

Google profile in China shrinking

April 3 2011, By JOE McDONALD , AP Business Writer

(AP) -- A year after a public spat with Beijing over censorship, Google Inc. says its business with Chinese advertisers is growing even as the Internet giant's share of online searches in China plunges.

A major Chinese portal announced last week it would no longer use Google for search, compounding its rapid loss of market share since March last year when it closed its local search engine. The future of a Google map service that is a key part of its remaining appeal in [China](#) is in doubt.

Google's main presence in China has become its [advertising sales](#) offices, an unusual situation for a company that dominates the Internet elsewhere.

Google risked being completely shut out of China after it angered Beijing by announcing last January it no longer wanted to comply with Web censorship. It dodged that fate but without a flagship local online presence, analysts say Google will fall further behind local industry leader Baidu Inc. as a search provider, while the controversy makes it hard to line up Chinese partners for other ventures.

"Chinese companies will think twice before they can have any kind of relationship with Google," said Edward Yu, president of Analysys International, a research firm in Beijing.

Google, based in Mountain View, California, says it sees its biggest opportunities in China in selling advertising on behalf of local websites

or to companies that want to reach customers abroad through its global sites.

Google was allowed to keep advertising sales offices in China. Beijing had an incentive to let those stay, because they benefit local websites and advertisers.

"Google's revenue in China has grown year-on-year," said a company spokeswoman, Jessica Powell, in an e-mail. "Our business in China is doing well. We have hundreds of partners - large and small - who we continue to work with."

Yet its public relationship with Beijing is chilly. After Chinese authorities stepped up Web censorship following pro-democracy protests in the Middle East, Google said last month the government was obstructing access to its Gmail e-mail service and trying to make the blockage look like a technical problem. The government denied the accusation.

This week, the government newspaper Economic Daily said three Google units that deal with research and development, customer support and advertising were under investigation for possible tax offenses. State media played up the report and one newspaper called the company "Brother Trouble," a play on its Chinese name. Google said in a statement, "We believe we are, and always have been, in full compliance with Chinese tax law."

Mainland users can reach Google's Chinese-language site in Hong Kong, a self-governing Chinese territory without [Web censorship](#). That comes with a big drawback: Beijing's filters can make access sluggish, reducing the site's appeal in China, which has more than 450 million people online.

Google does not break out sales by country, but Analysys estimated its 2010 China revenue at 2.6 billion yuan (\$409 million) - or less than 1.5 percent of Google's global revenues of \$29.3 billion.

Last year's dispute testified to the complex Internet landscape in China, which promotes Web use for business and education but has strict controls on content and blocks social media sites including YouTube, Facebook and Twitter.

Google's China site still offers music downloads, business services and other features that are not subject to censorship. Users can click a link to reach the Hong Kong site.

Google's share of China's search traffic fell to 19.6 percent in the final quarter of 2010 from 30.9 percent in the first quarter, according to Analysys. It said Baidu's share rose to 75 percent.

Citigroup analyst Alicia Yap said data from other researchers show an even sharper plunge in Google's traffic share to 11 percent in the fourth quarter while Baidu rose to 84 percent.

Google still is China's second-most-popular search service based on use of the Hong Kong site and others abroad. It leads rivals such as Sogou, Tencent Soso and Zhongsou, which have market shares at or below 1 percent.

But the lack of a local presence will hurt as competition for new users spreads to mobile phones and the countryside, where users speak little English and will want a Chinese search engine, Yu said.

"Baidu is in a very good position to grab more market share," he said.

In a new blow to its public visibility, a leading a Chinese portal,

Sina.com, said this week it would no longer use Google. The search giant has ended a series of such partnerships as it stopped providing censored results.

Baidu has expanded aggressively, rolling out new services in the past year in an effort to differentiate a company long seen as a Google imitator.

New competitors including state media also are jumping into the market with search and social media products. The government's Xinhua News Agency launched a search engine last year in a partnership with state-owned China Mobile Ltd., the world's biggest phone carrier by subscribers.

Google faces another challenge from new regulations that tighten control over online map services. On Thursday, the deadline to apply for licenses, Google said it was "in discussions with the government about how we could offer a maps product in China."

"Google maps is one of the services that people still like a lot," said Yap. "If they can't provide the service in the future, people will use [Google](#) less and less."

Yu said Google's situation might change if a planned handover of power next year from President Hu Jintao and other Chinese leaders to a younger generation leads to a shift in official attitudes.

"New officials will be in place," he said, "so things could change at that time."

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