OPENING TICKER FIVE QUESTIONS PEOPLE ... INEFFICIENT MARKETS

- Google in China
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ASIA

TAUNTING THE DRAGON GOOGLE'S STRATEGY IN CHINA MAY BE CORPORATE SUICIDE. TIME TO TONE IT DOWN?

Last month executives at Mountain View, California–based Google surprised the world by announcing that hackers tried to infiltrate its software coding and invade the e-mail accounts of Chinese human rights activists. In response the Internet darling vowed to pull the plug on its Chinese search engine unless officials in Beijing relaxed their censorship rules.

It was an open challenge to China's rulers — a move rarely made by corporate giants jostling for a solid foothold in the world's fastest-growing consumer market — and one Google may already be regretting. Shortly after the company's official announcement that its China operations were being reevaluated, CEO Eric Schmidt said in an earnings call he is "quite committed to being in China."

The flip-flop was apparent; just days earlier, Google spokesman Gabriel Stricker told *Institutional Investor* in an e-mail: "When we launched our service in China, we did so in 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 search results. These attacks and the surveillance they have uncovered — as well as recent attempts to limit free speech on the Web even further — have led us to conclude that

Google's Beijing headquarters

we are no longer comfortable censoring results in China."

Google's public fight with Chinese authorities left some Asian business observers stunned. "You are talking about a company — and yes, it's a big American company — fighting the Chinese government

> **Google is taking a bold gamble.**
> —Duncan Clark
> BDA China

head-on on their home turf?" asks Albert Louie, managing partner of Beijing- and Hong Kong–based A. Louie & Associates, a firm that helps multinationals manage crisis and risk in China. "You're out of your mind. You're committing suicide."

Challenging China's brass publicly and issuing ultimatums are not the way to promote change in the country, Louie asserts — and he hasn't been Google's only critic. The Internet search firm's strategy in China has also been hammered closer to home. Last month, Microsoft CEO Steve Ballmer called it an irrational business decision in an interview with Reuters. "I don't understand how that helps us, and I don't understand how that helps China," he said.

Advises Louie: "The correct way is to keep quiet publicly and to bring in big guns like [President] Bill Clinton and [former U.S. secretary of State] Henry Kissinger, friends of China, to win over liberal elements in the Chinese leadership as you negotiate for a fair settlement."

Google has been playing aggressive catch-up with its biggest rival, Beijing-based Baidu, which, according to Chinese research firm Analysys International, controls 58 percent of the Internet search market — well ahead of Google's 36 percent.

Regulators in Beijing have been censoring the Internet for years. In 2006 they shut off access to YouTube (owned by Google), and last year they removed Facebook and Twitter, saying such sites were being used by political dissidents to foment rebellion. "Google represents American values of freedom of information," says a former

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PRIVATE EQUITY

GOOD TIMING FUNDS CASH IN ON THE SECONDARY PRIVATE EQUITY MARKET

In 2007, faced with a liquidity squeeze triggered by the credit crisis that was just beginning, investors were sent scurrying in two directions. The first group looked to unload their private equity partnership interests on the secondary market before new capital calls came in. The second group, investors lucky enough to be sitting on cash, began the giant bargain hunt for newly unloaded funds. "We have chosen to focus on the secondary market opportunistically and have made fewer commitments to primary funds," says Daniel Jick, CEO of HighVista Strategies, a $2.5 billion Boston-based endowment-style fund.

That year secondary interest transfer value set an all-time record of $20 billion, according to Richard Lichter, a managing partner at $1.3 billion secondary private equity fund firm Newbury Partners in Stamford, Connecticut. Prices averaged an 8 percent premium over net asset value.

Then a funny thing happened. Just when the secondary markets should have been soaring to new heights, a slowdown began. Both prices and deal volume dropped as the recession set in. By 2008 secondary sales floated back down to $15 billion. Unable to get the prices they sought for their private equity holdings, the largest cash-strapped limited partners that were overcommitted to illiquid investments — such as Harvard and Stanford universities in the U.S. and the U.K.'s Wellcome Trust — went into the bond market for cash, leaving their private partnerships in place. Meanwhile, small investors with no other recourse were forced into the secondary market with smaller transactions. The result: a bifurcated market. Prices dropped to an average 50 percent of net asset value by the close of 2009. "I've never seen it quite like this — two totally different markets," notes Lichter. Still, there are deals to be made, not to mention about $1 trillion in so-called dry powder, or uncalled capital to deploy when conditions improve, according to Preqin, a London provider of PE data. "We have taken advantage of this dynamic and purchased limited partnership interests for significant discounts," says Jick. That's smart shopping. — FRANCES DENMARK