

## **Speculation grows on Google's future in China**

*Kathrin Hille in Beijing*

*Google's legal structure in China will allow the company to continue operations in the country even if it closes its local search engine, local employees and industry and legal experts say.*

The comments come amid frenzied speculation that Google is on the verge of carrying out its January threat to retreat partly or fully from China.

The company operates google.cn, its China-registered website, under a joint venture with a domestic partner because Chinese law bars foreign investors from holding controlling stakes in the internet content business. But most of Google's workforce in the country is employed by a separate company wholly owned by the US parent.

"Research and development staff all work with us," said an employee at Google Information Technology (China), a wholly foreign-owned company according to the Beijing Administration for Industry and Commerce.

Another employee in sales said most of Google's sales force in China were also employed by the same company and not by Beijing Guxiang Information Technology, the joint venture.

"They have their R&D perfectly firewalled off, so they can continue to keep those people at work even if google.cn closes down," said Duncan Clark, chairman of BDA, a Beijing-based telecoms and media consultancy.

Speculation about an imminent announcement from Google intensified on Friday. A state-owned newspaper, quoting an unnamed employee, reported that the company could make an announcement as early as Monday on closing google.cn.

Eric Schmidt, Google chief executive, said earlier that the company would seek to keep some of its operations in the country.

Last week, a person familiar with the situation said Google had drawn up detailed plans for the closure of the Chinese search engine and hoped to manage an orderly exit. But negotiations with the Chinese government had not brought any breakthrough.

Google said it had more than 600 employees in China, half in research and development and the other half in sales.

Closing a joint venture in China can take months or even years because the law requires a range of audits including tax and customs issues, according to corporate lawyers.

"You have to deal with an incredible amount of bureaucracy," said Sabine Stricker-Kellerer, senior China counsel at Freshfields Bruckhaus Deringer in Munich. "And as one party to the joint venture, you don't have a legal right to demand dissolution, so the government has some discretion. There is really no precedent how that can play out in a politically sensitive case like this."

But the separation of the search engine from the research and sales force made this less of a risk, observers said.

"Google is likely to move features it now offers on the local search engine on to google.com and continue developing its offering for the Chinese market," said Cao Junbo, chief analyst at iResearch in Beijing.

He added that if Google managed to close the local search engine without further angering Beijing and avoided frequent blocking of google.com in China, the company would have a chance of holding on to a part of its 35 per cent share in the Chinese search ad market.

Google did not respond to a request for comment on its wholly owned business and the distribution of its workforce.

**Fonte: Financial Times, London, Mar. 19<sup>th</sup> 2010, Companies, online.**

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