China without Google: 'a lose-lose scenario'

March 16 2010, By JOE McDONALD , AP Business Writer

Google China headquarters building is seen in Beijing March. 15, 2010. A newspaper Web site is reporting that Google Inc. is "99.9 percent" sure to close its search engine in China after negotiations over censorship stalled.(AP Photo/Vincent Thian)

(AP) -- China without Google - a prospect that looks increasingly likely - could mean no more maps on mobile phones. A free music service that has helped to fight piracy might be in jeopardy. China's fledgling Web outfits would face less pressure to improve, eroding their ability to one day compete abroad.

The extent of a possible Google Inc. pullout from China in its dispute with the communist government over censorship and hacking is unclear. But on top of a local search site that Google says it may close, services that might be affected range from advertising support for Chinese companies to online entertainment.

"If Google leaves, it's a lose-lose scenario, instead of Google loses and others gain," said Edward Yu, president of Analysys International, a Beijing research firm.

Chinese news reports say Google is on the verge of shutting its China site, Google.cn, and has stopped censoring results. A Google spokesman, Scott Rubin, denied censorship had stopped and would not confirm whether Google.cn might close.

"We have not changed our operations in China," Rubin said by phone from Google's headquarters in Mountain View, California. CEO Eric Schmidt said last week something would happen soon, and Rubin said he had no further details.

Google says it is in talks with Beijing following its Jan. 12 announcement that it no longer wants to comply with Beijing's extensive Web controls. But China's industry minister insisted Friday the company must obey Chinese law, which appears to leave few options other than closing Google.cn, which has about 35 percent of China's search market.

Such a step could have repercussions for major Chinese companies as well as local Web surfers. It would deliver a windfall to local rival Baidu Inc., China's major search engine, with 60 percent of the market. But other companies rely on Google for search, maps and other services and might be forced to find alternatives.

China Mobile Ltd., the world's biggest phone company by subscribers, with 527 million accounts, uses Google for mobile search and maps. Baidu offers mobile search but China Mobile passed up a partnership with it earlier after they failed to agree on terms, according to industry analysts. Millions of mobile customers might lose access to Google's Chinese-language map service.

A key issue is whether Beijing, angry and embarrassed by Google's public defiance, would allow the company to continue running other operations, including advertising and a fledgling mobile phone businesses in China if Google.cn closes.

China promotes Internet use for business and education but bars access to sites run by human rights and political activists and some news outlets. Officials who defend China's controls by pointing to countries that bar content such as child pornography are stung that Google has drawn attention to how much more pervasive Chinese limits are.

Chinese Web surfers are blocked from seeing Facebook, YouTube, Twitter and major blog-hosting services abroad and a Google pullout would leave them increasingly isolated.

Google hopes to keep operating its Beijing research and development center, advertising sales offices and mobile phone business, according to a person familiar with the company's thinking. But the person said the company won't do that if it believes its decision to stop censoring search results will jeopardize employees in China. Industry analysts estimate Google has a work force of 700 in China.

The government says Chinese mobile phone carriers will be allowed to use Google's Android operating system but there has been no word on whether efforts to sell its own phones in China might be affected. Google postponed the launch of two phones with a major Chinese carrier due to the dispute.

Uncertainty also surrounds Google's China music portal, a free, advertising-supported service launched last year in partnership with four global music companies and 14 independent labels. Industry analysts say it has helped to undercut China's rampant music piracy by offering an alternative to unlicensed copying.

"Without that, are we back to, `Piracy wins'?" said Duncan Clark, managing director of BDA China Ltd., a technology market research firm. "Piracy thrives because of censorship."

The music service is run by Top100.cn, a company part-owned by Google, but can be accessed only through Google.cn. Top100.cn's executive chairman, Erik Zhang, said it is preparing for the possibility that Google.cn might close but said his company has not been told whether that will happen. He declined to give other details.

The biggest impact of a Google departure could lie behind the scenes, where Chinese companies, many of them small entrepreneurs, rely on its AdWords advertising service, Gmail e-mail and documents services.

Those might be disrupted if Beijing turns up Internet filters to block access to Google's sites abroad. Its U.S. site has a Chinese-language search engine but is already inaccessible due to government filters.

In an uncomfortable irony for Beijing, Google might suffer little commercial loss from a pullout while China's own companies are hurt.

The bulk of Google's estimated $300 million in 2009 revenues in China came from export-oriented companies that would need to keep advertising on its sites abroad even if Google.cn closes, according to Yu.

"We believe the majority of revenue would still be kept on, with keyword purchases listed on Google.com instead of Google.cn," he said.

The loss of competitive pressure from Google also might slow Chinese development in search and other Internet services, Yu said.

"This is definitely a bad thing for Chinese companies that want to go abroad in the future," he said.

The industry minister, Li Yizhong, said Friday that China's Internet industry would develop without Google. But even some Chinese industry leaders who normally toe the government line in public are warning that controls on Internet companies and media are handicapping their growth.

Beijing has steadily tightened controls over Internet content and foreign investment in the industry. Video sharing sites must have state-owned media outlets as partners. People in the industry say it is getting harder to register privately financed sites.

"Without full and fair market competition, there will be no quality, no excellence, no employment opportunities, no stability and no real rise of China," said the chairman of major Chinese portal Sohu Inc., Charles Zhang, in a speech in February, according to a report on Sohu's Web site.

"How do we do this practically?" Zhang said. "The problem is complicated, but the fundamental point is to limit the power of the government."