Censorship or Protectionism? Reassessing China’s Regulation of Internet Industry

Cho-Wen Chu

Abstract—The Chinese government has blocked domestic access to worldwide influential websites such as Google, YouTube, Twitter, and Facebook to different extent for the reason of speech censorship in terms of national security, but the vacancy left by these foreign websites was well fulfilled with China’s indigenous ones, including Baidu, Youku, Sina Weibo, and Renren which provide similar services to their foreign counterparts respectively. The interaction among the Chinese government, those foreign websites, and their Chinese equivalents is reviewed in the current research through critical analysis of political and economic records regarding the development of China’s Internet industry. In the conclusion of this research, economic protectionism is proposed as a complementary or alternative way to interpret the regulatory implications of China’s Internet governance.

Index Terms—Censorship, protectionism, internet policy, internet industry, China.

I. INTRODUCTION AND RESEARCH QUESTION

Internet industry has been among the most prosperous ones after 1990s and it is mainly driven by several private transnationals such as Yahoo!, Google, and Facebook. The services of these American companies are available around the globe via the Internet and thus worldwide capital and talents converge toward these online giants in a short time. Under the scheme of informational capitalism, disproportionally relocated resources accomplished these American Internet moguls that almost prevail everywhere in the world without significant competitors [1].

For instance, Google, the undisputed global leader in online search, accounts for almost two-thirds of the American market and about 90% of the European one in 2015. Another well-known case is Facebook, which established its leadership position in 127 out of 137 countries at the end of 2012 [2]. This quasi-monopoly in social networking has got 1.39 billion active users in 2014. All these users can form a country with the world’s largest population [3]. What makes these achievements more unprecedented is that it only took less than two decades for Google and Facebook to grow this gigantic.

These worldwide influential websites, however, encountered with a major obstacle in their global expansion progress. With the most Internet users in the world, China keeps being unfriendly to Google, YouTube, Twitter, and Facebook, and their major services were all blocked in 2009 and 2010 for the alleged reason of national security. Among international denunciation against the Internet censorship of China, it is rather interesting to see how the Chinese equivalents such as Baidu, Youku, Sina Weibo, and Renren practically benefitted from their western rivals being expelled by the government. In the beginning of 2010, both Wall Street Journal and Foreign Policy have speculated that China’s censorship is a smoke screen for unfair competition in Internet industry in favor of domestic dotcoms [4, 5].

The Internet start-ups in China benefit from the lack of foreign competition. Specifically, the impressive achievement of the leading three Internet companies, Baidu, Alibaba, and Tencent (i.e. the “BAT”), are in part attributable to the protection of China’s “Great Firewall”. In return, the BAT are so close to the government that they often behave like quasi-state-owned companies, even to the extent that they help form regulations. As these regulations go far beyond measures taken by most other nations, lending some credibility to industry claims that they are protectionist. This issue becomes more salient in 2015 after China planned to require imported IT products to be “secure and controllable” and President Xi Jinping at the Global Internet Conference defended China’s right to “sovereign” Internet.

In fact, many countries besides China have applied domestic laws that function in a protectionist manner, or at least, with a protectionist result, to obstruct American dotcoms’ access to foreign markets. Before discussing whether economic protectionism is actually the major motive of China’s Internet censorship, the following section presents how European states have impaired the interests of mainly U.S. Internet business within existing legal frameworks [6]. The cases of other countries are also introduced to illustrate how different degrees of censorship have affected the penetration of U.S. online moguls.

II. ENCOUNTERS OF AMERICAN DOTCOMS DURING GLOBAL EXPANSION

French and German enforce the laws against Nazism and holocaust denial from true world to cyberspace, from local websites to overseas ones. For instance, a French judge has fined Yahoo! nearly $13,000 for each day in 2000 before the dotcom prevents French users from accessing such content on U.S. Yahoo!. Since Google Books was launched in 2005, an array of copyrights holders across the Atlantic has sued Google for copyright infringement. In the following three years, Google paid over 100 million USD in sum to settle all the suits. Meanwhile, Jean-Noël Jeanneney, the head of the French National Library criticized Google Books as being a “confirmation of the risk of crushing American domination in the way future generations conceive the world [7].”

In addition, the service of Voice over Internet Protocol (VoIP) was an immediate threat to telephone operators and
has incurred different extent of blockage in several countries [8]. For example, Deutsche Telekom in Germany, Telmex in Mexico, and other companies in France and the UK have blocked Internet-based carriers such as Skype or Vonage.

The French government is also uncomfortable with the fact that the dotcoms such as Google and Facebook are so popular and profitable in France but contribute most their tax to the U.S. treasury. Thus, French President François Hollande has considered a tax on “personal data collection” by Google, Facebook, and others [9]. In this plan, these companies are taxed because their French users are, in effect, working for the websites without salary by providing the personal data that let the companies sell advertising. Besides, the French data protection authority requested Facebook to stop some transfers of personal data to the U.S. and tracking non-users’ web activity without their consent before May 2016 [10].

Less radically but more practically, European Union regulators reached an antitrust settlement with Google in April 2013. The suit originated from the accusation of a British price comparing website Foundem that Google abused its search function in favor of its own services. To abide by the requirements of the settlement, Google needs to label the results pointing to its own services as well as to show the links to competing websites [11].

It is worth mentioning that the U.S. has applied her own protectionism in Internet industry as well. Clouded with moral censorship, the U.S. congress passed the Internet gambling restrictions to rule out foreign competitors. After complaining to the World Trade Organization (WTO) about the restriction, the Caribbean island nation Antigua and Barbuda won the ruling in 2004 but the U.S. would rather be penalized with trade sanctions than remove the ban [12]. European Union was also concerned about the fact that the U.S. legalized domestic online gambling companies but outlawed the foreign ones and thus has engaged in a series of negotiations with the U.S.

The case of the U.S. and online gambling can well illustrate that moral censorship could be a convenient pretext for implementing various acts of economic protectionism. Rick Falkvinge, the founder of the Swedish Pirate Party, and his comrades have indicated that censorship of child pornography is used as an excuse by copyright lobbyists and politicians to facilitate the legislation against copyright-related piracy [13].

The open sectors of the Internet are easy to be dominated by American Internet giants, which possess unrivaled capital and technology. Although blocking the IP addresses of the websites favoring North Korea, the Internet of South Korea is totally open to Western countries. As a result, Facebook in Korea surpassed the reach of Cyworld, the top Korean indigenous social networking site, in February 2012 according to Nielsen’s report.

Japan is another example. American dotcoms master the cyberspace of this Far East country from search engines to social network systems (SNS). For instance, the domestic SNS site Mixi has enjoyed most popularity until the traffic of Facebook in Japan overtook the one of Mixi in April 2012. Analysts generally attribute the defeat of Mixi to the prevalence of smart phones in Japan since the late 2011 and Mixi performs apparently worse than Facebook on the new gadgets. Same stories happened many where in the world: Highly sophisticated American dotcoms replace the top local sites providing similar services in diverse countries.

Since the popular revolts in Ukraine and Georgia were successfully organized through the Internet, the state apparatus of Russia and other countries in the Commonwealth of Independent States have been given powers to monitor all Internet activities in the name of information security. Although Google and Facebook are not blocked in Russia, domestic dotcoms Yandex as well as VKontakte or Odnoklassniki remain the leaders in search engines and SNS sites respectively according to Alexa [14]. Is Russia a real exception or the doom of her domestic sites is only a matter of time? It is worth observing.

Other countries engaged in different extent of Internet monitoring and filtering are clustered in the Middle East and East Asia. In Turkey, YouTube and Western blogging services have been shut down for containing the content that defamed Kemal Atatürk, the founding father of the republic [15]. Although, the ban was lifted in October 2010, a range of IP addresses used by Google remained blocked. It is common for Muslim countries to ban the foreign sites with the content against religious doctrines. In Saudi Arabia, Internet content filtering became legal resolution after the decision of her Council of Ministers in February 2001.

The Iranian authorities have blocked the access to YouTube since May 2006 to January 2009 [16]. However, since the massive protests after her presidential election in June 2009, Iran again blocked YouTube, along with Twitter, Facebook, and many other foreign websites. Without surprise, Iranian indigenous SNS site Facenama and Cloob became the leaders of the sector after Facebook was ruled out. In March 2014, Reporters Without Borders claimed that Iran is among the “Enemies of the Internet” with Saudi Arabia, North Korea, China, etc.

III. THE CHANGES OF CHINA’S BLOCKS ON FOREIGN WEBSITES

China keeps applying one of the strictest censorship to the Internet in the world, including targeted or automated censorship of internal dissent as well as complete blocks on many external websites [17]. All domestic websites within China are regulated through a liability of their owners to supervise the content. This responsibility is partially upheld by the criminal laws. On the other hand, foreign dotcoms are simply censored without official notice and are impossible to take the matter to the domestic courts of China. Therefore, which external sites are banned in China, when, and why can often be baffling [18].

Considering the viewpoint of Internet politics that the Internet is a powerful medium to disseminate Western values throughout the world [19], the Internet censorship by the Chinese government can be regarded as the means to prevent “the invasion of American ideology”. Nonetheless, China’s censorship also fences her Internet industry in effect and reserves it only for domestic actors. The successful Chinese equivalents to Google, YouTube, Twitter, and Facebook thrived because the government has ruled out formidable foreign competitors.

Google had been banned in China until launching Google.cn in 2006. Although this Chinese version of Google tried to follow the related rules in China by filtering sensitive words such as “Tiananmen Square”, “Falun Gong”, “Taiwan independence”, and “Tibetan independence”, many
of its services, including search, translation, map, and Gmail, were blocked after the riots between minority Uyghurs and Han Chinese in Ürümqi, Xinjiang in July 2009.

After serial and intensive official propaganda denouncing Chinese hackers’ attacks on Google for conniving pornography as well as Chinese hackers’ attacks on Gmail, Google released a declaration called “A new approach to China” in January 2010, claiming it would no more comply with the censorship policy of China. Google equated censorship with local protectionism and insisted upon its duty to conform to global ethical standards [20]. Two months later, Google moved the server providing Chinese service to Hong Kong and its Chinese users would be redirected to Google.hk after Google.cn came to an end.

These actions of Google begot severe criticism from Chinese government and the later blamed Google for “politicizing business affairs”. Hereafter, Google’s new services, such as Google+, are still blocked by China’s “Great Firewall”. Until now, to visit Google.hk in China is usually hard to succeed practically. In fact, Google’s exit is just a recent case in a long line of American dotcoms forced to leave China.

After 2006, to access the world’s largest video-sharing site YouTube, now a subsidiary of Google, is like a matter of luck in China. Although not totally blocked, there was obvious filtering for sensitive words and videos were transmitted in a relatively slow and unstable manner. Some Chinese users also experienced video uploading being often out of order. Temporary blockage has happened several times until a rather open access was allowed during 2008 Beijing Olympics. In March 2009, YouTube faced an unexpected block that lasts until now because of displaying a video with Tibetans being beaten by police officers.

Microblogging site Twitter started its global service in July 2006 which was also available in China. While Chinese Twitter users steadily increasing, the “Great Firewall” blocked the site during the Iranian presidential election protests in June 2009. Under the succeeding complaints of massive Chinese users, this officially unexplained block was removed soon. However, Twitter still couldn’t evade the doom in China during the Ürümqi riots a month later. It is believed that Chinese government opened the access to foreign microblogging sites because lacking knowledge of this new application at first, but the government finally decided to block them after understanding their potential to organize social movement.

Basically unblocked, Facebook had enjoyed quick popularity in China since launching Chinese version in 2008. Within a year, it had grown to the scale of one million active monthly users that were mainly young and coastal Chinese. Similarly, during the Ürümqi riots in July 2009, China blocked Facebook. It is not rare that Facebook, usually along with Twitter and YouTube, is regarded by a part of Chinese academia as the political means for the West to “overthrow” the Chinese government through ideological propaganda [21], [22].

The resolute crackdown against Twitter and Facebook in summer 2009 seemed to come in response to two events. Firstly, the disputed election in Iran reminded China’s leaders of the potential of these sites to coordinate protests for the opposition. Secondly, the succeeding ethnic riots in Ürümqi looked like a clear and present danger that the nightmare just worried the leadership was going to come true [23].

These incidents were believed by many to cause total exits of the external dotcoms with profitable business models of Web 2.0 simply because the Chinese government felt uncomfortable with Chinese-user-generated content on foreign websites. However, it was also witnessed that the Chinese indigenous dotcoms, Sina Weibo and Renren, with similar services to their American counterparts quickly seized the market share left by the expellees. Therefore, after the summary of the process how the Chinese government has ruled out global online moguls, the rises of their Chinese equivalents will be discussed in the following section.

IV. THE PROSPERITY OF CHINESE EQUIVALENTS WITHOUT EXTERNAL RIVALS

According to the European Centre for International Political Economy (ECIPE), while preservation of the regime seems the most apparent motive of China’s Internet censorship, the censorship in effect has become a tool of industrial policy to discriminate against foreign competitors [4]. This looks more convincing while considering the recent prosperity of Chinese homgrown versions of Google, YouTube, Twitter, and Facebook, which are Baidu, Youku, Sina Weibo, and Renren respectively. China’s “national security” concerns may be only a convenient excuse to favor domestic dotcoms by impeding fair competition [23].

Baidu is the first founded and most popular search engine in China. Since its birth in 2000, Baidu has been often criticized as a copycat of Google. Besides the layout of its webpage, Baidu keeps providing the services that are similar to Google’s, including the equivalents to Doodle, Map, AdSense, Translation, Books, and News. Since Google.cn was launched in 2006, its market share has been steadily increasing. From the 3rd to 4th season of 2009, Baidu’s market share declined from 63.9% to 58.4% while Google’s grew from 31.3% to 35.6% [24]. The curve began to reveal stagnation of Baidu’s growth and the trend that Google is catching up. Then there came the exit of Google.cn in the beginning of 2010 and Google’s market share in China irreversibly declined to less than 20% in 2012 while Baidu’s stepped on 80%. If Google had not been forced to leave due to the unfriendly attitude of the Chinese government, Baidu might have been overtaken as many other local search engines in various countries.

Youku is the first founded and most popular video-sharing site in China. Within merely two years after its launch, the videos on Youku were viewed over 100 million times in 2007. Youku was usually regarded as a clone of YouTube for similar design, mechanism, and business model. Even its name “Youku” is pronounced like “YouTube”. The main difference is that the proportion of real user-generated videos is remarkably less on Youku. Since YouTube was permanently blocked in China in March 2009, Youku had been quickly gaining the market share left by this major competitor and enjoying rapid growth in the following years. In 2012, Youku acquired Tudou, the second largest video-sharing site in China, and the new company
dominated the industry with 35% of market share.

Founded in 1998, portal site Sina is one of the oldest and most prestigious website in China. It is notable that Sina also provides most popular blogging service in China. In the aftermath of July 2009 Ürümqi riots, American microblogging site Twitter was blocked by the “Great Firewall” in the name of national security. Less than two months later, Sina launched a near identical microblogging service called Sina Weibo. Without foreign competitors, the number of registered users of Sina Weibo increased from 360 millions to 500 millions from 2010 to 2012, which was approaching the number of global users of Twitter. In 2014, 83% of Internet users in China have registered at Sina Weibo; 62% have logged in within a month.

Renren originated from Xiaonei, a pioneer SNS site in China. Xiaonei was acquired by a Chinese company called Oak Pacific Interactive in 2006 and the name of Xiaonei was changed into “Renren” in 2009. It was found that every updating of the version of Renren made it more like Facebook. The similar functions include Status, Wall, Gift, Events, and even the latest Timeline. According to the Facebook Global Monitor’ s report, the number of Chinese active users of Facebook dropped from one million to 14,000 within 3 months after China’s ban in July 2009. The clone-like Renren soon took over Facebook’s customer base in China and dominated the industry with 117 million registered users in 2011.

Owing to Chinese Internet censorship, it becomes ordinary in China to see domestic copying websites replace the foreign copied ones. The following tables edited by the author demonstrate basic comparisons between the American Internet giants and their Chinese counterparts. In fact, even though these Chinese equivalents employ imitative style of designs and interface of services, it can be seen as the process of learning from innovators. Nonetheless, preventing these foreign innovators from fairly competing with Chinese indigenous dotcoms is rather harder to justify. Especially from the viewpoint of international commerce, China’s Internet censorship is no more than economic protectionism while considering consequences.

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V. DISCUSSION AND CONCLUSION

Essentially, the blocks on Google, YouTube, Twitter, and Facebook are not proportionate means to maintain online “harmony” in favor of Chinese regime. With the most sophisticated Internet monitoring and filtering mechanism in the world, China can ban specific content instead of whole websites as Thailand does with the online materials defaming her king. In the period when these foreign websites were available on and off, the Chinese government may apply censorship mainly due to political motive, but after the total blockage since 2010, the major reason could be more like an economic one. Following this hypothesis, it was rather interesting that China, responding to Google’s exit in 2010, blamed Google for “politicizing business affairs”, which was the very reaction of Google and the rest of the world that China was glad to see.

As Chinese online censorship brings more economic benefits, this example may trigger more similar actions that could reverse liberalization of trade and economics [18]. The most astounding end may be, as Goldsmith and Wu [17] speculates, a technological Cold War where the U.S., EU, and China develop their own competitive Internet platforms. To prevent this undesirable scenario, Hindley and Lee-Makiyama [18] suggests that the intervention of the WTO may be a considerable resort. China, a member state of the WTO is legally obliged to allow unrestricted supply of cross-border Internet services. The panel of the WTO might

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1 No data since acquired by Google.
2 Sina Weibo Corp. became a separate public company in April 2014.
rule that China’s permanent blocks on some foreign websites are inconsistent with the General Agreement on Trade in Services (GATS) provisions.

As always, it is rather difficult to come to a clear conclusion to discriminate whether the motive of China’s blocks is to give indigenous dotcoms advantage over their American competitors, or the Chinese government feels it has more leverage to demand self-censorship of domestic websites, or probably both. Perhaps there are some smart and realistic brains within Chinese political and industrial leadership realizing that only capital and technology are critical to nation’s fate in the long run no matter who takes over the regime. Therefore, the only thing they care about in China’s Internet censorship is the industrial benefits of protectionism.

However, according to the U.S. consultancy McKinsey, the economic benefits of China’s Internet are mainly concentrated in the comparatively apolitical realm of e-commerce, where censorship seldom intervenes [25]. It is still notable to the observers only believing China’s protectionist motive that a large domestic SNS site Fanfou was also cracked down during July 2009 Ürümqi riots and most of its users shifted to Sina Weibo later. Besides, the result of economic protectionism, which is the Internet industry dominated by indigenous companies, is helpful to preserve the regime because the public opinions online are easier to control. Thus, it could be always dubious to regard protectionism as only the means or the end of China’s Internet censorship. One thing for sure is that the effects of economic protectionism have been more and more conspicuous in the censorship.

China’s volatile regulation in recent years suggests a fundamental lack of consensus in Beijing on a strategy for the Internet. “The authorities must weigh economic growth against information control,” says Charlie Smith of Greatfire.org, a monitor of online censorship in China [25]. The Internet in China has expanded the role of the private sector at the expense of entrenched state enterprises. Chinese Internet companies will continue to innovate and regulators are always working to catch up. The lines between Beijing’s interests and those of the big dotcoms will be further blurred. More and more policy may be the result of a compromise between what the private Internet giants need and what the authorities will allow. At this moment, it is even possible that protectionism to some extent originates from the collusion of the industry and regulator for rent-seeking.

U.S. is the OECD country with the most population and therefore possesses strong advantage in international competition of cultural products, including online content services. This is also an important reason that Google, YouTube, Twitter, and Facebook are all American. Chinese dotcoms, if growing gigantic enough to defy foreign behemoths owing to protectionism policy, may provide alternative choices besides American ones and thus contribute to cultural diversity of the world. However, protectionism may also breed sluggish and uncompetitive local enterprises. If China aims to nourish internationally competitive dotcoms to enhance her soft power worldwide, it is foreseeable that the protectionism by Internet censorship will be abolished after Baidu, Youku, Sina Weibo, and Renren mature enough.

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Cho-Wen Chu is an assistant professor of the Department of Mass Communication at the Chinese Culture University, Taipei, Taiwan; he has earned a Ph.D. in politics at the University of Manchester and a Ph.D. in communication at Peking University. His fields of research include communications policy and industry, globalization and culture, and media in mainland China.