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Google Poised to Make Good on Its China Threat



By Erika Morphy
E-Commerce Times
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Negotiations between Google and China over Web censorship have apparently failed to produce a compromise that both sides could agree to. Although no official announcement has been made, all signs are pointing in the direction of Google's imminent withdrawal of its search operations from the country.

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It now appears almost certain that [Google](#) (Nasdaq: GOOG) and the Chinese government will not reach an accord over Internet censorship policies and that Google will begin pulling out of the country in the near future.

Among the increasing number of signs pointing in that direction are warnings the Chinese government gave to Google's Web partners that they must comply with Chinese law, even if Google does not, according to [The New York Times](#).

Google's CEO Eric Schmidt recently said that "something will happen soon" to resolve the standoff -- and the shape of that resolution is now becoming clear. The company reportedly has drawn up detailed plans to shut down its search engine operations there, according to a news report in the [Financial Times](#). Google is "99.99 percent" sure its search operations will be leaving China, a person familiar with the plans told the paper.

Senior Google executives are "adamant" about the company's recently declared stance on China's censorship policies, according to the FT source. As the same time, the company does

not want to transfer its business interests to a local player as some foreign Internet-based companies have done.

Google's China-based employees, meanwhile, are sending out resumes [looking for new jobs](#), according to Marketplace's Shanghai bureau chief Scott Tong.

Then there is [Emporioasia Leo Burnett](#). The Shanghai-based company has gone on the record advising advertisers they should migrate to Baidu and other rivals. The company is not claiming it has an inside track on the negotiations; rather, it is just reading the writing on the wall, according to news reports.

China has taken a firm stance, it said. So has Google.

A Tense 60 Days

China is notorious for the iron-fisted control it exerts over the Internet, which Western companies operating there have learned to accept as the price of admission. Google startled the world in January when it abruptly announced it was no longer willing to accept China's censorship requirements. The two have been negotiating to overcome the impasse, but with both Google and the Chinese government entrenched in their opposing positions, a successful resolution has seemed like a long shot from the start.

Now the end game seems to be unfolding as expected -- with Google pulling the plug on its search engine operations.

"There is no other way for this to be resolved -- unless Google wants to hand over the search business to a local firm," Usha Haley, coauthor of *The Chinese Tao of Business*, told the E-Commerce Times.

The fact that Emporioasia Leo Burnett is advising clients to find alternatives is very telling, she added. "They know the market, and they are making the necessary -- and probably accurate -- projections for their clients," noted Haley.

Feint Within a Feint?

It's possible this is a hardball tactic to try to get something from the Chinese government, Rodney Hiel, principal with [Asia Business Consulting](#), told the E-Commerce Times.

Hard-edged and hard-eyed negotiations are necessary in China, he said -- as are strategic retreats. "In my experience, one often has to take one step back to take two steps forward."

That said, it is more likely Google's motivations and actions are transparent, and that it means what it has been saying all along, Hiel said, which is not necessarily the smartest course to take in China.

"The whole process of Google suddenly declaring its desire to leave the market has seemed to be short-sighted or knee-jerk," he suggested, and the long-term ramifications could be severe if Google doesn't leave in as graceful a manner as possible.

The Chinese government has a long memory -- and Google has many opportunities to make money in China outside of search, Hiel pointed out. Its mobile and smartphone business is one obvious direction for the company.

A Separate Internet

If nothing else, this episode illustrates China's willingness to stick by its vision of the Internet -- never mind what the rest of the world believes, said Randy Kluver, executive director of the [Institute for Pacific Asia](#) at Texas A&M University.

"China really believes it can have a financially viable Internet that doesn't contain 'contaminating information' from the West," he told the E-Commerce Times.

China hasn't backed down from this even in a face-off with Google, which is significant, added Kluver. "What China is saying is that the Internet will exist according to the way we see it, and we will only interact with companies that obey Chinese law." 

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Linux has become an unlikely political football, with North Korea's totalitarian government embracing it, and the International Intellectual Property Alliance suggesting that the use of open source software in government agencies "denies many legitimate companies access to the government market." So, open source providers aren't legitimate, then?

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