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OP-ED CONTRIBUTOR

Apple's Dangerous Market Grab in China

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Apple announced last week that it will open a data center in Guizhou, China. This is a first-of-its-kind action by a major United States tech company since the passage last month of strict new Chinese digital commerce regulations that require foreign companies with operations in China to store users' data in the country. These events could threaten to disrupt the free flow of information over the internet.

The Chinese government claims its new rules will enhance domestic security efforts, providing privacy protections for Chinese nationals while also safeguarding “national cyberspace sovereignty and security.” It would be naïve, however, to think of these new regulations as anything but a severe restriction on the right to free information.

China's claim that the regulation is meant to enhance individual privacy rights is a facade. The government wants to quell international competition by raising the barrier to entry for outside players. In turn, China hopes to monopolize the market for technology services for its huge domestic consumer market. Consider the numbers: China's 1.4 billion people, many of whom are just now getting access to smartphones and the internet, present a major commercial opportunity for the digital sector. Twitter, Google and Facebook together have billions of daily active users, and a hypothetical expansion into China could bring hundreds of millions more users to those platforms, raising their market values by many billions of dollars. But these and many other services are already blocked in China, and this new security regulation will only create further hurdles for foreign entry into the Chinese market.

Requiring that any “sensitive data” — a heretofore undefined term — has to be stored on servers that are physically located in China is known as “data localization.” China's localization efforts are hugely problematic for two main reasons. First, localization is a tremendously expensive exercise for companies that deal in data, so much so that only the world's richest firms can afford it. Second, a history of snooping by Chinese entities means not only that firms should be wary of the potential for industrial espionage, but also that the Chinese people should be worried about their right to privacy, because the Chinese government may now be able to gain access to their data

whenever it desires. This is especially true because China has pronounced that if firms wish to transmit data out of China — for example, to other people, governments or overseas data headquarters — the transmittal must clear a security review by Chinese authorities, directly implicating individual privacy and free speech.

China may hope to replace its flailing manufacturing-based economy with one focused more on technology services to bring jobs and business to the nation's many struggling metropolises, but this is not the way to do it. First, as colossal as they may be, data centers rarely result in as many new jobs as locals might expect. But perhaps even more critically, this kind of digital protectionism is unfair to the international community and to the people of China. The government's argument that the regulation will protect privacy is invalid. In the world of privacy, there are two threats: corporations and government. This regulation will create a system by which firms will try to serve China's regulators as efficiently as they can. The firms that rise to the top in such a system will necessarily have to be close to the Chinese government.

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Why, then, was Apple so quick to announce the new Guizhou data center, in effect signaling its compliance with the aggressive new rules? It's simple: Apple hopes to protect its market share in China. Many internet companies — like Facebook — stand to be shut out forever under these rules, and smaller companies will avoid the market altogether because they lack the capital to stomach the compliance costs.

The internet is all about openness and seamless sharing. Restricting Chinese citizens' access to online information through arbitrary regulations is an attack on human rights and innovation, and it will disrupt digital commerce around the world. The people of China should take note and push for fairer standards. But placing a check on China's industrial policy will require more than just the outcry of Chinese activists. Indeed, the international community, and particularly the corporate sector, must stand up and hold China accountable. Unless we do so now, the government will continue to consolidate and centralize industry, jeopardizing the future of the global economy.

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