

Google Inc's deals in doubt amid spat with Beijing

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A man takes pictures of the Google China headquarters as a bouquet of flowers is seen on the Google logo in Beijing Wednesday, March 24, 2010. Google's attempted detour around China's Internet censorship rules was met with countermeasures Tuesday by the communist government, which blocked people on the mainland from seeing search results dealing with such forbidden topics as the pro-democracy movement. (AP Photo/Gemunu Amarasinghe)

(AP) -- Google Inc.'s business ties in China unraveled a little more amid a widening backlash to the U.S. Internet company's decision to move its Chinese search engine offshore in a challenge to the country's online censorship laws.

While Google's stand is winning it praise in the U.S. and other countries, it's threatening to turn the company into a pariah in China.

A high-profile Communist Party newspaper skewered Google in a front-page story. And more of its partners and advertising customers in the country appeared to be distancing themselves from the company. China's second-biggest mobile phone company is scrapping plans to use Google's search function on two new phones, while the country's most popular Internet portal is reviewing its partnership with Google, executives said Thursday.

Google, based in Mountain View, California, still hopes to expand its non-search operations in China, but its refusal to play by the government's censorship rules could make that unrealistic.

By challenging the often tetchy government, Google appears to have violated an unspoken rule of doing business in China, especially in the Internet industry - whose control Beijing sees as crucial to maintaining its authoritarian rule.

"Everybody in the Internet space operates under the good graces of the government, and if the government's not happy with your partner, you probably are going to have to change," said T.R. Harrington, founder and CEO of Shanghai-based Darwin Marketing, which specializes in advertising for China's search engine market.

Investors already seemed to have concluded Google won't bring in as much revenue as once anticipated. And Google's losses could turn into a windfall for China-based Baidu Inc., which already held a commanding lead in the country's search market.

Google shares gained \$8.33 Wednesday to close at \$557.33, but they have fallen by more than \$30, or nearly 6 percent, since the company's Jan. 12 announcement about its intention to stop censoring search results in China. About \$10.5 billion of Google's market value has evaporated in the decline.

Meanwhile, Baidu's U.S. shares have climbed 57 percent during the same period, closing Wednesday at \$608.50, up \$13.62. The surge has added nearly \$8 billion to Baidu's market value.

Setting up a search engine on Chinese soil four years ago helped Google build new business relationships. But those alliances have started to fracture since Monday, when Google started to redirect search traffic from mainland China to an uncensored Hong Kong service. Though part of China, Hong Kong has a semiautonomous status because of its history as a British colony, and Google is not legally required to censor results there.

A spokesman for Sina Corp., which owns the popular Sina.com portal that features a Google search bar on its main page, said top management was evaluating its partnership with Google, but no decision had been made on its future.

"All of our cooperation with Google is based on two things: one is that Google complies with China's laws and the other is that it has its long-term business operation plans in China," said Chen Jinguo.

Tianya.cn, a popular portal that claims 32 million registered users, said it was taking full control over social networking and question-and-answer services operated jointly with Google. A company spokesman declined to say whether the government exerted pressure, but said in a statement that the takeover was being done to "guarantee each product, normal business and good operations."

Google officials in the U.S. didn't immediately respond to requests for comment. A company spokeswoman in Tokyo, Jessica Powell, said Google had been "working with Tianya over the last couple of months to phase out this partnership in favor of our own offerings."

Industry executives said Google's China revenues were diving as companies shied away from placing new ads with the search engine. A deal with China United Network Communications Group Company, the No. 2 mobile company known as China Unicom, has also already come undone.

An executive with China Unicom (Hong Kong) Ltd., the listed subsidiary, said the company is shelving plans to use the Google search on two new cell phones running Google's Android software.

In a statement, Unicom President Lu Yimin said "Google's withdrawal from the mainland market will not affect the company's development of Android phones. Currently our phones have no pre-installed Google search tools."

Powell, the Google spokeswoman, said Wednesday the company was continuing to work with Chinese business partners, even providing some with censored search services to abide by existing contracts.

Mainland users rerouted to the Hong Kong site still come up against Chinese government Web filters - collectively known as the Great Firewall - that automatically weed out content considered pornographic or politically sensitive before it can reach computers in China. The company's move, in effect, shifts the handling of the censorship from Google to the government.

China's filters eventually could be used to restrict all access to Google's services.

Beijing initially seemed to shrug off Google's move. A government statement called it "totally wrong," while a Foreign Ministry spokesman appeared to dismiss it as an isolated business case.

The People's Daily newspaper on Wednesday was more shrill, accusing Google in a front-page commentary of cooperating with U.S. intelligence forces and suggesting its decision to move its search engine to Hong Kong was a salvo by U.S. Internet warriors.

"Considering the United States' big push in recent years to prepare for Internet war, perhaps this could be an exploratory pre-dawn battle," said the commentary in the newspaper's overseas edition.

While the U.S. State Department has said it was not involved in Google's decision over its search engine, a speech by Secretary of State Hillary Clinton championing Internet freedom added to Beijing's concerns about collusion and aggravated recently tense U.S.-China relations.

"Google's decision is a strong step in favor of freedom of expression and information," Sen. Byron Dorgan, chairman of the Congressional-Executive Commission on China, said at a commission hearing Wednesday. "It is also a powerful indictment of the Chinese government's insistence on censorship of the Internet."

Google's troubles also added to a growing sense in the U.S. and European business community that a richer, more powerful China was less in need of foreign investment and technology. New rules to promote indigenous innovation and favor local technology in government procurement have brought protests from Western chambers of commerce in China that Beijing was closing off access to the domestic market.

Given those dynamics, Google is likely to face a tough road to rehabilitation in the China market, Chinese and foreign Internet analysts said.

"They are certainly going to suffer and they are going to be spending

years rebuilding their reputation with the people who are trying to market inside of China and proving they can offer a decent service" in the country, said David Wolf, president of Wolf Group Asia, a technology marketing consultant in Beijing. "Trust me, they aren't walking away from this unhurt."

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