

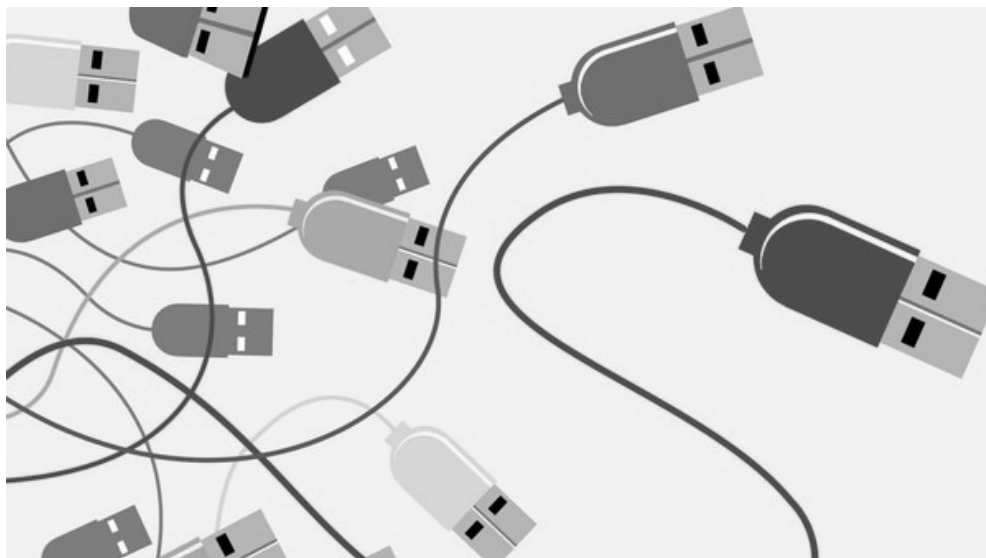
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## Big Tech at Bay

Silicon Valley's era of untrammelled global expansion is over, as backlash grows against the power and reach of US technology companies



BY RICHARD WATERS • SEPTEMBER 14, 2014 9:01 PM

**F**or two decades, they have been celebrated as the rock stars of an emerging digital culture. Unconventional and driven, America's technology entrepreneurs won the world's admiration as they rode the internet wave, remaking swaths of personal, social and business life with each innovation.

But in the past year, the world has grown uneasy with the bargain it has struck with the giants of US technology. In much of the world today, the companies are no longer seen as the optimistic agents of a better future, but as overpowerful, prying and ruthless.

The indictments against the biggest tech companies have been piling up. These have included accusations that some were complicit in widespread US internet surveillance – a claim that has fanned the smouldering worries about how Big Tech handles mountains of personal data.

### SPEED READ

- **Trustworthy?** Leading US tech companies have been accused of being complicit in web surveillance, raising concerns about their handling of personal data
- **Hair shirt** Amid the political backlash, Silicon Valley companies have gone on an international charm offensive to defend their industry's reputation
- **One on one** Google's Eric Schmidt privately met Sigmar Gabriel, the German minister who has said the company may need to be broken up

*Estimated reading time: 7 mins*

Their incursion into more areas of economic activity has also stirred a backlash. This month, the European Commission walked away from a deal with Google to resolve a competition complaint, while a German court banned American taxi service Uber, instigator of the raucous taxi app wars spreading around the world.

And their huge personal and corporate wealth has attracted the kind of envy and resentment previously reserved for that most resented of social cliques, bankers. Even if entirely legal, the avoidance schemes that have left companies such as Apple and Amazon paying little in taxes in many countries has engendered widespread revulsion and led to investigations by the EU.

The message has started to hit home. An industry that has made a virtue of ignoring the accepted principles on which much of the world runs, boasting about the “disruption” it has brought to the business practices of the less enlightened, is learning a different language.

The spread of US-dominated tech “can’t become an exercise where one culture and country imposes its values on the world”, says Brad Smith, the chief lawyer and main international ambassador for Microsoft – a company that has earned its fair share of criticism for throwing its weight around over the years. Particularly on issues such as privacy, some American internet companies have not stopped to think about the impact their technology is having around the world, he says. “The trouble is people who take an American view of the technology.”

Some of the very people who helped to finance and build the current generation of world-beating technology that emanated from Silicon Valley now seem to be having second thoughts when it comes to considering what will follow.

“We’re starting to enter a very new era when it comes to privacy and security, and how all these internet services are designed,” says Jim Breyer, an early investor in Facebook and, until last year, a member of its board.

Apple’s launch last week of mobile services that handle sensitive personal information in fields such as healthcare records and payments is a sign of the next markets Silicon Valley is targeting, accentuating the need for more secure technology.

The next generation of tech start-ups is being designed from the beginning with privacy and security in mind, Mr Breyer says, in what amounts to a put-down of the practices of groups such as Facebook. “It’s a different mindset from the companies we saw being started five or seven years ago,” he says. “I don’t think the scale of the opportunity worldwide is becoming any less real for US tech companies.”

## Charm offensive

Changes in the political climate have brought on an international charm offensive in which a parade of US tech executives have traversed the globe in desperate attempts to defend their industry’s fraying reputation.

Eric Schmidt, chairman of Google, says he spent June working on the search engine company’s German problem, hoping he could stem a spreading political crisis in Europe’s biggest economy. That included a private meeting with Sigmar Gabriel, the German economy minister who this year suggested that Google may have become

too powerful and needs to be broken up.

The idea, coming from such a senior politician, was nothing short of “astounding”, the Google chairman says now. “There’s no need for Google to be broken up,” he says. Instead, Europe needs to do more to build a competitive tech industry of its own.

But in countries tired of being lectured by Americans about entrepreneurialism and innovation, the message is in danger of wearing thin. Marc Benioff, founder of [Salesforce.com](http://Salesforce.com), a pioneer in cloud services for businesses, found himself squirming during one such meeting in France.

“One of the leaders of our industry began lecturing the French that the word ‘entrepreneur’ is French and they need to support entrepreneurs,” he says. The condescension was not lost on the hosts, he adds.

## Out of the bubble

For Silicon Valley, the era of untrammelled global expansion is over. As the revelations of illicit surveillance by the US National Security Agency have curdled, the tech industry has been forced to defend itself to its customers around the world. Suddenly, the insularity of the tech companies centred around the San Francisco Bay area – long considered to be a vital feature of the region’s successful hothouse culture – has come to be seen as a serious liability.

“If you live in Silicon Valley, you live in a bubble,” says Pat Gelsinger, chief executive of VMware, one of the region’s leading cloud technology companies. “You get a very jaded view of how the world views things.”



The outrage that followed last year’s disclosures about surveillance by Edward Snowden, the former intelligence contractor, has changed all that. The NSA scandal crystallised wider anxieties about the spreading power of a handful of US companies that dominate the tech industry.

“It’s a black eye for US tech,” Mr Gelsinger says of the Snowden leaks. “It was the starting point for the many fissures that are spreading across the [tech] world. Every company in the Valley is trying to position themselves to understand how they play in that world.”

The anxieties have risen as new digital platforms such as the Apple and Google mobile ecosystems and Facebook’s social network extend their reach into more corners of social and business life. While it is facing a backlash on the international stage, Silicon Valley is in a period of creative frenzy at home, as new cloud technologies open a wider range of markets to disruption from the tech industry.

“It’s bringing a lot of anxiety in industries that didn’t have to interface with the technology industry,” says Evgeny Morozov, one of the internet industry’s fiercest critics. “Right now, everything is up for grabs.”

The winner-takes-all effect of many online markets has added to the fears. There is a risk that large parts of digital life “will be replaced by one big company that serves everything up”, says Mr Morozov. “You can question how many domains you want Google and Apple to have power in.”

In the wake of the surveillance scandal, countries such as China and Russia have accelerated their efforts to take more direct control of internet activity and build local technology industries likely to be more susceptible to political pressure. And in countries such as Germany and France, the anxieties over privacy, fears about a possible loss of cultural identity and unease about the growing economic might of the digital titans have combined to provoke a sharp backlash.

## A new normal

From Silicon Valley’s vantage point, this has led to a wearied acceptance that the US tech companies are facing a “new normal” in which the digital markets they created and dominated will no longer be as free. In defending themselves, US internet and tech executives have resorted to some common tactics. The first has been to bend over backwards to distance themselves from their own country’s political leaders in the handling of the spying scandal.

In response to the lacerating attacks he says he heard in Germany, Mr Schmidt says: “I have an easy answer: I was not responsible, and I am opposed to it.”

Mr Schmidt says the US government “made a huge, huge mistake. It’s naive to think you can spy on this level and not have it discovered.”

Asked about Microsoft’s response, Mr Smith boasts about the three lawsuits it has filed against its own government over issues related to government access to data the company holds – the kind of confrontation that would have been unthinkable before the Snowden disclosures.

## An uneasy distance

But with questions remaining about whether they went beyond strict legal requirements in aiding the US intelligence services, the tech groups have struggled to distance themselves from the scandal as much as they would like.

Microsoft may be making much of its stand against US data over-reach now, but documents released by Mr Snowden showed it helped US intelligence services with ways to listen to conversations passing over Skype and other communications services it owns. Like other tech companies, it has said it was legally required to comply.

The companies in most cases had no choice but to go along with US intelligence demands, says Mr Gelsinger, though he adds that “at the margin” there are valid questions about whether some should have “pushed back harder on the [government] requests that were coming in”.

A second common response from US tech companies has been to paint themselves as being squarely on the side of economic growth. Feeding Europe’s inferiority complex about its failure to nurture a stronger regional tech industry has been part of the formula – leading to the sort of wearying lectures about innovation

and entrepreneurialism witnessed by Mr Benioff. “Germany has been a leader for decades but has missed this software revolution,” says Mr Schmidt.

According to this view, this is just the moment that Europe needs to open up its digital markets, not retreat into protectionism – and US companies are on hand to help teach the skills and the entrepreneurial mindset that are needed.

## ‘Right to be forgotten’

Privately, most groups are braced for a new wave of regulation and greater political control of the online world. Some make the best of this, admitting that as the internet intrudes on more areas of daily life it is only natural for politicians to try to gain influence.

“One doesn’t hear the automobile industry saying governments shouldn’t have local regulations because it would Balkanise the automobile market,” says Mr Smith. Yet at a deeper level, many warn that spreading regulation will undermine the very benefits the internet was meant to bring.

This year’s “right to be forgotten” ruling allowing Europeans in some circumstances to have links to information about them removed from search engines has drawn scathing criticism in Silicon Valley.

“One person’s right to be forgotten is another person’s Orwellian memory hole,” says Marc Andreessen, a prominent Silicon Valley investor.

Regulation that places more national-level rules on networks in Europe also draws warnings that it will put paid to any hopes the region has of building a significant internet industry of its own.



“Networks are about scale,” says Saul Klein, a partner at Index Ventures, one of London’s leading start-up investors. “Europe as a federated network has



scale. Europe Balkanised looks puny compared to the US, China, Russia, India, Brazil or even Nigeria.”

Another fear is that as privacy laws are strengthened, existing restrictions on the flow of data will become more pronounced, preventing the efficiencies promised by cross-border business.

“You’ll create tremendous friction in the flow of information between companies that work together globally,” says Aaron Levie, chief executive of Box Inc, a US cloud storage company. “The industries that have the tightest controls on data generally have the least innovation,” he adds.

Critics say these arguments are self-serving, and that the tech companies are masters at conflating the idealistic values on which the internet was founded with their commercial interests.

The argument that information should always be allowed to flow freely is as simplistic as the market fundamentalism that is sometimes used to justify unfettered capitalism, says Mr Morozov – that “if you interfere with the market, the market will collapse.”

Whatever the rights or wrongs of these arguments, Silicon Valley realists are preparing for a new and more difficult period as countries around the world take stock of their own place in the digital revolution.

“There was this vision that we were moving to one global economy, and it has broken down,” says Peter Schwartz, head of strategy at Salesforce.com. “What we have is fragmentation, and the internet is a big part of that fragmentation.”

## FT Survey – How concerned are you?

Have you changed your online behaviour in the past year because of privacy concerns? Q.1

- Yes
- No

What changes have you made because of privacy concerns? Please tick **all** that apply Q.2

- Used an encrypted mobile phone service
- Stopped using social media
- Used a search engine that doesn't track users
- Used a browser such as Tor that encrypts internet traffic
- Encrypted emails

Other:

Which region do you live in? Q.3

- Africa
- Asia
- Europe
- North America
- Oceania
- South America

How old are you? Q.4

- Under 25
- 25-40
- 41-65
- Over 65

Finish Survey

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