfils, “Baidu: A Sleeping Giant Awakes,” *Search Engine Watch*, 22 July 2009, Internet, <http://searchenginewatch.com/article/2048562/Baidu-A-Sleeping-Giant-Awakens> (date accessed: 18 February 2012).

³⁶ *Ibid.*

CHAPTER 6 NEXUS

Convergence and Divergence

The goal of this paper is to evaluate Google and Apple's operations in China and discern what ramifications they have on Sino-American relations. This paper has already outlined the goals of each of the four entities, providing a foundation for understanding how certain interactions between these two companies and two countries would produce tension and how others would not. In order to elucidate which elements could potentially be agents of stress in Sino-American relations, this paper will now explore the operations of both companies in five areas of particular interest to China and the U.S. The five areas that comprise the nexus where overlapping interests or incongruous objectives occur are as follows: manufacturing, piracy, competition, censorship, and cyberwarfare. By depicting in which areas the interests of the companies dovetail or diverge with those of the United States and/or China, it will become evident why Apple and Google have different effects on Sino-American relations.

Manufacturing

Apple: Chinese Perspective

The manufacturing sector serves as a great example of how Apple and Google have disparate effects on Sino-American relations: both cause tension, but in different ways. As discussed previously, the PRC maintains a relatively weak RMB so as to ensure that their export sector remains competitive. Given that manufacturing is the largest component of China's export sector¹ and the emphasis that the PRC has put on attracting MNCs to move various stages of supply-chain production to China (through

the use of subsidies) paramount among China's economic concerns are a manufacturing environment conducive to multinationals looking to produce their wares cheaply. A number of technology hardware firms have duly followed suit; companies like Microsoft, Dell, IBM, and, of course, Apple, have moved device manufacturing to China. In this regard, Apple and the PRC's interests dovetail nicely: Apple is able to take advantage of a cheaper, more flexible, and more abundant labor force, while the PRC is able to create millions of jobs for its semi-trained workers, bolstering government coffers through increased tax receipts, and enriching owners and other investors.

Apple: American Perspective

While this relationship clearly benefits Apple and China, on the other hand, it produces tension on the U.S. side towards China. Although there are some positives for the U.S. and its citizens in this relationship,² this is overshadowed by the more prevalent narrative in U.S. domestic politics that emphasizes the loss of manufacturing jobs to China.³ As the U.S. has struggled to create jobs in this most recent recovery, any policy that is perceived to have cost America jobs⁴ will be a stress-producing agent in Sino-American relations. This is evident through bills presented in Congress pertaining to Chinese currency policy and through presidential candidate Mitt Romney who says that he would label China a currency manipulator on his first day of office.⁵ Because many American politicians do consider China to be a currency manipulator which affords them an unfair advantage in the export manufacturing sector, it unequivocally causes tension in this relationship. While Apple is by no means the sole cause of this row, it is perceived as complicit, as is evident by the explicit references to it having moved its manufacturing abroad.

In addition to the physical relocation of technological manufacturing, the working conditions in the factories in China that produce Apple's technology cause tension in the Sino-American dyad. Because of the American commitment to promoting human rights abroad, Sino-American relations have stumbled over issues relating to labor conditions, specifically the previously mentioned factories that produce Apple goods. Specifically, the Congressional Executive Commission on China, in their annual report last year, explicitly chided the Chinese for condoning the working conditions (including child labor) at factories where Apple goods are produced.⁶ While the PRC largely regards American claims of Chinese human rights abuses as hypocritical,⁷ this still remains a stress-inducing agent in Sino-American relations, stemming mostly from the American side.

Google: Chinese Perspective

On the other end of the spectrum, up until recently, Google's operations in China have relied little on manufacturing and therefore do not antagonize American interests in this dyad. While the acquisition of Motorola will result in Google producing some goods in China, this is of little consequence to Google's overall strategy and profitability (as addressed earlier, Google's Motorola acquisition was primarily to gain access to the Illinois-based company's expansive patent portfolio, not for its hardware division). Google's strategy will remain less focused on tangible goods and more geared towards the unfettered dissemination of intangible information. While such a strategy may be lucrative for Google, this method of enterprise is not particularly compatible with the business climate espoused by the PRC.

The PRC, through its manufacturing subsidies and its weak currency, fosters an environment ideal for export-focused multinational firms that are more congruent with its neo-Mercantilist agenda. Google's model is less profitable for the Chinese government:

it employs far fewer people than the manufacturing sector does and the appropriate taxes due to the Chinese government remain unclear, as was evident in an incident in March 2011 where the Chinese government accused Google subsidiaries of deliberate tax avoidance.⁸ As opposed to Apple's problems causing tension from the American side in Sino-American relations, Google's business strategies evidently exacerbate tensions from the Chinese perspective. Not only does Google provide far fewer monetary benefits to the CCP than manufacturers like Apple, Google's open approach to the dissemination of information flies in the face of the PRC's brand of authoritarian capitalism that relies heavily on the control of information.⁹ The full ramifications of Google's business model on Sino-American relations will be discussed later in the section pertaining to privacy, censorship, and information.

Piracy and Intellectual Property

Apple and Google both have qualms pertaining to the pervasive nature of piracy and intellectual property theft in the PRC, although some of the manifestations of their discontent vary. Apple predominantly faces piracy issues in the hardware space, whereas Google encounters piracy concerns with competitors' unwillingness to recognize the intellectual property of content producers.

Apple and Intellectual Property

Apple's piracy issues in China were highlighted prominently in the summer of 2011 in the international media with the discovery of multiple fake Apple stores in Kunming, Yunnan Province. Knock-offs are pervasive in China (although their quality belies their lack of authenticity), however, as stated previously, the Apple goods being sold at the fake stores in Kunming were real Apple products. At some point, these goods were purchased from a legitimate licensed Apple retailer (many have been

smuggled from Hong Kong). There are other concerns for Apple, such as the lack of brand control over these fake stores; Apple's brand cachet is derived from its exclusive nature. The revelation that five fake stores in close proximity in a second-tier Chinese city would surely irk Apple's management given their propensity to tightly control all aspects of their branding.

Further, the notion that fake stores could operate so openly in China and not draw attention from local Communist Party officials aggravated Apple's management. The existence of these stores did not exactly inspire confidence in other multinationals operating in China. However, once the fake stores in Kunming came to international attention, the government shut them down quickly. While piracy of goods undeniably remains a problem, evidently, the Chinese government did not want to be associated with such callous infringement on intellectual property rights, in particular, one that dismayed such an important manufacturer in China.

The recent row over the iPad® trademark with Sino-Taiwanese hardware maker Proview also illustrates the undue influence of Apple in the PRC. While Apple was under the impression that they had purchased all worldwide trademarks for iPad® from Proview-Taiwan, subsidiary Proview-Shenzhen claimed that the original agreement did not include Mainland China. Proview has subsequently sued Apple, asking the PRC to remove iPads® from store shelves throughout China and ban all iPad® exports from China because of trademark infringement.¹⁰ Although some iPads® were removed, according to China Law Blog, many cities continued to sell iPads® "in what appear to be political, not legal, reasons."¹¹ Further, while a few lower-level courts in the southeast of China upheld the lawsuit, a more influential Shanghai court threw out the case. The

China Law Blog later posits that almost any company other than Apple would have seen a ban on their exports upheld in a similar situation.¹²

What is most telling about the above incidents in terms of Sino-American relations is how minimal of an effect they had. One can reasonably infer that there has been no significant row as a result because of how quickly the Chinese government has intervened. As depicted earlier, the manufacturing sector is incredibly important for China's export-fueled growth; naturally, the PRC would want to mitigate any mishaps that could inspire technology firms to look elsewhere for their manufacturing needs. This reaction differs significantly from what was depicted in the released WikiLeaks cables on the subject of Apple piracy in China. Information from 2008-2009 indicated that Apple felt that China was dragging its feet in shutting down the fabrication of illicit goods.¹³ For example, in 2009, it refused to investigate a plant that Apple said was supplying fake Apple goods and, also in 2009, refused to shut down a Guangdong electronics shopping center, for fear of supposed lost jobs as a result.¹⁴ According to the cable, Apple countered that fakes could cause serious injuries and would result in substantial lost tax revenue.¹⁵

What could explain the difference in responses from the Chinese government? It likely stems from the international attention that resulted from these two incidents. It would appear that China still has few qualms allowing smaller enterprises like street vendors to sell fake wares, but the potential ramifications from worldwide attention to piracy in China were too great. Simply, the long-term gains of having companies like Apple manufacture in China and perpetuating their neo-Mercantilist economic model (which depends on a positive balance of trade which Apple's presence buoys) far

outweigh the potential local backlash of shutting down fake Apple stores or supporting a Chinese company, Proview, over Apple. Because the PRC quickly shut down the fake stores and (for now) has thrown out the Proview lawsuit,¹⁶ in this case, the U.S. had little reason to antagonize China over this iteration of the issue. The U.S. continues to press China to enforce intellectual property rights for hardware companies like Apple and to press China to follow WTO bylaws. While the crackdown of the fake Apple stores and the dismissal of the Proview case could be construed as a step forward for China, this is more likely an example of Apple's importance in China rather than a movement towards the upholding of intellectual property rights.

Google and Intellectual Property

While Google also has piracy concerns in China, they differ from those of Apple mostly in terms of the nature of the piracy. Unlike Apple, because of Google's minimal manufacturing footprint, Google's intellectual property concerns do not stem from the promulgation of tangible, pirated goods (although Apple does have concerns pertaining to pirated software globally, but in China, they are more preoccupied with hardware). Rather, Google suffers in the space because of China's lack of enforcement of the intellectual property for the rights' holders of entertainment like movies and music. As discussed previously, Google's loss of market share stems from its inability to compete with Baidu. However, Baidu's prowess in the Chinese domestic search market is not derived from better, more sophisticated technology; it is a result of Baidu's lackadaisical attitude towards enforcing intellectual property rights. As Barboza indicates, because the majority of Chinese internet users are disproportionately young and preoccupied with entertainment as opposed to accessing information, Google was always at a disadvantage in its efforts to overtake Baidu.¹⁷

Both America and Google share concerns over the callous dissemination of intellectual property without proper credit (and, of course, royalties) due to their respective owners. In the past, America has intervened on behalf of corporations and organizations like the Movie Picture Association of America in an attempt to eliminate copyright infringement rampant in other countries. Previously, the U.S.' Trade Representatives placed Baidu on a list of "notorious market" websites that woefully neglect the rights of copyright holders. However, Baidu was removed from said list in December 2011 because of an agreement to pay royalties to music content owners through a paid music-sharing service through its website. Although the U.S. has recently removed Baidu from this list, the U.S. did actively pursue Google's main competitor in an area in which it had an unfair advantage. While the U.S. was primarily trying to ensure the rights of copyright holders abroad, one can infer that the U.S. had Google's best interests in mind as well.¹⁸

In sum, both companies have had problems with piracy in China. Prominent amongst the goals of the U.S. in Sino-American relations is to ensure that the protection of trademarks and intellectual property for American individuals and multinationals abroad is enforced. Evidence of these efforts include range from a formal complaint to the WTO, which found in the U.S.'s favor that China was not fulfilling its obligations to uphold intellectual property laws as a WTO member,¹⁹ to recent criticisms of the lack of concern for intellectual property in China by Vice President Joe Biden during a recent trip to the U.S. by Vice President Xi Jinping --and heir apparent to be Premier of China.²⁰

Intellectual property and piracy is clearly a concern shared by both Apple and Google, In fact, going forward, the U.S. sees both Apple and Google playing a major role in the elimination of piracy through their cloud services (neither of which are currently available in China).²¹ Thus, in regards to piracy and intellectual property, there is little difference between Apple and Google in terms of their effects on Sino-American relations.

Competition

In terms of competition, Apple and Google differ drastically in regards to their effects on Sino-American relations. Because Apple has little domestic competition in China, this facet of Apple's operations is not much of a concern in Sino-American relations. However, because Google, as well as other American internet-based firms, face fierce competition from Chinese start-ups, perceived protectionist measures by both China and the U.S. have a discernible effect on Sino-American relations.

Apple and Competition in China

Apple faces minimal competition from Chinese technology firms. China does have a multitude of computer and telephone producers, however, most operate substantially lower on the value chain. For example, Lenovo is one of the world's largest manufacturer of computers, but their computers are universally cheaper (usually around 20-30%) than their comparable Apple model.²² In the mobile phone space, Chinese companies Huawei and ZTE have become important cell phone manufacturers and are growing their share of the low-to-mid-end smartphone market. However, because Apple resides in the high-end of the smartphone market, and Huawei and ZTE are more focused on the mass-market consumer,²³ the companies are not particularly competitive. Further, Apple remains the world's largest producer of smartphones with

23.8% of global smartphone sales in 2011, while Huawei and ZTE controlled only 7% of the market.²⁴ Apple tends to compete with Korean *chaebol* Samsung for the high-end market, while Huawei and ZTE target lower and mid-end models from incumbents like Nokia.²⁵ While Samsung has a substantial lead over Apple in the high-end smartphone segment in China –24% to 7%²⁶-- this rivalry has little bearing on Sino-American relations. However, the recent introduction of a competing high-end model by neophyte Chinese firm Xiaomi could hypothetically produce tension in the future.

The tablet space has a similar dynamic to that of the mobile phone space. ZTE has recently introduced two Android™ tablets that compete on the lower end of the spectrum; Apple's iPad® line is firmly on the higher end of the spectrum. Like in the mobile phone space, Apple dominates the global tablet market with 57% of market share,²⁷ (ZTE only recently released their tablets, so reliable market share data is not yet available). Further, no other company globally, including Samsung, has been able to compete with Apple in the realm of the chic. Apple's impeccable brand recognition and an association with worldliness assures that, at least compared to domestic Chinese technology firms, it is without parallel. Thus, in terms of competition, Apple has little effect on Sino-American relations because Apple does not have any true peers in the space.

Google and Competition in China

Conversely, internet firms like Google, as well as Twitter and Facebook, face substantial competition from Chinese companies in the domestic internet space. Google's search engine and various other internet platforms compete with Baidu; Sina provides a service called Weibo that is, for all intents and purposes, like Twitter; Tudou and Youku are video-sharing sites like YouTube; and Renren, Tencent, and Kaixin host

social networking platforms like Facebook. Aside from some callous patent infringement (Renren has been called a “Facebook clone”),²⁸ under normal market conditions, it would be difficult for these Chinese firms to excel because of the existence of entrenched players and the inability for Chinese outfits to innovate quickly in this dynamic field. Chinese firms have trouble innovating because they supposedly lack Schumpeterian-style entrepreneurship. As author Panos Mourdoukoutas posits: “Schumpeterian entrepreneurship—that is the discovery and exploitation of new market opportunities and the introduction of products and process to exploit them—does not blend well with China’s culture of Confucian conformity to existing norms,” and that “(t)hroughout China’s history, the established order saved little respect for inventors, entrepreneurs, and business pioneers.”²⁹ Instead, it is “well-known for copying and mass-producing the ideas and products of other countries.”³⁰ In a field that is constantly evolving like search and social media, this is a formula for a rapid demise.

Chinese protectionism

In order to ensure the survival of this potentially lucrative industry for pliant domestic firms, the CCP intervened on the behalf of Chinese internet companies in 2009. The CCP shut down Facebook, YouTube (now a part of Google), and Twitter under the auspices that it was attempting to stifle certain forms of free communication. However, this excuse rings false. For example, in March 2009, YouTube was blocked because it contained a video of harsh treatment of Tibetan dissidents. Although, as Foreign Policy points out: “Chinese censors had always been able to block specific videos from being shown in China and had no need to shut down the entire site.” The author contends that this was a reaction to YouTube’s taking over market share from

Chinese competitors Youku and Tudou. YouTube remains blocked; Youku and Tudou are thriving as China's eighth and tenth most visited websites.³¹

Political censorship as protectionism

Further, in June 2009, the CCP placed Facebook firmly behind the Great Firewall after an incident involving rioting Uyghurs in the western Xinjiang Province. The CCP claimed that young Uyghurs were using Facebook and Twitter to communicate and plan their illicit activities.³² However, such claims seemed disingenuous because the internet in Xinjiang had been shut down for months prior to this incident. Further, Facebook was quickly gaining market share in the coastal regions of China (the heart of China's lucrative, upwardly-mobile middle classes) and not in the regions of the country most commonly associated with dissidents.³³ Yet, Chinese social networking sites like Weibo, Kaixin and Renren were not shut down, even though these sites facilitated the same sort of communication which the CCP supposedly wished to eliminate. Like Tudou and Youku, Weibo, Kaixin and Renren are thriving without the competition of social media juggernauts like Twitter and Facebook.³⁴

In addition to its YouTube offerings, prior to Google's China strategy shift in January 2010, Google's other services were routinely placed behind the Great Firewall, even those that did not run afoul of Chinese censors. Google services, including Gmail™ and Google Docs, were available reportedly 90% of the time (and other services not available at all).³⁵ For companies attempting to do business in China using Google services, such outages are simply unacceptable. Further, in 2009, China admonished Google over what they considered to be insufficient curtailing of searches pertaining to pornography which resulted in the blocking of said searches.³⁶ However, similar searches for inappropriate material on Baidu were not subjected to similar

criticisms.³⁷ Thus, Foreign Policy posited that: “Google...has been systematically forced out of the market by a Chinese government determined to purge all foreign competition from its Internet industry, which is expected to bring in \$8 billion in advertising revenue in the next three years.”³⁸ As illustrated in previous sections, Baidu’s algorithms are nowhere near as sophisticated as those of Google; on a level playing field, Google’s market share would likely grow at the expense of Baidu. Thus, in order to shield Baidu from more advanced foreign competition, the CCP actively interfered with Google to bolster its own domestic internet market.

The abovementioned interventions by the PRC on behalf of their own companies under the guise of censorship (although the prevention of free-flowing information was unequivocally a factor in the PRC’s actions) provoked shouts of protectionism from observers and businesses abroad. Foreign Policy described it as such: “(i)n a country well-known for copying and mass-producing the ideas and products of other countries, from automobiles to movies, a new economic tool has been invented: an insidious, uniquely 21st-century form of protectionism.” As Ed Black, the CEO of the Computer and Communications Industry Association, told the U.S. Congressional-Executive Commission on China, the censorship by the PRC is skewed towards foreign companies while remaining lax on domestic ones.³⁹ He claims that “(t)his double standard strongly suggests that the motivation here is protectionism rather than morals.”

Protectionism and Sino-American relations

Perceived protectionist measures in one of America’s most important industries going forward have provoked reactions from both the U.S. and China. Directly in the aftermath of the incident, Secretary of State Clinton, White House Press Secretary Gibbs, and President Obama all defended Google in the dispute (although accusations

of protectionism were largely muted, as the remarks focused on the more pressing issue for the U.S. government, cyber terrorism). Larry Summers, the President's-then economic adviser said that "(t)he principles that Google is trying to uphold are not just important in a moral or human rights framework but are also of very considerable economic importance."⁴⁰ Further, recent evidence indicates that the U.S. Trade Representative is preparing to take a case to the WTO on the issue of protectionist measures in China's domestic internet space. An October 2011 information request claiming that "the U.S. is seeking detailed information on the trade impact of Chinese policies that may block U.S. companies' websites in China, creating commercial barriers."⁴¹ Black explains the actions as follows:

By using mechanisms available under the WTO, the USTR has put China in a position where it could face repercussions if it fails to share more specifics on the country's notoriously cloaked censorship strategy. While the WTO allows exceptions to its rules for matters of public morals and national security, the boundaries of such exceptions need to be tested. The WTO also requires that all restrictions be transparent, provide due process, be minimally restrictive and apply equally to foreign and domestic entities. As of today, China complies with none of these requirements.⁴²

Complaints of protectionism in the Google issue were not confined to the American side; in fact, China also voiced concerns over supposed American protectionism in the wake of Google's strategy change in China. China complained that the U.S. risks "backsliding" into an environment of protectionism in light of the U.S. response to the treatment of Google in China.⁴³ Further, the PRC advised "Google's home country" to increase their vigilance of American companies abroad, implying that if these companies are not complying with other nation's domestic laws, adversity should be expected.⁴⁴ Zhao Kang of the Chinese Association of Social Sciences claims that this constitutes protectionism because the U.S. spoke out against China on behalf

of Google. Zhao claims that the U.S. intervened because "Google's having a hard time accepting its current failure in the Chinese market, but there is nothing the search engine can do about it."⁴⁵ While such an analysis is largely undermined by the facts mentioned in this paper (and has more than a hint of Chinese preoccupation with face), it does nicely encapsulate the Chinese perspective that the U.S. also engaged in trade protectionism on behalf of its own company. Further, Xinhua, a Chinese government-backed news agency (as reported via the BBC), claimed that "Google's high-level officials have intricate ties with the US government."⁴⁶ Evidently, in terms of competition, the contrast between Apple and Google's effects on Sino-American relations are quite stark; Apple causes minimal friction, whereas Google causes accusations of protectionism from both factions.

Privacy, Censorship, and Information Technology

The U.S. and China evidently have different conceptions of the validity of freedom of speech and information. Whereas the U.S. strives to ensure that citizens are able to freely articulate their thoughts, the PRC touts the merits of censorship as it actively curtails freedom of expression in order to maintain their grip on power. These separate stances manifest themselves when the U.S. or the PRC broach the subject of Google; on the other hand, Apple does not produce much friction in Sino-American relations on the subject of freedom of information, privacy, and censorship.

Apple and Privacy, Censorship, and Information Technology

Apple's effect on Sino-American relations with regards to censorship and freedom of information is minimal. While it is true that Apple's devices like the iPhone and the iPad® do allow users to communicate more efficiently and effectively, this functionality is not unique to Apple hardware; any company that produces a mobile

device provides similar capability to spread information. Further, because Apple operates in mostly tangible products and does not peddle in ideas, the company is less sensitive to the detriments of censorship compared to internet companies. In areas where its products have run afoul of Chinese censorship, for example, certain applications in the App Store that feature the Dalai Lama, Apple has had no qualms removing material that the PRC deems unsuitable.⁴⁷ Further, while the U.S. promotes the freedom of information globally, they have not chided Apple for their censorship of certain applications. Thus, Apple has little effect in Sino-American relations in terms of censorship because it does not exacerbate either the Chinese or the American side.

Google and Privacy, Censorship, and Information Technology

On the other hand, internet firms by their nature are more problematic for authoritarian countries like China. For many internet firms like Google, their business models are contingent upon the ready availability of information; authoritarian governments depend on controlling their citizenry's access to information, as the free exchange of information limits the efficacy of propaganda. For Google itself, the roots of their tension with the PRC stem from a discrepancy in ideology. Google believes in a free internet, ideally free of censorship. When they first entered the PRC, they articulated a particular discomfort with censoring information. Google was under "the belief that the benefits of increased access to information for people in China and a more open Internet outweighed our discomfort in agreeing to censor some results."⁴⁸ However, along with the January 2010 cyber attacks and increased protectionist measures, Google decided it was no longer comfortable upholding these restrictions on information. Google felt that this variety of information suppression compromised one of their core principles, listed in their version of the Ten Commandments called 'Ten

Things:’ “You can make money without doing evil.”⁴⁹ Conversely, the PRC has censorship firmly entrenched in their legal apparatus, with over sixty regulations pertaining to internet censorship alone. PRC censorship laws are far-reaching, from specific regulations pertaining to terrorism and fomenting unrest, to more vague values such as “spreading rumors.”⁵⁰ Government authorities are charged with not only monitoring web content, but individual citizenry, as well. The size of their internet police is thought to be more than 30,000 strong.⁵¹ Evidently, there exists a substantial gulf in ideology between Google and the PRC which factors heavily into this tension-producing relationship.

Google and China’s conflicting worldview

The PRC’s disdain for Google stems from a fundamentally different worldview. As the world becomes more connected and access to information becomes more and more available to average citizenry, authoritarian governments find controlling information flow to be a progressively more difficult task. This is why twenty-first century Western tech companies are problematic for the PRC: they deal in information, interaction, and ideas all of which all had the ability to foment instability and antipathy towards the Communist regime. Because of the existence of more pliant Chinese companies, the PRC has been able to play hardball with Google without fear of depriving the country’s netizens of internet search platforms. Companies like Alibaba, Sina, and Baidu have all signed a pledge to aid the government in upholding censorship by making a concerted effort to disseminate positive messages and eliminate gossip-mongering. Their willingness to stifle information on behalf of the government was demonstrated during the Arab Spring when a search for pertinent topics like Egypt yielded this result: “According to relevant laws, regulations and policies, the search

results are not shown.”⁵² These complicit firms allow the PRC to maintain control over information accessed by its citizens without having to relent to pressure by multinational firms or foreign governments.

Google and the U.S. on censorship

As discussed previously, the PRC and the U.S. have divergent opinions on the merits of internet censorship. The U.S. maintains a similar ideology to that of Google in regards to internet censorship and privacy. The U.S. is committed to freedom of expression and the freedom of information, considering them basic human rights. This was evidenced in a speech by Secretary of State Clinton in the aftermath of the attacks on Google wherein she claimed that “We (the U.S.) stand for a single internet where all of humanity has equal access to knowledge and ideas.”⁵³

Given the polar opposite positions on internet freedom espoused by the U.S. and the PRC, it is unsurprising that this issue produces significant tension in the relationship. Because of Google’s role at the forefront of accessing information, the internet giant is frequently embroiled in the controversies of the Sino-American dyad. The U.S. side has often chastised the PRC for censoring search results, such as those of Google, as impeding internet freedom.⁵⁴ The United States Trade Representative has petitioned the WTO for the PRC to clarify what rules it applies for censoring information on the internet.⁵⁵ Congress has debated passing the Global Online Freedom Act,⁵⁶ a piece of legislation that Google has vocally supported.⁵⁷ The bill would make every search company disclose any politically or religiously sensitive material that it has censored at the behest of a foreign government to the State Department. Evidently, the United States and Google’s perspective on internet freedom is fundamentally different than that of the PRC.

The actions that both the United States and Google have taken in pursuing their internet ideals have caused a hostile reaction from the PRC. The PRC has singled out Google and its deeper motivations on multiple occasions. The PRC has denigrated Google as a cultural imperialist, with the *People's Daily*, a PRC-controlled news outlet, claiming that U.S. multinationals could be responsible for attempting to indoctrinate foreigners with American values.⁵⁸ Further, they claim that "Google should take the Chinese people's feelings into consideration and stop using Chinese customers as hostage to confront the Chinese government."⁵⁹ As well, the *People's Daily* also bemoans what they see as attempts to politicize Google's operations in China by the U.S.: "Such politicization was not provoked by China, but imposed by the U.S. and the west onto China."⁶⁰ This is not the only accusation by the PRC of Google being a U.S. government lackey. State-run news agency Xinhua accused Google of having intricate ties with the U.S. government, alleged that the U.S. was surreptitiously behind Google's China search pull-out, and claimed that Google provided the U.S. government with archives of search engine results.⁶¹

Juxtaposed to Apple's relative unimportance in the realm of information sharing, Google has substantially more influence on Sino-American relations in this aspect. Stemming from Google's peddling in information and ideas that exacerbate Chinese censors and America's support for internet freedom, as opposed to Apple's more innocuous emphasis on hardware, Google's role in Sino-American relations produces discernibly more tension than Apple.

Cyberwarfare

Apple and Cyberwarfare

In regards to cyberwarfare, Apple is not particularly relevant. Like any multinational corporation, it is reasonable to assume that Apple would not like any of its proprietary information compromised. However, as primarily a hardware producer, as opposed to operating primarily with intangible information, cyberwarfare is not a primary concern for Apple. It should be noted that Apple does offer a basic email service and is making initial overtures in the cloud computing space which will put more and more information online, and, thus, potentially at the mercy of hackers. However, until these services either become more robust or more pertinent to Chinese interests, they are of less interest to hackers than Google's ubiquitous Gmail™ services. Although Apple surely wishes to protect its proprietary information from prying eyes, as of right now, their internal interests have little to do with Sino-American relations.

Google and Cyberwarfare

Conversely, Google is firmly on the forefront of the murky world of cyberwarfare. As mentioned previously, Google, along with dozens of other multinational corporations, was the victim of a cyber attack in late 2009 known as Operation Aurora that could be traced back to Chinese servers; the e-mails of dissidents and officials were repeatedly attacked. Stemming from this attack, concern over cyber security has become paramount for Google, especially with regards to Chinese initiatives in the field.

Cyberwarfare as modern warfare

Governments and militaries are becoming more and more cognizant of the ramifications of cyber attacks. As a result, world powers have placed an increasing emphasis on cyber security capabilities. As illustrated earlier, it's difficult to attribute

exactly from where cyber attacks come, but logical conclusions and reasonable inferences allow observers to discern the extent to which governments are preparing for cyber encounters. Unlike more secretive governments, the U.S. has been relatively open about their cyber initiatives. The Pentagon announced in 2010 the creation of a Cyber Command post;⁶² FBI Director Robert S. Mueller III has repeatedly warned of the danger of cyber attacks, claiming the threat will be equal or greater than that of terrorism in the near future.⁶³ On the other hand, China's clandestine online activities remain largely unknown to those outside the Politburo. Although multiple outside observers have pointed the finger at the Chinese government as being behind the attacks on Google's servers, the Minister of Defense, Liang Guanglie, steadfastly denies such accusations.⁶⁴ After the attacks on Google were traced back to servers in Jinan, Shandong Province, there exists reasonable suspicion that Beijing is not being exactly forthright in the manner. It is hypothesized that the PRC has created a "Blue Army" consisting of cyber warriors to complement its traditional Red Army.⁶⁵ This conjecture has been supported by footage from a PLA documentary that rather blatantly demonstrates how the army targets foreign websites.⁶⁶

U.S. reaction to Chinese cyberattacks

The attack and subsequent Chinese denials of involvement in the incident irked American officials, but their initial response was somewhat muted. Immediately after the attacks, Secretary Clinton called on China to thoroughly investigate what exactly transpired,⁶⁷ but did not go as far to admonish the PRC. Secretary Gates and President Obama both called on China to be more transparent, but also refrained from explicit criticism.⁶⁸ However, after the WikiLeaks cables revealed that sources confirmed to the U.S. that the Chinese Politburo was behind Operation Aurora,⁶⁹ American criticisms of

China's involvement in cyberwarfare, and specifically the Google attacks, have increased.

In October 2011, Representative Mike Rogers, the head of the House Intelligence Committee, testified about the existential threat of Chinese cyber attacks affecting both the government and private companies. He claims that Beijing is going to unprecedented levels to steal American proprietary information that constitutes a "trade war."⁷⁰ In this hearing, Rogers claimed that "(companies, including Google) describe attacks that originate in China, and have a level of sophistication and are clearly supported by a level of resources that can only be a nation-state entity."⁷¹ An ex-director of the Central Intelligence Agency and National Security Advisor Michael Hayden also testified: "I say that as a professional intelligence officer, I step back in awe at the breadth, depth, sophistication and persistence of the Chinese espionage effort against the United States of America,"⁷² with an emphasis on Chinese prowess in cyberspace.

Further, the Office of the National Counterintelligence Executive issued a report in October 2011 entitled "Foreign Spies Stealing U.S. Economic Secrets in Cyberspace." In the paper, the National Counterintelligence Executive warns that, in addition to the national security threat of transfer of military technology to rogue states, certain nation-state cyber divisions are continually attacking American military, government, and corporate computers. The report explicitly names China as "the world's most active and persistent perpetrator of economic espionage,"⁷³ while pointing out the apparent theft of some of Google's source code as an explicit example of Chinese economic espionage.⁷⁴

The PRC has not responded positively to the numerous American accusations over the past two years of engaging in cyberwarfare after having consistently denied such claims. China's discontent over American claims is similar to its qualms with American opprobrium over censorship; namely, the PRC feels that such admonishment constitutes hypocrisy. The *People's Daily* first accuses the U.S. of introducing the concept of cyberwarfare in the first place;⁷⁵ the PRC-backed paper then claims that within the weeks surrounding the Google attacks, China's Baidu came under attack on multiple occasions from servers based in the U.S.⁷⁶ Further, the *People's Daily* accused the U.S. of engaging in cyberwarfare with Iran by supposedly being behind demonstrations and fueling their efficacy through internet rumor-mongering on microblogging sites like Twitter.⁷⁷ As well, state-owned *Xinhua* indicated that the U.S. Patriot Act constituted hypocrisy on America's part because the Patriot Act gives the U.S. government permission to spy on its own citizens under the guise of anti-terrorism, yet berates other governments for using the internet to monitor its own netizens.⁷⁸

Google, Cyberwarfare, and Sino-American relations

Evidently, cyber security is a tension-producing agent in Sino-American relations, causing explicit criticisms from both sides. While Google is not directly responsible for the row between the two countries, the company's prominent position as a victim of cyberattacks by (presumably) the Chinese places Google at the forefront of any discussion of cyber security between China and the U.S.;⁷⁹ on the other hand, Apple is scarcely involved in the debate.

Notes

¹ David Barboza, "Baidu's Gain from Departure Could Be China's Loss," *New York Times*, 13 January 2010, Internet,
<http://www.nytimes.com/2010/01/14/technology/companies/14baidu.html> (date accessed: 18 February 2012).

² The U.S.-China Business Council, "U.S.-China Trade Statistics and China's World Trade Statistics," Internet, <https://www.uschina.org/statistics/tradetable.html> (date accessed: 19 February 2012).

³ It should be noted that plenty of ordinary Americans have benefited from the emigration of Apple manufacturing to China, through cheaper phones and mp3 players, to individual investors who have made money from Apple's stock through the company's increased profitability. However, the discussion in America is rarely framed in such terms, and thus, is not as relevant as the more tension-producing rhetoric pertaining to worker conditions in Shenzhen, or manufacturing jobs leaving the U.S.

⁴ As noted in a previous footnote, the departure of American jobs overseas can be attributed to multiple factors in addition to a weak RMB.

⁵ Mitt Romney, "How I'll Respond to China's Rising Power," *Wall Street Journal*.

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CHAPTER 7 CONCLUSION

Gilpin's contribution to the literature pertaining to the role of multinational corporations in international affairs is unequivocally valuable to the field of political economy; however, in the twenty-first century, evaluating the role of the multinational corporation may require more nuance. Treating the multinational corporation as a monolithic entity does not allow observers to identify how different companies have disparate effects on international relations. As demonstrated in this paper, by contrasting the influence of Google and Apple in different facets of Sino-American relations, this paper has demonstrated the importance of un-packing the multinational corporation in order to yield a more robust understanding of the influence of the multinational corporation on dyadic nation-state relationships.

In light of the points elucidated in this paper, it becomes apparent that the principal difference between Apple and Google is that Apple deals primarily in tangible goods and Google peddles in intangible ideas and information. The latter is inherently more problematic because of the authoritarian nature of the Chinese government and the lack of international framework to resolve cyber disputes. In fact, Northrop-Grumman posits that precisely because U.S. policy is currently ill-equipped to deal with a massive cyber attack that Beijing might intentionally take advantage of this gray area.²⁰⁷

The PRC's questionable actions in terms of protectionism, censorship, piracy, and cyberwarfare beg the question of how long the rest of the world, and China's own citizenry, will continue to put up with the PRC's zero-sum approach to both the economy and power. Chinese neo-mercantilist policies have brought untold riches to savvy

investors and improved the lives of hundreds of millions of its own former peasantry; however, the model is unsustainable. As the PRC slowly guides its semi-planned, export-driven economy towards a consumption-driven system, it is difficult to prognosticate how the transition away from neo-mercantilism will affect the country and its leadership structure. As the richer coastal provinces start to lose manufacturing as a result of higher costs, unemployment will rise, which could foment instability. Because this swath of the Chinese population is, generally speaking, more cognizant of international norms as a result of both wealth and exposure to international entities, this could potentially pose problems for the PRC. While recent protests in Wukan were not directly related to rising unemployment (it stemmed from dismay over rampant corruption), it's of little surprise that the most effective Han anti-government demonstration in decades came from coastal Guangdong Province. The long-term stability of the Chinese Communist Party is contingent upon how they handle this transition and how they deal with the inevitable increased availability of information as technology progresses. In other words, as the Apples of the world potentially leave for cheaper manufacturing locales, how will the PRC deal with the Googles of the world who want to bring information to their citizenry? While the PRC has unequivocally been successful with their censorship thus far, as technology becomes more advanced, it remains to be seen how long such an authoritarian regime can survive as its control over information subsides.

Sadly, the future of Sino-American relations is largely contingent upon the health of the current nascent economic recovery and the outcome of the 2012 U.S. Presidential Election. It is reasonable to assume that if the United States unemployment

rate continues to drop, the need to scapegoat lower-cost manufacturing countries will relent, thus eliminating the need to engage in anti-China fearmongering by populist politicians. However, if the economy were to slip back into recession (as a result of, say, a wave of European defaults), Sino-American relations will surely suffer. In terms of security, as China continues to grow, the potential for a full-fledged rivalry with the United States augments substantially. And, as technology becomes increasingly more sophisticated, the front lines of this strife are more likely to take place in cyberspace. Thus, it seems as if the future of Sino-American relations will revolve around the intangible, an area that has produced considerable tension between the two. Until China and the United States can develop a mutual understanding and legal framework to settle disputes pertaining to online interests, internet concerns will continue to exacerbate Sino-American relations.

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BIOGRAPHICAL SKETCH

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