

## DOMINANT ELSEWHERE, GOOGLE STRUGGLES IN CHINA

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In China Google means underdog. While the Mountain View company dominates the search market in the United States, it is not part of the pop lexicon on the other side of the Pacific. In its nine years in China, which now has the world's largest Internet audience, Google has struggled.

It has seen its services temporarily shut down by the government, and has been accused of purveying porn. Google China has also been outmaneuvered by a nimble rival, Baidu.com, the look-alike site that claims more than 60 percent of the market in China.

"It's a constant struggle," said Yuke, a Google employee who goes by one name. He was Google's lead product manager in China before managing the social responsibility department. "Sometimes we move ahead; sometimes we lose ground. It's a tough fight."

4 In many ways, Google's experience in China is typical of what international companies face when trying to tap into the emerging wealth of this vast nation of 1.3 billion. They learn, often at great cost, that their China enterprises need "a lot of hand-holding," said Mark Natkin, managing director of Beijing-based Marbridge Consulting.

Google's China business represented just a sliver of its 2008 revenue of \$21.8 billion, "a rounding error" of not more than \$300 million, according to RBC Capital Markets analyst Ross Sandler.

Other Silicon Valley global giants have been humbled here, as well. In 2005, Yahoo handed over operations of Yahoo China to Alibaba after the Sunnyvale, Calif., company took a \$1 billion, 40 percent stake in its erstwhile Chinese competitor. Five years ago, eBay appeared untouchable in China after acquiring EachNet, China's then-leading online auctioneer. Now, though, eBay ranks far behind Taobao, which controls about 80 percent of the online retail market.

"I call it the Pacific Ocean gap," said Victor Koo, chief executive of Youku.com, a Beijing-based online video site. "If you have to wait for a conference call across the Pacific (before making a decision), it can take days. You can't compete. We make decisions faster and we understand the market better."

8 Though Google launched a Chinese version of its search engine in 2000, before Baidu showed up, it wasn't until 2005 that the Mountain View, Calif., company dispatched an on-the-ground team led by the charismatic Kai-Fu Lee, who just left the company to start a venture fund. Under his leadership, Google nearly doubled its share of the market to 31 percent.

But Baidu dominates China's online culture and has trumpeted its Chinese roots in commercials appealing to nationalism.

"In China, everybody uses Baidu," said Meiya Hsu, a 20-year-old college student sitting in a cafe with her MacBook laptop. She uses Google only as a last resort, such as to look up information about American pop stars.

Until recently, Google has done next to no marketing, said Kaiser Kuo, a Beijing writer and China Internet expert. Most people can't even spell Google and are unaware that there's a simpler URL, g.cn.

12 Google's ramp-up is an acknowledgment of a rapidly growing market: China's 700 million mobile phone subscribers and 338 million Internet users dwarf those of any other country.

Google's 500 employees in China share a 10-story complex in Tsinghua Science Park in Beijing's high-tech Haidian district. The company has transported its valley culture here—workers curl up on brightly colored couches with laptops, play pingpong, take belly dancing lessons and nibble throughout the day on free snacks and meals prepared by a chef. Teams of engineers devise China-specific products, including a free music service that features lyrics for karaoke-loving Chinese.

Google now is "putting up a fight. They have made good progress," said Youku.com's Koo.

But Google may always face special scrutiny from the government, which is wary of foreign Internet companies. It not only has shut down Google on occasions but also has redirected Internet traffic to Baidu.

16 Google has been careful not to provide products—such as blog services—that require it to gather personal data on users for fear of being forced to turn over information to the government, a decision that hurts it in the market, analysts say. Google runs its Gmail service on servers located outside China, making it more secure from government eyes.

“They are haunted by the ghost of Tom Lantos,” said Kuo, referring to the late San Mateo, Calif., congressman who berated Yahoo executives during congressional hearings after the company handed over e-mail records of journalist Shi Tao, who was accused by the Chinese authorities of leaking state secrets abroad and sentenced in 2007 to 10 years in prison.

This summer, online activists relied on Google’s Gmail to successfully campaign against the government’s efforts to require PC makers to install Internet filtering software on all new machines. “We always tell Chinese people to use non-China-based services,” said a Shanghai-based researcher who goes by the name Isaac Mao.

While sometimes running afoul of the Chinese government, Google has been hammered by human rights organizations for cooperating with the government’s efforts to block politically sensitive search results. Google searches in China filter out findings objectionable to the government, but users are told they are not getting access to all information because of government restrictions.

20 “I think Google has tried to strike a balance between protecting access to as much information as possible and to expand that while at the same time not being purer than the pope so people don’t get access to information in China,” said Susan Shirk, a former deputy assistant secretary of state in the Clinton administration responsible for U.S. relations with China. Google, she added, is playing an important role in China’s online civil society.

“Any foreign company that does content online is in for a rough period,” said Rebecca MacKinnon, an expert on the Internet in China at the University of Hong Kong. “If you want to beat the Chinese competitors, you have to really lower your ethical standards in terms of how you are going to treat your users. I don’t see any other way to do it.”

China-based Googlers, however, believe time is on their side. As China’s telecom giants invest an estimated \$59 billion in 3G infrastructure in 200 cities during the next three years, Google hopes to capture leadership in mobile search. Its partnership with China Mobile, the country’s largest mobile carrier, will deploy Google’s Android operating system on handsets.

“From a pure technology point of view, it’s very hard to compete with Google,” said Feng Hong, the company’s product manager of music search. “There is a long, long way for Google to go.”