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Google's China problem unlikely to deter other technology companies

Analysis: Risk of dealing with China well known

Patrick Thibodeau

January 13, 2010 ([Computerworld](#)) Google Inc. is not poised to leave China because it's shocked over its cyber security problem. It's no more shocked than Captain Renault was to discover gambling at Rick's Café in the movie "Casablanca."

But unlike Renault, who collected his winnings even as he closed the casino, [Google](#) seems willing to forego its share of China's massive consumer market.

China is [threatening Google's brand](#), which is increasingly being tied to its ability to ensure the privacy and security of high-profile customers, [such as the City of Los Angeles](#).

Being both compliant to China's censorship demands and [threatening Google's brand](#) can't be helping Google, especially as it begins working with LA to provide email and applications services to some 34,000 city accounts, including its police department.

The security problems with China are a well known risk for IT companies doing business there, but Google's threat to leave China sharpens the question: Is China worth the risk? For Google, the answer is clearly "no."

But for many other IT companies, opening up facilities in China and dealing with risks in that country is the bargain made to access its market. There are an increasing number of businesses that have been considering China solely as a potential offshore location for IT work, and Google's decisions may prompt some to cross China off the list of offshore development destinations.



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Offshore and out of mind?

Peter Bendor-Samuel, CEO of Everest Group, a Dallas-based [outsourcing](#) consulting and research group, said Google's move "creates a greater perception that China is a risky place from an IP (intellectual property) and security perspective" and that can impact decisions about moving work to China or maintaining existing work there.

China has a lot of competition in the services market. Also, the overall cost of development work in China is higher than in India because of cost associated with the language and even additional security, Bendor-Samuel said. Nonetheless there has been increasing interest by firms in the China market to access its talent, he said.

But China is still relatively small part of the services market. In the area of business process offshoring, India has 35% of the market, the Philippines 15%, and China, 3%, Everest said.

Bendor-Samuel looks at China's issue with Google as similar to the problem India faced with Satyam Computer Services Ltd. in [the wake of its accounting scandal last year](#). The Indian government stepped in to protect the industry and in doing so sent a strong message to U.S. firms that do business in India.

If you are "opening yourself up to risk you want to be in a country that understands the importance of these things and will do what is necessary," he said. Today, Satyam operates as Mahindra Satyam after Mahindra Group's Tech Mahindra acquired the firm.

John Pescatore, a Gartner Inc. analyst, doesn't believe Google's decision will have a major impact on other firms, which have been widely aware of the threat posed by China.

And while China censorship raises ire in the U.S., Pescatore points out those European companies have been hesitant about sending their data to the U.S. because of the Patriot Act and the power that gives the government to access data.

Dr. Fariborz Ghadar, director of Penn State's Center for Global Business Studies, said Google's message to China is "enough is enough," and the problems that China poses is not worth the damage to the brand.

Usha C.V. Haley, a co-author of author of the "The Chinese Tao of Business: The Logic of Successful Business Strategy" (Wiley, 2004), doesn't know if Google's action "will have wider ripples than it already has" on other firms. But for Google, the tradeoff "was not beneficial."

Patrick Thibodeau covers SaaS and enterprise applications, outsourcing, government IT policies, data centers and IT workforce issues for Computerworld. Follow Patrick on Twitter at [@DCgov](#), send e-mail to pthibodeau@computerworld.com or subscribe to [Patrick's RSS feed](#) .