Analysis: Google nudging changes in China

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The announcement last week that Google, the world's premier search engine, had chosen Beijing as the location for its eighth research and development center marks an important transformation from the virtual to real world for billions, whether measured in people or revenue potential.The Mountain View, Calif.,, firm had good reasons for choosing the Chinese capital for its newest base.

Beijing is home to much of the country's top IT talent, tech and telecom entrepreneurs abound there, and the national capital will keep the company abreast of changes in the regulatory environment.Moreover, eight is an auspicious number in Chinese culture -- it is associated with wealth.The Google R&D center is its third such facility in Asia -- after Bangalore and Tokyo.Its European facility is in Zurich, Switzerland, and the four U.S. locations are in New York City, Kirkland, Wash.,, and Santa Monica, Calif.,, plus one at headquarters in Mountain View.Google's operating licenses have not been finalized with Chinese regulatory authorities, but a company news release said permission was expected sometime during the third quarter.If so, it will be an important benchmark and bellwether for China's IT and telecom industries.Things have not always been easy for the company, as any long-term Internet user in China can tell you.The mainland government has blocked Google's Web site on several occasions since the introduction of its Chinese language features, mainly due to fear of the information empowerment the company offers to individuals doing keyword searches.The Chinese government's intolerance toward digital freedom of thought and expression is getting more sophisticated, however.Depending on the Web site, it is now permissible for citizens to

browse -- although blogging is still banned.The change in officialdom's attitude has to do with boosting business and national technical expertise, and Google offers plenty of potential for both.

In a news release naming Kai-Fu Lee to lead the Beijing center and serve as the company's head of operations in China, Google said it was "making a strong commitment to attracting and developing Chinese talent, as well as partnering with local universities and institutes."Also in the release, Lee said it had always been his goal to "make advanced technologies accessible and useful to every user, as well as to be part of the vibrant growth and innovation in China today ...joining Google uniquely enables me to pursue both of my passions."The state-run newspaper China Daily noted, "Lee has extensive and intensive relations with the Chinese government, scientists and engineers, as well as the Chinese information technology arena."

The news release listed landmarks in his impressive career history: Lee was a professor at Carnegie Mellon University in Pittsburgh and has industry experience including six years at Apple serving as vice president of the company's interactive media group, a stint as a vice president and general manager at Silicon Graphics Inc.responsible for Internet and multimedia software.Lee had been at Microsoft since 1998, when he founded Microsoft Research China, one of its best R&D centers.He also served as vice president of natural interaction services.He is widely known for his pioneering work in the areas of speech recognition and artificial intelligence and Microsoft was not willing to let him go without a legal fight.The China Daily reported Microsoft has filed lawsuits against Lee and Google.

"Accepting such a position with a direct Microsoft competitor like Google violates the narrow non-competition promise Lee made when he was hired as an executive," the newspaper report said, quoting statements from the filing."Google is fully aware of Lee's promises to

Microsoft, but has chosen to ignore them, and has encouraged Lee to violate them."Google's legal representatives responded by saying Microsoft's claims were "meritless" and vowed to defend Lee vigorously with its full support.Industry watchers are expecting a bitter battle played out in the Chinese courts, with Microsoft ending up the loser no matter the result.What is at stake is whether Microsoft or Google will be the leading foreign software agent in the high-stakes market of wireless search capabilities and money-spinning services in China's massive mobile-phone market.Duncan Clark, one of the managing directors at BDA China, a technology consultancy, told United Press International that "with mobile users being over three times the number of Internet users in China, a focus on mobile solutions will be a key priority for Google."In mid-2005, China reported more than 350 million mobile phone users and 100 million Internet users.Clark responded to a question about potential services Google will offer in China by saying: "That's known only to them.I'd guess that mobile offerings, perhaps location based services combined with search/maps must be high up the list."

He added, "Google has been 'virtually' here for years -- Chinese Internet users have embraced it along with the rest of the world."

Clark said the formal presence allows Google "to tap directly into local advertising budgets," but he warned that "given the numbers here to date being modest in comparison with the United States the more important factor is that they can start to develop services tailored to local Chinese consumers."Asked how Google will change the IT/telecom environment in China, Clark said "the ability to hire and train programmers and marketing professionals will raise the standard generally in the industry -- but in the near-to-medium term, they will face the same human resource constraints as their international peers in terms of mid-to-senior level professionals."