

# International Political Economy

Analyzing the effects of politics on business and markets.

## Special Report

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### **CHINA VIGNETTES, PART 1**

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I have recently returned from a trip to China with a renewed appreciation of the strengths and weaknesses of its development. The seemingly boundless energy and ambition of the Chinese people has been unleashed. Vast flows of domestic and foreign investment funds are transforming the country physically and economically. Beijing seems clogged with far more cars than bicycles — despite being encircled by six ring roads — and far more high rise apartment and office buildings than traditional one-story homes. Vignettes from my trip capture some of the often contradictory facets of this amazing country.

Marvin Zonis + Associates, Inc., (MZ+A) helps firms assess, monitor and manage political risk. “Political risk” refers to the uncertainties that arise from instances of political instability (such as riots and coups), poor public policy (such as inflation and currency crises), and weak institutional frameworks (such as discriminatory regulations and ineffective legal systems). “Political risk management” refers to the development of processes, structures, and knowledge that allow firms to deal effectively with political risk.

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## **CHINA VIGNETTES, PART I**

*Marvin Zonis*

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An eminent Chinese professor graciously received me in his home in Beijing to discuss the Chinese economy. He told me that he planned to retire soon from his university position and start a consulting company that would offer macro-economic analyses of the Chinese economy. I asked the professor if he knew the work of a particular U.S. based macro-economist. Since he did not, I offered to send him recent reports. I returned to my hotel and sent the professor an e mail with the macro-economic analysis of the U.S. attached.

The next day, I got an e mail in return. "Dear Professor Zonis," it said. "Thank you for sending me the macro-analysis. Unfortunately, it never arrived as it was removed by the Internet police. We have no freedom of information here in China."

Shortly afterwards, the following article appeared in the [Financial Times](#).

### **Police Blocks On The Information Highway**

By Scott Morrison and Chris Nuttall

The Chinese government's decision to block access to Google's English-language news service is a reminder that, even in cyberspace, realpolitik rules.

While Beijing is reckoned to have the most sophisticated system of internet censorship, it is not alone in controlling what its citizens see online. Saudi Arabia, Iran, North Korea, Syria and Vietnam all maintain restrictive controls over the internet, according to Reporters Without Borders, a Paris-based pressure group.

Companies such as Google, Yahoo and Microsoft, vying to become the world's gateway to the internet, have no option but to play by local rules if they want to operate in these countries.

Freedom of speech advocates point out that even western governments try to exercise a degree of control. In the US, public libraries receiving federal funds must install filtering software that, while intended to block pornography, often filters other sites too. In Germany, France and Switzerland, search engines must remove from their results sites that preach racial or religious hatred. But no country matches China in terms of the scale and sophistication of its internet monitoring.

"China is by far the worst in terms of the research they put into it and the number of people affected," says Bill Xia, founder of Dynamic Internet Technology, a US web hosting company that helps Chinese internet users circumvent censorship.

The architecture of the Chinese internet was designed from the outset to enable government control. All data traffic flowing into and out of China passes through a handful of internet hubs, located in cities such as Beijing, Shanghai

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and Guangzhou. "China can filter anything they want with the flip of a switch," says Danny Sullivan, editor of SearchEngineWatch, an industry newsletter.

Amnesty International estimates that up to 30,000 internet police work at internet service providers (ISPs) around China. These officials have access to sophisticated software enabling them to detect "subversive" key words in e-mails and downloads, as well as trace computers from which messages are sent.

China's internet police routinely deny access to internet protocol (IP) addresses - the series of numbers behind the familiar "www" addresses - that censors wish to block. Censorship covers hundreds of thousands of news websites, ethnic minority sites, pornography, the Falungong spiritual movement and human rights. Access to western media in English and other languages is blocked sporadically.

Saudi Arabia's censors also use this tactic. Saudi internet surfers looking for sites concerning Israel, gay and lesbian issues, gambling or religious conversion are met with messages informing them that the material has been blocked.

A more sophisticated censoring tactic is known as TCP hijacking, used to block certain keywords included in the results provided by search engines. The Chinese authorities also practice DNS hijacking, in which surfers trying to connect to a site are redirected to another site or an invalid address.

Services such as Mr Xia's DIT aim to help internet users circumvent censors by providing a "proxy network" through which users can be routed to forbidden sites. To prevent access to the proxy network being blocked, its IP address is constantly changing. Users find the network using special software downloaded from DIT. However, Ben Edelman, a US researcher focusing on internet policy and regulation, cautions that most Chinese internet users are no match for the government's vast resources.

"This is a cat and mouse game and you never really know who is faster. My sense is that China, the cat, has the upper hand. There is a sense that they are watching everything." For an idealistic young company such as Google - motto: "Don't be evil" - China's restrictive policies present a dilemma.

In an effort to appease Beijing, Google's Chinese-language news site, launched last month, does not list news published by such sites as the pro-Falungong Epoch Times ([www.epochtimes.com](http://www.epochtimes.com)) and Voice of America ([www.voanews.com](http://www.voanews.com)) to which access is denied.

Google executives defended the decision by arguing that there was no point posting links to sites blocked by the censor.

Yet visitors to Slashdot, the news and discussion site for US techies, remained unimpressed. "I'm pretty disappointed in Google . . . It's not local news, it's censored news. That doesn't sound like the Google I know and love," said one user. "Collaboration with an evil is as good as being evil," said another.

Reporters Without Borders was equally scathing: "By agreeing to launch a news service that excludes publications disliked by the government, Google has let itself be used by Beijing."

([Financial Times](#), December 8, 2004)