

Google scrambles to save Internet license in China (Update)

June 29 2010, By JOE McDONALD and MICHAEL LIEDTKE , AP Business Writers



In this April 12, 2006 file photo, Chinese poke their heads through a Google logo shortly after Google debuts its Chinese Language brand name in the Beijing Hotel in Beijing. Google Inc. said Tuesday, June 29, 2010, it will stop automatically rerouting users of its China search site to its Hong Kong site after Beijing said the company would lose its mainland Internet license if the tactic continued. (AP Photo/Elizabeth Dalziel, File)

(AP) -- China is threatening to revoke Google's business license over the company's decision to redirect Chinese traffic to computers in Hong Kong that are not governed by the communist government's censorship practices.

The latest skirmish between Beijing and the Internet search leader threatens to cripple the company in one of the Web's biggest markets.

Google agreed Tuesday to dismantle the virtual bridge to its Hong site that was created in March, but it was unclear whether that will be enough to stay in business in [China](#). The license is required for the company to continue providing its mapping and music services in China.

Google hopes to keep its license by turning its Chinese website into a so-called "landing page" anchored by a link that users must click on to send visitors to the Hong Kong search service. The company has no plans to revert back to its previous practice of omitting search results that the Chinese government considers subversive or pornographic.

"This new approach is consistent with our commitment not to self-censor and, we believe, with local law," David Drummond, Google's top lawyer, wrote in a blog post.

A foreign ministry spokesman, Qin Gang, said he had not seen Google's announcement and could not comment on it. However, he added, "I would like to stress that the Chinese government encourages foreign enterprises to operate in China according to law."

The impasse could drag on for months, analysts predicted, as both Google and the Chinese government jostle in a heavyweight wrestling match unfolding on an international stage.

Google Inc. announced in January that it would no longer comply with Chinese censorship after being hit by a hacking attack traced to China. The high-profile challenge irritated Chinese leaders, even though they want foreign companies to help develop the country's technology industry.

Google met a Wednesday deadline to apply to renew its Internet license in China. It's not clear how long the Chinese government will take to review the application, but BGC Financial analyst Colin Gillis expects

the company "to twist in the wind for a while."

Google's uncertain fate in China could become a distraction for management, but it's one that is probably worth the trouble, said Gartner Inc. analyst Whit Andrews.

That's because China already has about 400 million people online, making it the world's largest Internet market, and that figure is expected to steadily grow for decades to come.

"Google knows its shareholders think it's important to be in China, and a lot of its future value is riding on that," Andrews said. And China's government knows it has to flex its muscle because "if it looks like Google is running the show, it could affect their power."

Google shares fell \$17.82, or nearly 4 percent, to \$454.26 on a rough day throughout the stock market.

China has not produced a big windfall for Google yet, partly because it's one of the few markets where the company's search engine is not the most popular. (The homegrown Baidu.com holds a 60 percent share compared with about 30 percent for Google.)

Analysts estimate Google gets \$250 million to \$600 million in annual revenue from China, or about 1 percent to 2 percent of its total revenue.

Even if Chinese regulators approve Google's new navigation tool, the added click to reach Hong Kong could still drive away some users.

If that were to happen, "then advertisers will panic and cut spending," said Edward Yu, president of Analysys International, an Internet research firm in Beijing.

Google could still remain in China even if the government pulls the plug on its website in that country. The company has indicated it would like to retain its engineering staff in China to take advantage of the country's technology talent and to maintain a sales force that also sells ads to Chinese businesses trying to reach customers outside the country.

If [Google.cn](#) is shut down, mainland Chinese users could still reach Google's services by manually typing in the address of the Hong Kong site. But China's government could also use its own technology tools, sometimes called a "Great Firewall," to prevent its citizens from connecting to Google's sites outside the country.

The Mountain View, Calif.-based company launched its China-based site in 2006 after [Chinese government](#) filters blocked many users from reaching the company's U.S. site.

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