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Amazon Sells Hardware to Cloud Partner in China

Amazon Web Services says rule change by Chinese government prompted the sale of its computing equipment



Amazon Web Services is selling computing equipment used for its cloud services in China for as much as \$300.8 million.

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[Amazon.com](https://www.amazon.com) Inc. [AMZN 0.68%](#) on Tuesday said it has sold computing equipment used for its cloud services in China to its local partner, Beijing Sinnet Technology Co., in a move analysts said underscores the increasingly chilly atmosphere for foreign companies in the country.

Amazon Web Services said it took the step to meet new Chinese regulations.

”Chinese law forbids non-Chinese companies from owning or operating certain technology for the provision of cloud services,” AWS said. “As a result, in order to comply with Chinese law, AWS sold certain physical infrastructure assets to Sinnet, its longtime Chinese partner.”

The company said it remains committed to China and that customers would continue to receive AWS cloud services. It also said the deal didn’t involve any transfer of intellectual property.

Peter Fuhrman, chairman of technology investment bank China First Capital, said Amazon’s decision illustrates China’s tightened grip on companies providing internet services.

”The key policy brickwork is now done,” Mr. Fuhrman said. “The Chinese internet, in its broad entirety, will become even more comprehensively managed by the Chinese state.”

Mr. Fuhrman added that such protectionist moves will ultimately limit China’s access to the latest technology and could hurt its competitiveness over the long term.

Jim McGregor, chairman of the Greater China region for public-affairs consultancy APCO Worldwide, said the move should be viewed in light of China’s Made in China 2025 plan to promote domestic enterprises and technologies. ”China has a different plan and it has the power,” he said.

U.S. tech companies in China are dealing with a different world “and it would be corporate suicide not to acknowledge it,” he added.

Beijing Sinnet, in a regulatory filing late Monday, said it was paying up to 2 billion yuan (\$300.8 million) for the assets to “comply with our country’s laws and rules and further improve the security and the service quality of the AWS cloud-computing service operated by the company.”

Early this year, China’s Ministry of Industry and Information Technology informed foreign companies with cloud ventures that new operating licenses would be applied by year-end. Amazon’s deal with Sinnet could clear the final obstacles for AWS to get such licenses, analysts from [Citic Securities](#) said in a note Tuesday.

Late last year, China’s MIIT also issued draft measures calling for tighter technical cooperation between foreign cloud operators and their local partners. The proposed rule change triggered complaints from [more than 50 U.S. lawmakers](#), who in March protested in a letter to China’s ambassador to the U.S., Cui Tiankai, that the change would force

U.S. companies to essentially transfer ownership and operations of their cloud systems to Chinese partners.

Officials with the MIIT had no immediate comment.

Amazon and other U.S. companies, including [Apple](#) Inc., have faced increased pressure in the country in recent months in the face of the Chinese government's desire to control cyberspace.

In July, Apple said it would begin storing cloud data for its Chinese customers on a server [run by a government-owned company](#), to comply with Chinese law. The data include photos, documents, messages and videos uploaded by mainland China users of Apple's iCloud service.

Since a new cybersecurity law came into effect in June, U.S. tech companies have been constrained in their efforts to operate as they normally would globally, and this has led to inefficiency and a higher risk of cyberthreats, said the U.S.-China Business Council in a statement Tuesday.

In August, AWS was caught up in a Chinese government clampdown on tools that allow internet users to circumvent the country's vast system of internet filters. In that instance, AWS customers were sent emails by Beijing Sinnet asking them to delete tools enabling them to bypass the filters. Some of the tools that clients use include virtual private networks, or VPNs.

Cloud platforms provide their users with data storage, computing and networking resources over the internet, reducing the need for on-site servers. China's \$2 billion public cloud market is set to grow to a \$16 billion by 2020, according to estimates by Morgan Stanley analysts. A government policy push for enterprises to migrate to the cloud, better vendor offerings and falling costs will boost demand for such services, Morgan Stanley said.

In China, AWS faces strong local competition in the form of [Alibaba Group Holding](#) Ltd. and [China Telecom](#) Corp. Alibaba's cloud unit held 40% of the country's cloud infrastructure-as-a-service market, according to International Data Corp. research. [Microsoft](#) Corp. , the largest foreign provider in China, had 5%, while AWS has 3.8%.

Still, China's market is in its nascent stage, and it is too early to crown industry champions, said Kevin Ji, a research director at Gartner, an industry research firm. With their strong product offerings, AWS and Microsoft are likely to prove formidable competitors to Alibaba in the longer run, he said.

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