

AN INDUSTRY GIANT'S STRUGGLES:  
GOOGLE'S RELATIVE FAILURE WITHIN CHINA

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## I. Introduction

Contemporary China boasts the largest population of web users in the world hovering around 688 million citizens according to the China Internet Network Information Center's 37th statistical report. With 50.3% of the population connected to the internet in some fashion and China's internet population growing by 6.1% over the last year, China is certainly one of the most interesting and dynamic markets available,<sup>1</sup> but due to this vast and ever-growing population of netizens becoming connected, the Chinese Communist Party has continuously implemented controls and censorship on the internet since its inception.<sup>2</sup> Although censorship of the internet remains a valuable and well-utilized tool of the Chinese government, the restriction of free information and tampering with foreign internet-based firms seeking to enter China has alarmed some members of the international community.

Google was very much a late comer to the Chinese market. Although it had been founded in California in 1998, Google did not formally arrive in the Chinese market until 2006.<sup>3</sup> Baidu began offering a site that heavily resembled Google's homepage in 2001, but quickly became a center of profit as the site was actually the first, even before Google, to allow advertisers to

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<sup>1</sup> China Internet Network Information Center. "中国互联网络发展状况统计报告 (2016年1月)." January 2016. <https://cnnic.cn/gywm/xwzx/rdxw/2015/201601/W020160122639198410766.pdf>. (Accessed 12/15/2015).

<sup>2</sup> Fredrik Erixon, Brian Hindley, and Hosuk Lee-Makiyama, "Protectionism Online: Internet Censorship and International Trade Law." *European Centre for International Political Economy Working Paper*, No. 12. (2009): 5.

<sup>3</sup> Wugang Zhao and Edison Tse, "Competition in Search Engine Market," *Journal of Business Strategies* 28, no. 2. (2011): 15.

purchase ad space giving Baidu a pay-per-click deal.<sup>4</sup> Google maintained a noticeable share of Chinese netizens, specifically drawing about a fifth of all Chinese search engine users in 2005, yet this percentage continued to waver due to failed localization tactics and censorship hindering their service.<sup>5</sup> When Google created Google.cn in 2006, their stated goal was to create a service uninhibited by being "inexplicably" down 10% of the time. Although Google executives knew that their action would draw scrutiny, they felt that censoring some information would be better than not offering their relatively less censored search to a fifth of the world's population.<sup>6</sup>

This position would eventually change as the company decided to leave within 2010. After enduring many disagreements with the Chinese government, the final straw for Google would come in the form of an advanced cyber-attack and further censoring of websites, such as Facebook and YouTube. David Drummond, senior vice president of corporate development and chief legal officer of Google, announced that Google would no longer be censoring and relocating all queries to its Hong Kong site due to cyber-attacks and censorship's incompatibility with Google's values.<sup>7</sup> In an interview with Charlie Rose, Google CEO Eric Schmidt stated that Google executives had hoped for some form of change to China's censorship laws to come about due to their entrance into the Chinese market, but this change did not come to fruition as expected. While attributing the stringency of the Chinese government to the turbulence of the Cultural Revolution, Schmidt states that a main motivation for relocating Google to Hong Kong was the government's unwillingness to compromise or negotiate.<sup>8</sup>

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<sup>4</sup> David Barboza, "The Rise of Baidu (That's Chinese for Google)," *New York Times*, September 17, 2006, <http://www.nytimes.com/2006/09/17/business/yourmoney/17baidu.html?pagewanted=print>. (accessed 12/20/2015).

<sup>5</sup> Sherman So, and J. Christopher Westland, *Red Wired: China's Internet Revolution*, (London: Marshall Cavendish, 2010), 74.

<sup>6</sup> Andrew McLaughlin, "Google in China," Google, January 27, 2006, <https://googleblog.blogspot.com/2006/01/google-in-china.html>. (accessed 11/20/2015).

<sup>7</sup> David Drummond, "A New Approach to China: an Update," Google, March 22, 2010, <https://googleblog.blogspot.com/2010/03/new-approach-to-china-update.html>, (accessed 10/30/2015).

<sup>8</sup> Eric Schmidt, "Eric Schmidt," interview by Charlie Rose, September. 24, 2010.

For search engines that offer various services, the Chinese government stipulates that companies must heavily censor results to queries that are deemed politically sensitive and must freely hand over information of users they possess if requested. Some members of the international business community postulate that these controls create an unequal playing ground for international companies, such as Google, that refuse to comply fully. This point has recently become a large part of discussion within the United States as the United States Trade Representative office recently listed Chinese internet censorship as an official trade barrier.<sup>9</sup> In addition, those companies who comply with government orders seem to flourish, such as China's homegrown leading search engine company, Baidu. To this end, Gene Munster, a prominent research analyst at Piper Jaffray which deals primarily with internet research, referred to Baidu as a "state-sponsored monopoly."<sup>10</sup> Google's published reasons for departing from the mainland in 2010 cite censorship and cyber-attacks as a hindrance to its ability to provide stable, high-speed service while stating that the company no longer wanted to knowingly skew information through censoring search results.<sup>11</sup>

While Google currently eclipses all other competitors in the global market with 65.44% of the world's search engine usage,<sup>12</sup> it only managed a meager 9.20% of the Chinese advertisement revenue in 2015.<sup>13</sup> In one of the most dynamic markets of the world with huge potential for profit, would the world's leading search engine accept such a small portion of the

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<sup>9</sup> Susan Shirk, Bethany Allen- Ebrahimian, and Emily Parker, "It's Official: Washington Thinks Chinese Internet Censorship is a Trade Barrier," *Foreign Policy*, April 14, 2016, <http://foreignpolicy.com/2016/04/14/chinese-censorship-trade-barrier-great-firewall-ustr-business-trade-internet/>. (accessed 4/22/2016).

<sup>10</sup> Brad Stone and Bruce Einhorn, "How Baidu Won China," *Bloomberg*, November 11, 2010, <http://www.bloomberg.com/news/articles/2010-11-11/how-baidu-won-china>, (accessed 1/12/2016).

<sup>11</sup> Justin Tan, and Anna Tan, "Business Under Threat, Technology Under Attack, Ethics Under Fire: The Experience of Google in China." *Journal of Business Ethics* 110, 4, p469-479.

<sup>12</sup> No author, "Desktop Search Engine Market Share January 2016," *NetMarketShare*, <https://www.netmarketshare.com/search-engine-market-share.aspx?qprid=4&qpcustomd=0&qpsp=204&qnp=1&qptimeframe=M>, (accessed 1/13/2016).

<sup>13</sup> Incitez China, "China Search Engine Market Overview 2015," *China Internet Watch*, April 18, 2016, <http://www.chinainternetwatch.com/17415/search-engine-2012-2018e/>, (accessed 4/20/2016).

market for a moral stand against censorship and its unwillingness to cater to the Chinese government, or were other factors at play? In an analysis of brand loyalty to search engine corporations, Rappa, as cited by Zhao and Tse, states that search engines gain loyalty and approval based off of four characteristics of their service: speed, relevance, comprehensiveness, and freshness.<sup>14</sup> These four characteristics will shed light on how both actions of the Chinese government and Google itself affected Google's quality of service and, by proxy, its allure relative to Baidu. With this in mind, the paper will examine Google and other Western corporations' tenure within China alongside an examination of Google's somewhat lackluster track record within other Asian nations' search engine markets in order to answer the following research questions:

- How did the Chinese government's censorship and China's cultural differences create a business environment detrimental to Google? Are there other factors prevalent in Google's forays into other Asian nations that could provide an explanation counter to the censorship narrative and further assist in explaining Google's failure to corner the Chinese market?

I suggest that Google did indeed experience an inordinate amount of scrutiny and censorship from the Chinese government, but multiple flaws in Google's own grasp of East Asian culture and faulty business practices that fostered a view of the company as an outsider inferior to homegrown or more appropriately localized companies contributed heavily to its loss of market share in China and throughout East Asia. An analysis of censorship and Google's missteps in East Asia provide a more nuanced explanation for Google's departure from the mainland despite its stellar success in a majority of the world.

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<sup>14</sup> Zhao and Tse, "Competition in Search Engine Market," 8.

### *Methodology*

I first provide historical and political context prior to Google's departure from the mainland as well as Google's present standing in China. I discuss Google's development as it pertains to the Chinese market, particularly in reference to censorship, its failure to localize properly, and its reaction to government interference. Additionally, the resources utilized for this portion of the paper will display deficiencies in Google's business plan. The paper will utilize sources on other Western corporations in China in order to show that Google's experience and difficulties were typical of the Western business experience and hardships faced by other tech giants, such as Amazon and eBay.

Secondly, this thesis will use established works to discover Google's standing within other Asian markets. Primarily, these sources will focus on Google's development in some of Asia's largest internet markets such as Japan, Taiwan, Hong Kong, and South Korea, but will also convey the reasons for consumer habits and brand loyalty to search engines. These sources will supplement the paper in order to showcase that, while censorship affected Google's ability to corner the Chinese market, various factors, such as pride in national companies, staunch nationalism, and adverse feelings towards Google as a foreign corporation, played a significant role as well. After analyzing these sources, the paper will present Google's Asian business strategy, both its strengths and weaknesses, as it initially unfolded.

After the existing sources have been discussed, the researcher will conclude with an analysis of the information combined. In light of the collective research, the initial hypothesis of censorship playing a large role will be evaluated for validity. Next, the analysis will turn towards the latter of the research questions and focus upon what factors could account for Google's failure and if these are enough to fully explain Google's shortcomings. The conclusion will

primarily consist of opinion and analysis based upon the information discovered throughout the process of developing the thesis.

## **II. Immediate Context and Characterization of Who Uses Google in China**

Google currently dominates a majority of the global search engine market. Dealing with the surplus of information pouring into a fledgling internet, Google's founders created an algorithm ranking pages based on relevancy and popularity that, compared to other search engines, typically gave more accurate results. While its initial product gave more relevant answers and sources, Brian Wieser, an analyst at Pivotal Research Group, believes that Google's early dominance in ad revenue in the years following its start allowed the company to expand more efficiently than other companies. This bump in profit gave Google the capital necessary to continue to alter its algorithm in order to obtain better results. Wieser states that, "The more you know about what people mean when they search, the more you are able to deliver accurate results ... There are a lot of costs associated with that, processing, the data centers to support that. So there is a natural monopoly."<sup>15</sup>

In addition, Google's current dominance also has a notable relationship with Google's acquisitions of various services and websites paired with its emphasis on employees seeking to create new products. Google's "20% projects" pushes Google employees to take time equaling one day per week in order to branch out on original projects. These extracurricular projects have resulted in new applications and technology, like Google News and Google Cardboard viewers. The company has also worked to purchase technology giants or well-established brands, such as

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<sup>15</sup> Lucy Hooker, "How Did Google Become the World's Most Valuable Company?" *BBC News*, February 1, 2016, <http://www.bbc.com/news/business-35460398>, (accessed 2/15/2016).

YouTube and Motorola.<sup>16</sup> Altogether, Google succeeds in most markets because it possesses a well-established brand complete with other bought-in brands and because it delivers a fast product with extremely relevant results, but this is not the case in China.

In their analysis of why individuals create brand loyalty to search engines, Zhao and Tse discuss the importance of being the first to offer a consistent and dependable product. As search engines are rather easy to switch from one to the other, there exists no real opportunity cost for a user to switch from a search engine that suddenly starts displeasing them;<sup>17</sup> however, this also means that, unless the first search engine is drastically outpaced and out-innovated by another search engine, the user will typically stay with their already established choice. According to the extension of Zhao and Tse's points, Google, once it had entered the Chinese market, had to offer some obvious benefits in order to surpass the locally entrenched Baidu.

To this point, Zhao and Tse sought to explain why Chinese users preferred the search engines of their choice and why some users still chose Google. They determined that Google was the primary choice among highly educated Chinese users, especially those who had been abroad to Western countries.<sup>18</sup>

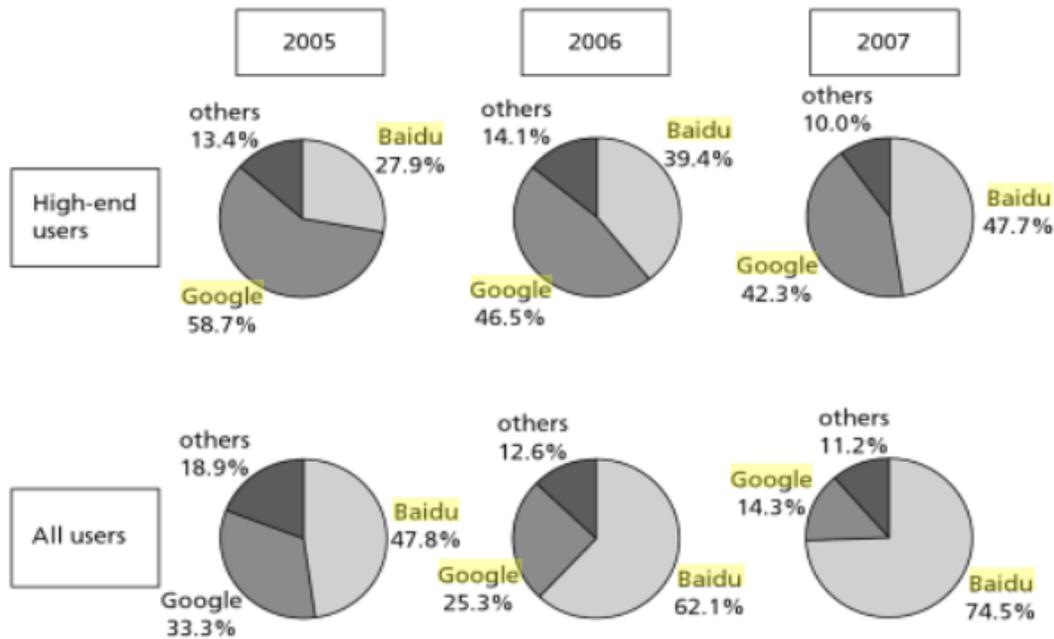
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<sup>16</sup> Lucy Hooker, "How Did Google Become the World's Most Valuable Company?".

<sup>17</sup> Zhao and Tse, (2011). "Competition in Search Engine Market," 3.

<sup>18</sup> Zhao and Tse, (2011). "Competition in Search Engine Market," 18.

Screenshot of Figure 3.2 in So and Westland's *Red Wired: China's Internet Revolution*



**Figure 3.2: Change in users' search engine preferences: 2005-07**

Data source: CNNIC—China Internet Network Information Center

Note: The first row shows results for high-end users, i.e., those who are over 25 years old, with a bachelor's degree or higher and earning more than RMB3000 or US\$375 per month. The second row shows results for all users.

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The figure above, taken from So and Westland's *Red Wired: China's Internet Revolution*, helps substantiate Zhao and Tse's point. Utilizing the surveys conducted by the China Internet Network Information Center, So and Westland show that Google, while having a large portion of high-end users, steadily lost their niche within the Chinese market over 2005 to 2007. According to a report on the behavior of search engine users by the CNNIC conducted in 2009, this trend continued as Google's percentage of high-end users shrank to 22%.<sup>20</sup> So and Westland's research confirms that Google was typically a major choice among higher educated, higher income users, yet adds that Baidu is superior to users with less education and income. This failure to capture a

<sup>19</sup> So and Westland (2009). *Red Wired: China's Internet Revolution*, 49.

<sup>20</sup> China Internet Network Information Center. "2009 年中国搜索引擎用户行为研究报告," p. 14.

majority of users and loss of the high-end consumers could be attributed to the statement in Zhao and Tse's work that a majority of Chinese internet users spend most of their online time searching for entertainment.<sup>21</sup> Yang and Yu's work on why Chinese web users attempt to circumvent the Great Firewall is especially interesting in conjunction with this fact.

### Screenshot of Table 5 from Qinghua Yang and Yu Liu's Work

Table 5.  
Summary of paired *t*-test results.

U&G	Bypass firewall		<i>t</i> -Value	<i>df</i>	<i>p</i> -Value
	In China	In US			
Entertainment	3.83	5.27	-9.61	121	.000
Info seek	5.36	3.43	11.21	121	.000
Socializing	3.50	2.80	4.90	121	.000
Self-status	3.24	2.54	6.16	121	.000
Uniqueness	3.18	2.28	5.88	121	.000

Note. *N* = 122.

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According to the table, most users who bypass the firewall from within China do so in order to discover information. This need to bypass the firewall can be partially attributed to Baidu adequately fulfilling most entertainment needs; however, the table does exemplify that the second largest reason for bypassing the firewall is to find some sort of entertainment, which may be because of a lack of Western entertainment offerings on Baidu. Knowing who the primary users of Google were and why they continue to use it as an outlet today is important as it

<sup>21</sup> Zhao and Tse, "Competition in Search Engine Market," 15.

<sup>22</sup> Qinghua Yang, and Yu Liu, "What's on the Other Side of the Great Firewall? Chinese Web Users' Motivations for Bypassing the Internet Censorship," *Computers in Human Behavior*, 2014, no. 37: 249-257.

provides pivotal information into some benefits in comprehensiveness and relevance that Baidu cannot satisfy. This does show that some users are willing to sacrifice ease, and possibly speed, in order to get a more comprehensive search engine; however this seems to be a small minority.

Revisiting the information from So and Westland, it appears that, even from 2005 to 2007, Google's user base was drastically shrinking. In total user base, Google fell from a comfortable third of all users in 2005 to 14.3% two years later. Even within their strongest demographic (highly educated, high income users), Google's percentage of high-end users dropped 16.4% between 2005 and 2007.<sup>23</sup> Studying the potential reasons why high-end users and users in general began quickly vacating the search engine becomes important in determining the overall validity of Google's statements on leaving China being solely a decision to cease censoring their material. Instead, by examining both the failures of Google to localize in East Asia and those failures of various Western companies, a pattern of ineptitude in appropriately dealing with globalization becomes apparent.

Robert Salomon tackles the issue of Western companies entering foreign markets claiming that the one "irrefutable constant is that companies struggle with globalization."<sup>24</sup> His main belief is that, contrary to many people's opinions that globalization is creating a greater ease of doing international business, there still exists important and concrete factors, such as politics and culture, that can be attributed as the reason some companies fail overseas.<sup>25</sup> Salomon discusses Wal-Mart within China as a cautionary tale of large corporations going to China and not being prepared for the strict laws and completely different consumer base. In regards to the consumer base, Wal-Mart has largely been unable to accurately grasp the consumers' wants and

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<sup>23</sup> So and Westland, *Red Wired: China's Internet Revolution*, 49.

<sup>24</sup> Robert Salomon, *Global Vision: How Companies Can Overcome the Pitfalls of Globalization*, (New York: Palgrave, 2016), 3.

<sup>25</sup> Salomon, *Global Vision: How Companies Can Overcome the Pitfalls of Globalization*, 10-11.

stock the appropriate key items within each location. This extremely varied set of demands additionally creates difficulty for Wal-Mart to identify a core set of items that would be efficient to stock at every location. Secondly, much like Google's experience, Wal-Mart has had difficulty working with politicians of the local and national level. Salomon states that these disagreements between the corporation and the government has even led to complete standstills over supposed "product violations."<sup>26</sup>

A *Forbes* article on the issue clarifies that Wal-Mart's Chinese locations only accounts for 2% of overall company revenue despite the 405 stores. The article goes on to identify Wal-Mart's main competitor Sun-Art's reason for success as better localization strategies. One of the reasons listed is the Chinese consumers' preference for outdoor-style markets, which Sun-Art emulates efficiently.<sup>27</sup> In this case, Wal-Mart's typical big-box model and Sun-Art's emulation of outdoor street markets and sticking to authentic products represents a separation in cultural wants that Salomon calls "institutional distance."<sup>28</sup> Additionally, while Google's "everyday low-prices" guarantee is a well-received selling point in the West, it is scrutinized in China. Chinese citizens equate low prices with products being cheap and unsafe.<sup>29</sup> Using the Wal-Mart scenario as an example, institutional distance creates obstacles for foreign corporations to overcome, whether it is changes in preference of how to purchase items or governmental institutions providing a blockade to how foreign companies typically run. Applying this to Google's experience in China and other East Asian countries, institutional distance affects Google at every step, primarily in

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<sup>26</sup> Salomon, *Global Vision: How Companies Can Overcome the Pitfalls of Globalization*, 6-8.

<sup>27</sup> Trefis Team, "Why Wal-Mart Never Picked Up in China?" *Forbes*, June 18, 2014, <http://www.forbes.com/sites/greatspeculations/2014/06/18/why-wal-mart-never-picked-up-in-china/#336ad50b6b57> (accessed 4/22/2016).

<sup>28</sup> Salomon, *Global Vision: How Companies Can Overcome the Pitfalls of Globalization*, 13.

<sup>29</sup> Nandita Bose and Adam Rose. "Wal-Mart's China Syndrome a Symptom of International Woes." *Reuters*, February. 21, 2014. <http://www.reuters.com/article/us-walmart-emerging-idUSBREA1K08220140221> (accessed 4/22/2016).

adjusting to consumer wants and dealing with the government. While the government opposition in Google's case would seem to be more pressing and severe at first, the study of Google within other East Asian nations will prove that not localizing to overcome these institutional factors is prevalent in Google's experience.

### **III. Censorship Consistently Affected Google**

China's censorship of Google ranged from direct intervention to regulations that acted as a deterrent to undesired actions or behavior. These regulations created a challenging business climate for Google as the Western executives believed their corporation and other Western businesses to be the main targets of the Chinese government's policies and alleged cyber-attacks. Various Google officials have stated through press releases, as well as personal statements, that the direct censorship and attacks on their personal data they experienced while located in the mainland was the primary impetus in the company's official decision to move to Hong Kong in 2010.

#### *Google Failing to Follow Vague Requirements Harmed Their Quality of Service*

Both prior to the opening of Google China and once they were situated in the mainland, Google experienced significant loss of quality in service provided due to the effects of censorship. One of the chief factors that directly affected Google's ability to hold the Chinese consumer through their typical excellence in comprehensiveness of search results was the vagueness of the stipulations given by the Chinese government. Because the Chinese government does not publish or provide any sort of explicit list of websites it expects to be banned, search engine corporations within the mainland are often expected to vigorously self-

censor any sites they think may be questionable or draw the ire of the government.<sup>30</sup> They do offer a list of banned words or topics, but this is not inclusive. The government also expects companies such as Google and Baidu to remove websites they think may fall short of Chinese standards or may be inappropriate.<sup>31</sup> This requirement effectively puts corporations un-willing to work with the government at risk if they attempt to censor lightly in order to preserve the most unmodified information they can, which would fall in line with Google's goal when they set about coming to China.

In terms of relevance and comprehensiveness, both Baidu and Google's ranking in the two categories decreased compared to what their rankings may be in a society without significant keyword censorship. Google, to some, may have a slight edge in comprehensiveness while it was in mainland China and submitted itself to self-censorship due to the company's special response to censorship. Because Google was forced to remove listing to culturally and politically sensitive material, Google would broadcast a message to all users informing the user that there were results being withheld due to the Chinese government's stipulations of complete removal of the result from the search page.<sup>32</sup>

This issue would be problematic from the beginning of Google's short tenure within China, but would truly create pressure from the government towards the end of Google's time within China. As Google would get into many arguments with the Chinese government, they were often quick to criticize any of Google's missteps or failures to operate within the stated guidelines. In June 2009, Chinese officials began directly blocking certain Chinese-language

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<sup>30</sup> Jyh-An Lee, Ching-Yi Liu, and Weiping Li, "Searching for Internet Freedom in China: A Case Study on Google's China Experience." *Cardozo Arts & Entertainment Law Journal* 31, 2, p405-434.

<sup>31</sup> Bobby Johnson, "How Google Censors its Results in China," *The Guardian*, January 13, 2010, <https://www.theguardian.com/technology/2010/jan/13/how-google-censors-china> (accessed 1/20/2015).

<sup>32</sup> Human Rights Watch, "Race to the Bottom: Corporate Complicity in Chinese Internet Censorship." *Human Rights Watch*. 18, No.8 (2006).

phrase search results as the government claimed these phrases resulted in pornographic links.<sup>33</sup> As a vigorous anti-pornography campaign had started earlier in the year, Chinese officials had warned Google multiple times before taking direct action.<sup>34</sup> They additionally called Kai-Fu Lee, the founding president of Google China, along with various representatives of Google China in order to reiterate the government's displeasure with the failure to heed their warnings.

While the Google officials attempted to explain that they had no feasible method for controlling what the auto-complete feature suggested, the Chinese authorities were not persuaded. Google attempted to explain that the auto-complete feature must have been tampered with by users repeatedly searching the same explicit query, thus fooling the system into prompting the pornographic phrases and exhibiting them as more popular than they truly were. Chinese authorities were not phased. The government continued to block any phrase remotely connected to the explicit search terms and informed Google that they would be punished for the incident, as the Chinese government felt Google had fallen short of their expectations repeatedly.

Kai-Fu Lee expressed frustration with these conflicting forces. He perceived Google's values of "do no evil" and the Chinese government's stiff demands of censorship as incompatible. Henceforth, the government began their punishment by temporarily blocking Google.cn. China additionally used its power over the media to create a scathing report on the Western company. At this point, Kai-Fu Lee was informed the government had presented two large demands to Google: to remove the Suggest feature from Google.cn and remove all foreign websites from its result index.<sup>35</sup> These two demands together would remove a large portion of Google's advantage

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<sup>33</sup> Steven Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, (New York: Simon & Schuster, 2011), 305-307.

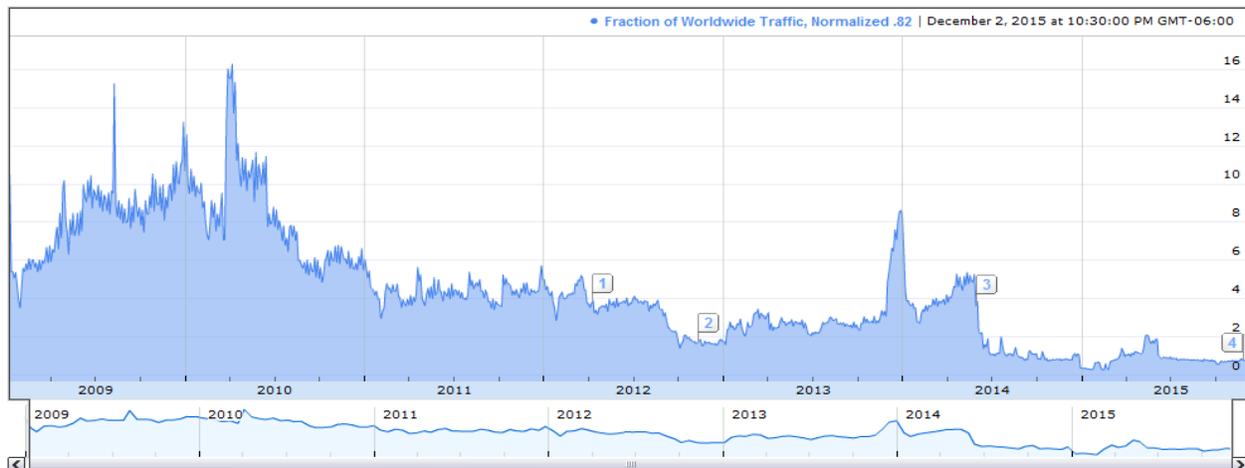
<sup>34</sup> Sun "China Blocks Some Google Results, Citing Pornography Concerns." *Xinhua News*, June 19, 2009, [http://news.xinhuanet.com/english/2009-06/19/content\\_11568852.htm](http://news.xinhuanet.com/english/2009-06/19/content_11568852.htm) (accessed 12/10/2015).

<sup>35</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 307.

within China. First of all, the removal of the Suggest feature would greatly decrease the ease of use that Google offered to netizens. Secondly, removing all foreign websites from its search index would hamper some of the few competitive edges Google possessed in terms of comprehensiveness by offering no additional sources beyond what Baidu offered. Google could have resisted these terms, yet it was also unable to completely deny the requests of the Chinese government. If it had fully complied, the global community might have viewed Google as being just as culpable as other cyber corporations, such as Yahoo, in acquiescing to China's concerns, which would have significantly hurt its global market value. If it resisted the government, it would effectively shut itself out of the Chinese market until a compromise could be reached.

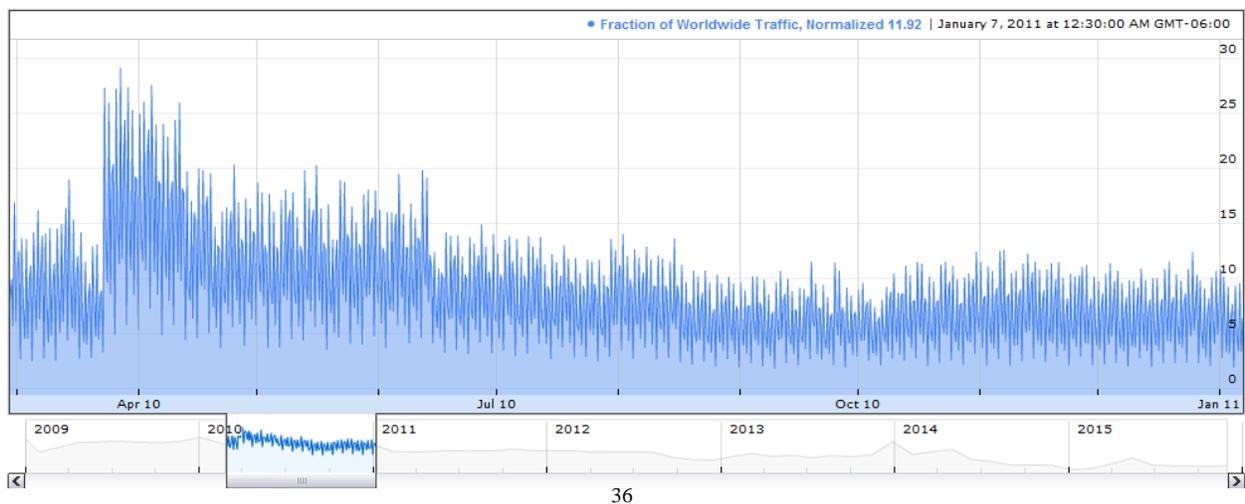
This enforced block of Google caused a huge loss of faith within the company towards the end of its tenure in China. On Google's website, the company has a tool that tracks the internet traffic from that particular country to Google products and services as a percentage of world-wide traffic. In order to observe the decrease in percentages as an overall trend, there are two graphs. The first graph exhibits the earliest data offered in Google's chart beginning in 2009 and extends to 2015. The second shows the reduction in Google's traffic within 2010 primarily after leaving for Hong Kong.

### Fraction of Worldwide Traffic, Normalized



Google Traffic from 2009 to 2015

### Fraction of Worldwide Traffic, Normalized



Google Traffic Within 2010 Beginning in March

While they are very different timeframes, the graphs show an underlying trend. Since the decision of Google to relocate to Hong Kong, there has been a sharp decrease in the amount of traffic to Google services within China. The first chart also indicates important moments that

<sup>36</sup> Google, "Google Transparency Report," <https://www.google.com/transparencyreport/traffic/explorer/?r=CN&l=WEBSEARCH&csd=12169656000&ced=1447734600000> (accessed 10/28/2015).

(Both Graphs are gained from this site. The only difference is the scale of time selected.)

may explain trends in the graph. The most alarming is point 3, which correlates to June 2, 2014. Brian Womack and Lulu Yilun Chen reported that this date corresponded with a crackdown by the Chinese government on Google services as the Chinese government was tightening controls ahead of the twenty-fifth anniversary of the Tiananmen Square massacre.<sup>37</sup> It is interesting to note that, after the date of June 2nd, Google's highest points barely reached 2% of all Chinese internet traffic.

### *Google Experienced Blatant Censorship and Possible Cyber-Attacks*

Direct censorship of Google's service preventing its service or leaving the product vulnerable played a critical role from the beginning of Google's entrance into the Chinese market as well as being the catalyst that pushed it to depart to Hong Kong. Prior to the creation of Google.cn in 2006, Google was still a notable contender within the Chinese market even if based in America, but this development of a substantial consumer base in another country would not last. As Andrew McLaughlin, a senior member of the policy counsel, explained in January of 2006, Google users within China prior to the creation of Google.cn were engaged in a "struggle." Experiencing an inexplicable interruption of service that occurred at least 10% of the time, the users lost faith in the service.<sup>38</sup> During this downtime, people attempting to access Google would find their service to be extremely sluggish, completely unable to access the Google homepage, or even directly rerouted to the homepage of Baidu.

Google could not explain to their users what the technological origin of these interruptions and redirections were, but as Steven Levy notes, Chinese users of Google did not

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<sup>37</sup> Brian Womack, and Lulu Yilun Chen, "Google's China Services Slow Ahead of Anniversary." *Bloomberg*, June 2, 2014, <http://www.bloomberg.com/news/articles/2014-06-02/google-s-china-services-slow-before-tiananmen-anniversary> (accessed 10/27/2015).

<sup>38</sup> Andrew McLaughlin. "Google in China."

particularly care. Without much thought or consideration, most of the Chinese users just assumed that some trivial action had occurred that was keeping them from accessing Google. Some even rationalized that the interruption of service had occurred only because an underwater wire had broken somewhere<sup>39</sup>. Although the absurdity of a single wire break causing the downfall of an internet giant may strike some as ludicrous, the result is the significant point. With these brief interruptions, the Chinese government had swayed many individuals to switch to the local Baidu with minimal effort. These interruptions were what pushed Google to decide to enter the Chinese mainland since they believed servers inside the company following China's regulations would lead to an improved, uninterrupted service.

These hopes would soon be tempered. As soon as Google moved into China and received a license in December of 2005, Google's progress was immediately halted. Claiming that they could not distinguish whether Google itself was an information service or a news corporation, Chinese officials voided Google's license to operate and once again hampered their services. While in the West this differentiation may mostly be insignificant, it is extremely important in China due to the laws that forbid foreign ownership over any Chinese news corporation. This debate within the government over allowing Google to run or not would turn out to be a lengthy battle taking until June 2007 for Google to be restored its full operating license. Kai-Fu Lee thought of this restoration of the operating license as both a positive and negative sign. The fact that the government had handled the issue privately between Google and itself instead of publically denouncing the company signaled a sign of faith in the company. On the other hand, the immediate appearance of a debacle between the two reminded the corporation of the scrutiny

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<sup>39</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 295.

it would face. If anything were to go wrong, Google would be punished severely.<sup>40</sup> In the end though, it would seem that the scrutiny would lead to harsh punishment and chastisement that would further encourage Google to leave the mainland.

*China Used Nationalist Rhetoric to Distance Citizens From Google*

The Chinese government occasionally used the media to chastise Google for not adhering to its regulations, but criticism remained constant before and shortly after Google left in an attempt to further sway public opinion against the Western company. Using similar nationalist rhetoric alluding to the "century of humiliation," (1839-1949), the government sought to create a rift between Chinese consumers and the foreign corporation. When rumors of Google's planned departure began to leak, some activists, such as Xiao Qiang, predicted that many Chinese would be outraged; however, they were instead outraged at Google. In outrage, those siding with the government asked, "Does it think it is still the era of 'Baguo lianjun' (the Eight Nation Allied Army)?"<sup>41</sup>

Lei Zhang's piece answers an interesting question: why would netizens of China side with a government actively working to limit their freedom to information? In response, she identifies the Chinese government's use of heavy handed rhetoric and confirms its status as the protector of China having the people's best interest in mind. By referencing this historical period, the Chinese government provokes a strong response from the constituency as the Chinese Communist Party played a pivotal role in turning around the Chinese nation. The Chinese government has, for so long, pushed the narrative of resisting foreign powers that there exists a popular saying, *dizhi waiqiang*, that explicitly means to resist foreign powers. By utilizing this political narrative

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<sup>40</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 295.

<sup>41</sup> Lei Zhang, "The Google-China Dispute: The Chinese National Narrative and Rhetorical Legitimation of the Chinese Communist Party." *Rhetoric Review* 32, no. 4 (2013): 455- 472.

associating the foreign corporation with the imperialist powers in China's history, the government encourages a patriotic, nationalistic response from the citizens that further isolates the foreign company.

By examining *People's Daily*, *China Daily*, and *Global Times*, Lei Zhang accurately characterizes the Chinese government's rhetoric as heavily against Google. Two days after Google's announcement to depart the mainland, the government took another swipe against Google by claiming that all companies could do business within China as long as they were in accordance with the laws. *People's Daily*, the mouthpiece of the CCP, published an article stating that Google was only attempting to use the Chinese government as a scapegoat for its personal failure. Additionally, other sources representing the government came forward stating that Google was participating in "informational imperialism." The government claimed that Google was a pawn of the United States seeking to transform China into a nation of Western morals and values.<sup>42</sup>

By analyzing *China Daily* and *Xinhua News*, it becomes apparent that the government and government-approved news agencies were in extreme opposition to Google's plan. *China Daily's* piece, "China Doesn't Need a Politicized Google," claims that Google has largely abandoned being a business and has become a political tool. The piece claims that Google must abide by the same laws in place for every business in China and, at the same time, makes a backhanded comment connecting Google's inability to localize to its failure to follow the laws. Finally, the piece makes the link that Google's primary motivation in entering the Chinese market in the first place was to act as a pawn of the United States.<sup>43</sup> *Xinhua News'* piece warns

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<sup>42</sup> Lei Zhang, "The Google-China Dispute: The Chinese National Narrative and Rhetorical Legitimation of the Chinese Communist Party."

<sup>43</sup> Zhang Jiawei, "China Doesn't Need a Politicized Google," *China Daily*, March 20, 2010, [http://www.chinadaily.com.cn/china/2010-03/20/content\\_9618252.htm](http://www.chinadaily.com.cn/china/2010-03/20/content_9618252.htm) (accessed 12/12/2015).

Google not to "politicalize" itself. The article starts by discrediting Google's claims of cyber-attacks from the Chinese government and ends by warning Google that it will be the largest loser if it maintains its politicized stance.<sup>44</sup>

While not affecting Google's actual service or ability to bring their product in this case, the Chinese government's actions sought to separate Google from its consumer base and possible supporters. Although initially many would wonder why people would support their access to information being revoked, the use of nationalistic rhetoric and references to Chinese humiliation at the hands of foreign powers convinced some netizens to oppose Google and push the Western company out. CNN Lara Farrar quoted a user of China's Sina portal who refused to be identified saying, "Most Chinese think business is business, and it should not be related with politics. The government will try to tell people that Google is too political and wants to try to force more human rights or democracy issues on China. In this case, most Chinese won't like Google."<sup>45</sup> In a NetEase chat-room, the mixed feelings over Google's departure created a vibrant discussion. While some lamented Google's departure as loss of competition and benefits for users, some also criticized the foreign corporation for attempting to tell the Chinese government how to do business. One user, 热门跟贴, was quite vocal on the issue saying, "谷歌只是商业企业, 无权对中国事务说三道四。能遵守中国法律, 中国无任欢迎, 不能遵守, 请另谋高就, 绝不强留。(Google is only a company, it has no authority to criticize Chinese affairs. Those who can comply with Chinese Law, China welcomes, those who cannot, please go somewhere else. We are not forcing you to stay.)"<sup>46</sup> While the message board does possess netizens upset about the

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<sup>44</sup> Meng Na, Li Yunlu, and Yan Hao, "Google, Don't Politicalize Yourself," *Xinhua News*, March 21, 2010, [http://news.xinhuanet.com/english2010/indepth/2010-03/21/c\\_13219289.htm](http://news.xinhuanet.com/english2010/indepth/2010-03/21/c_13219289.htm) (accessed 3/23/2016).

<sup>45</sup> Lara Farrar, "Google.cn: R.I.P. or Good Riddance?" *CNN*, March 26, 2010, <http://www.cnn.com/2010/TECH/03/26/china.google.reaction/> (accessed 4/23/2016).

<sup>46</sup> 热门跟贴, "话题: 外交部:谷歌事件属商业个案 不应政治化," *NetEase*, March 24, 2010, [http://comment.news.163.com/news2\\_bbs/62FPU62G000146BC.html](http://comment.news.163.com/news2_bbs/62FPU62G000146BC.html), (accessed 4/24/2016).

censorship, a noticeable portion of users seem aggravated that Google believed it could come to China and change how the Chinese laws work.

All of this outrage at a foreign corporation attempting to change Chinese laws is typical of the same outrage towards imperialist powers discussed in *China's New Nationalism*. While discussing the anger occurring after the Belgrade bombing, Gries discusses that Chinese identity itself is shaped by remembrances of China's "semi-colonial past."<sup>47</sup> Gries goes on to clarify that, in regards to international actions, the Chinese concept of *mianzi*, or "extra reputation earned through social accomplishments" is extremely important. He claims this concept applies to international action and is a primary determinant in how the Chinese government responds to criticism.<sup>48</sup> For this reason, whenever the United States is seen as being too firm or overreaching its boundaries, it and its citizens are characterized as bullies, who according to a writer for the *Beijing Review* "think they are the chosen people and have the right to teach others."<sup>49</sup>

In his chapter on the "century of humiliation," Gries discusses that this period of suffering has long been used to fit the needs of those in power. While initially the Maoist government attributed the pre-1949 hardships to the Qing Dynasty and Western imperialism, the narrative shifted slowly from a "victor" narrative to one of "victimization" at the hands of the West and Japan. This narrative shift results in a large amount of angst and anger towards Westerners as the victimization account inherently carries the implication that China's struggles have been caused because the West suppressed them.<sup>50</sup> This view altogether culminates in the

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<sup>47</sup> Peter Gries, *China's New Nationalism*, (Berkeley: University of California Press, 2004): 19.

<sup>48</sup> Gries, *China's New Nationalism*, 26-28.

<sup>49</sup> Gries, *China's New Nationalism*, 33-34.

<sup>50</sup> Gries, *China's New Nationalism*, 46-48;51.

opinion that, if one loses prestige in the international community (or loses face), they lose "the ability to pursue material goods."<sup>51</sup>

Examining Gries' work in light of the Chinese government's actions and Chinese netizens' reactions, one can see that Google's actions easily could be characterized as wanting to insert America's influence into China's authority over the internet. This point is especially true in light of Schmidt's statements on their initial reasons for entering the Chinese market. By clinging to the moral superior, Google immediately fit itself within the context of the Western "bully." This stereotype pushed Chinese citizens, whether they agreed with internet censorship or not, away from Google as it could easily be seen as purely an instrument of American imperialism. If the Chinese citizens supported a corporation who entered China solely attempting to spread the Western ideal of how to do things, the international community would perceive China as weak and inefficient in running its country. This result would be highly problematic as it would potentially hurt their ability to do business and prosper. For this reason, the outrage towards Google seems appropriate. If Chinese nationalistic feelings are produced from the context of a history of victimization, then it follows that a foreign entity attempting to chastise and correct the Chinese government will lose popularity.

#### **IV. Missteps Within Google's Business Model**

While censorship certainly played a role in Google's inability to best Baidu in China and subsequent decision to leave mainland China, it does not tell the full story; once one examines Google's path within the mainland, it becomes clear that flaws within Google's business plan and an inability to adapt quickly and efficiently also provide a significant explanation for Google's shrinking consumer base.

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<sup>51</sup> Gries, *China's New Nationalism*, 89.

## *Google Failed to Match Baidu's Ability to Innovate*

A key challenge facing Google during its brief time in China was its inability to beat Baidu in the category of "freshness." This failure is most evident in the creation of the application that many credit to launching Baidu's success, the MP3 portal.<sup>52</sup> As demonstrated within the previous section on what types of Chinese users prefer Baidu to Google, the researchers discovered that the consumer base of search engines in East Asia typically prefer to use search engines for entertainment related results as opposed to Western users that use search engines primarily for research or educational queries.<sup>53</sup> For a search engine to succeed within China, it must use innovative ways to bring entertainment to the user. Baidu accomplished this first in 2002 to 2003 when they created an MP3 portal, which provided users with quick access to music. Baidu struck first and gained a huge share of consumers as they flocked to a search engine that was responsive to their needs. Baidu also made their search engine overwhelmingly convenient by locating everything on the same webpage.<sup>54</sup>

Baidu's creation of an MP3 portal was a huge thorn in Google's side. Baidu's MP3 portal was allowed to function due to China's lax copyright and intellectual property laws. Google had difficulty responding because violations of Western copyright laws would substantiate the United States government's views that Google was working with China to violate Western law, much like other Western corporations that had previously violated human rights law by assisting the Chinese government.<sup>55</sup> Thus, Google was at a large disadvantage. Google did, however, work

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<sup>52</sup> So and Westland, *Red Wired: China's Internet Revolution*, 59.

<sup>53</sup> Tony D'Altorio, "The Number One Reason Why Google Failed in China... And It's a Big One," *InvestmentU*, January 28, 2010, <http://www.investmentu.com/article/detail/12977/google-fails-in-china#.Vvi5d3rRZL4>. (accessed 11/24/2015).

<sup>54</sup> So and Westland, *Red Wired: China's Internet Revolution*, 59;70.

<sup>55</sup> James S. O'Rourke IV, Brynn Harris, and Allison Oglivy, "Google in China: Government Censorship and Corporate Reputation," *Journal of Business Strategy* 28, no.3(2007): 12-22.

to create a competitor, both satisfying the Chinese consumers' demands for a music portal while not violating Western copyright laws, but its music application would only reach the market as late as 2009.<sup>56</sup>

Baidu later devised another new application that would further insert Baidu into the daily lives of the consumer. Noticing a trend in users that they wished to talk with one another whether it was just chatting or speaking on particular issues, Baidu responded by creating applications allowing straightforward communication, such as the messaging board application Tieba. This quickly became one of its most popular applications; in *Red Wired*, the author states that, close to the time of its creation, Tieba accounted for close to 14.5% of Baidu's total internet traffic.<sup>57</sup> This particular aspect was hard for Google to replicate as tougher scrutiny from the United States towards Western corporations assisting the Chinese government in human rights violations and the requirement that messaging boards keep all servers located within China under the Chinese government's discretion prevented Google from imitating Baidu's ever popular Tieba.

In most aspects, Baidu managed to out-innovate Google and to more effectively respond to the wants and needs of the Chinese consumer. In 2008, So and Westland noted that Baidu managed to offer a complete 56 applications to its users seeking to insert itself into every aspect of the user's life, but worldwide, Google only offered 43 applications, some of which (including the extremely popular Gmail and blogging services) were not offered in the Chinese market due to the pressure from the United States government and mandates of the Chinese government that the location of servers for all blogging and email applications must be within the mainland. While censorship may have played a role in preventing Google's ability to offer some

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<sup>56</sup> Jemima Kiss, "Google Ups its Chinese Game with Free Music Service," *The Guardian*, March 30, 2009, <http://www.theguardian.com/media/pda/2009/mar/30/google-digital-music-and-audio> (accessed 11/20/2015).

<sup>57</sup> So and Westland, *Red Wired: China's Internet Revolution*, 62.

applications or limit what could be created, the point remains that Baidu worked to offer more to the user, a large portion of which were geared towards entertainment or the lifestyle of the user.<sup>58</sup>

### *Google's Competitive Edge in the West did not Translate Effectively in Asia*

In the Western World, Google is synonymous with using a search engine for one reason: to most users, it seems to give the most relevant and accurate search results all within the confines of a clean and simply designed webpage. These two factors would not transfer to their East Asian markets. Google accomplishes providing effective and relevant results by utilizing its patented PageRank algorithm, which actually becomes more accurate the more sources present on the web.<sup>59</sup> However, this innovative and highly efficient system would falter in China. The main aspect dealing a substantial blow to the effectiveness of Google's PageRank is the amount of self-censorship the Chinese government would strongly suggest search engine corporations place upon their results. This self-censorship was problematic due to limiting responses to search queries.

Within *In the Plex*, Steven Levy offers additional insight into why PageRank faltered in the Chinese system based on his interview with one of Google's head engineers, Jun Liu. Hired in 2006, Liu was immediately tasked with identifying why PageRank, a proven commodity in the West, was not giving the same comparative advantages. While performing a comparative study of Google and its competitors' results, Liu realized that Google was producing substandard results for all recent pop culture events or figures. The algorithm was well equipped to deal with familiar and well-established queries, but the system had a difficult time establishing the importance to be associated with new search terms. Liu states that over a year and a half and

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<sup>58</sup> So and Westland, *Red Wired: China's Internet Revolution*, 61-62.

<sup>59</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 22.

around 80% of the focus during this time period was all spent recalibrating and rebuilding the infrastructure of the search engine code in order to more effectively handle new results. After the process was complete, their studies show that Google's results were far more accurate and relevant than Baidu's in all aspects, whether the query was new or established; however, at this point, it did not matter.<sup>60</sup> The Chinese citizens had made up their mind. Because Baidu handled searches for pop culture better than Google, the Chinese public was already convinced that Baidu was far more attentive to their needs and, therefore, the better search engine.

In terms of webpage design, Google also faltered within East Asia. Attempting to keep their trademark stylistic page, Google tweaked their search bar to receive Chinese characters, but it did not go as well as initially hoped. While the plain, simple box responds well to the English alphabet, the search bar could not adequately display Chinese characters often leaving parts hidden or obscured by the search box.<sup>61</sup> In response, Baidu wanted to create an easy method to both observe what was being searched for as well as not struggle with inputting the correct character or word. To do this, Baidu released a pinyin input system allowing users to type the pinyin of whatever phrase they wanted and the most accurate search phrase would display or allow users to correct the individual characters of the suggested search term.<sup>62</sup>

### *Nationalistic Tendencies Hurt Perceptions of Google*

A third reason for Google's inability to adapt to China's market was its difficulty in countering the perception amongst Chinese citizens that Google was a completely foreign company or hostile to China's interests due to Western ties. This perception is one that seemed to

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<sup>60</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 294.

<sup>61</sup> Zhao and Tse, "Competition in Search Engine Market," 15.

<sup>62</sup> So and Westland, *Red Wired: China's Internet Revolution*, 52.

stick despite the hiring of Kai-Fu Lee, an established businessman who had begun the Microsoft Research Lab in China, to lead the engineering operations of Google China. Baidu readily embraced this perception and emphasized it as part of its sales pitch how Chinese users took it as a point of pride to wholeheartedly support a Chinese company. In one of Baidu's popular commercials, Google and Baidu are depicted in a contest of wits. Google is characterized as a Western man with facial hair donning a top hat and western suit, while the representation of Baidu is clothed in bright yellow, traditional Chinese attire. Although the commercial exhibits Baidu as an extremely knowledgeable and fluent speaker, the man portraying Google, initially with a woman in a wedding dress at his side, consistently speaks as a man of low intelligence, butchering his pronunciation and easily being fooled into embarrassing himself by the depiction of Baidu. At the end of the commercial, Baidu has wooed the woman in the bride's dress away from Google as Google begins to spit up blood, possibly indicating its gradual death within the Chinese market.<sup>63</sup>

This depiction of Google as an unfamiliar foreigner was one that Baidu worked to perpetuate and the executives of Mountain View, California, did little to counteract despite Kai-Fu Lee consistently requesting funding for various marketing campaigns. Kai-Fu Lee believed that Google's inability to be viewed as the normal person's search engine, rather than only for those well-educated or well-versed in English,<sup>64</sup> was the lack of the penetration of advertising that Baidu's aggressive campaigns achieved. He noted that Baidu was involved in many aspects of everyday life for many citizens. If they used an ATM, the user would see an advertisement for Baidu at the home screen. Kai-Fu Lee even notes that Baidu was willing to pay big companies

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<sup>63</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 294.

<sup>64</sup> Tao Fu, and Kavita Karan, "How Big is the World you can Explore? A Study of Chinese College Students' Search Behavior via Search Engines," *International Conference on New Horizons in Education* 174, (2014): 2743- 2752.

like the hugely popular KFC to feature Baidu advertisements on their tray papers. Kai-Fu Lee wanted Google China to adopt this aggressive style marketing campaign, but the home office never approved the funding as it was so uncharacteristic compared to Google's typical marketing structure within the United States. Google was also unwilling to adapt to the typical customs of paying "red pockets" or small fees exceeding cab fares as payment to the local press for attending press conferences.<sup>65</sup>

Google's own business practices towards its own employees worked against its public image in China. In terms of Google's employment standards, employees are encouraged to utilize a fifth of their time at work to further develop Google's source code to create further products or applications. These "20% projects" are important because that they constitute such a large portion of the worker's time, but within Google China, there was a problem. Although various business figures came to speak to workers encouraging them to independently work on projects of their own choosing without having to ask for permission, Google China's leaders did not entrust the code to the Google engineers.<sup>66</sup> Claiming that there was fear of storing information within China since it would be subject to the Chinese government's demands, many executives claimed that the policy was not an indication of their thoughts towards the workers, but a policy of preserving autonomy in China; however, Alan Eustace, a Google executive overlooking Google China, stated that "it's not that I don't trust the Chinese engineers... It's the same engineers as here, who went to the same schools, but when you got to a place like China, there's lots of examples of companies where intellectual property has gone out the door."<sup>67</sup> Eustace sought to dispel suspicions that Google was treating Chinese engineers as second-hand

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<sup>65</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 296-298.

<sup>66</sup> Steven Levy. "Google and Its Ordeal in Ordeal in China." *Fortune* 163, no.6 (2011): 94-100

<sup>67</sup> Levy, *In the Plex: How Google Thinks, Works, and Shapes Our Lives*, 301.

employees by stating his opinion, but at the same time, he notes that, because of their location, he must be more careful. The growing tension within Google.cn was palpable. Chinese workers would not tolerate being treated as lesser employees for long. Ben Luk, a high level employee within Google China, claimed that, at times, the tension was so flagrant that, if Google did not grant access to the production code, there would be a riot.<sup>68</sup>

Additionally, differences in beliefs on how business should occur creates tension in Sino-American business relations. Randall Stross covers this disparity within his work. By utilizing American firms attending the Canton Fair in the 1970s, Stross depicts the dichotomy between being overly direct, which is the typical American way of business, and being overly polite when news may be disagreeable, which is the usual Chinese method.<sup>69</sup> Tocqueville's characterization of Americans as "natural, frank, and open" directly applies to their demeanor in business. While Chinese business is concerned heavily with ceremony and formality, the "shirtsleeves," laidback style of American businessmen created tension as the American businessmen would often offend Chinese individuals by accidentally showing disrespect when they were actually just being overly casual.<sup>70</sup> In the same way, these accidental offenses hurt Google within China. As the payments of "red pockets" to reporters is not a common American practice, this discrepancy alienated those who would be explaining Google's new applications and convincing other individuals to try them. Additionally, while the refusal to give the production code to the engineers may have seemed reasonable to the American executives in order to prevent possible corporate espionage, the Chinese workers received it as a gesture of great disrespect. It does, however, seem interesting that Stross notes that Chinese businessmen were advised to "protect

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<sup>68</sup> Levy, "Google and Its Ordeal in Ordeal in China."

<sup>69</sup> Randall E. Stross, *Bulls in the China Shop: and Other Sino-American Business Encounters*, (New York: Random House, 1990), 45-49.

<sup>70</sup> Stross, *Bulls in the China Shop: and Other Sino-American Business Encounters*, 226-227.

the country's secrets when doing business," which would make it appear as if being wary is understandable.<sup>71</sup> Altogether, Google failed to dismiss notions of it being overly foreign. It alienated its own workers, who ideally would be the first to defend its business.

## V. Comparison to Similar Cases

### *Google Compared to Other Western Businesses in China*

Through the examination of China's market for online shopping, an interesting parallel forms showcasing Western businesses' weaknesses in strategy when entering the Chinese market. EBay and Amazon, much like Google, are common household names in terms of online shopping; however within China, Taobao is an industry giant controlling roughly 80% of the online sales market in China.<sup>72</sup> To gain an advantage within the Chinese market, Taobao addressed one of the greatest wants of Chinese online consumers: ease of use. Taobao worked to create a function of their site indicating if sellers were online at the moment and to narrow results to only online sellers. In an effort to further streamline the process, Taobao provided an outlet for users to contact immediately online sellers through the included messaging application, WangWang. Through the survey within the periodical's study, this connectivity and ability to communicate so easily with sellers created a greater sense of trust and safeness of purchase with Chinese users. EBay had a potential outlet for contact, yet it was more complicated compared to the built-in WangWang of Taobao. For eBay users to contact sellers, they would have to check the profile for any additional contact information, and then users would have to download whatever messaging application the seller used, such as Skype or QQ. This streamlined system

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<sup>71</sup> Stross, *Bulls in the China Shop: and Other Sino-American Business Encounters*, 230.

<sup>72</sup> Yali Shen, James G.S. Yang, and Beixin Lin, "Current Status of Internet Commerce and Taxation Problem in China," *International Tax Journal* 4, Issue 2 (Mar/Apr 2014): 17-47.

attracted many to Taobao's increased ease as well as the ability to impulse buy since potential consumers could limit their results only to online sellers and immediately contact merchants. One interviewee in the survey responded that this level of direct communication within the service helps dismiss the fear of fraud often found with some merchants in the Chinese market.<sup>73</sup> According to *Forbes*, the Chinese public was also more accustomed to the type of direct purchases common on Taobao rather than the auction-style bidding wars prevalent on eBay.<sup>74</sup> Together, these points show that Chinese users preferred a simplified, efficient method of purchasing whatever goods they wanted free of fraud rather than participating in an auction.

Amazon has fared much better than eBay in China controlling around 27% of the market in 2013, but it still does not compare to the economic strength of Taobao.<sup>75</sup> Amazon has found moderate success due to its easy design and guaranteed safety of purchase; however, there are a few reasons it has not been able to best Taobao. First, Amazon was slow to launch within China. Amazon began its venture into China through the purchase of a developed online-bookstore, Joyo, in 2004. Amazon used this as a reasonable point to continue their Western business plan of selling their products, like the Kindle, for little above manufacturing and distribution costs and making most of their profits off of markup on the actual content. In China, this business model was shown to be extremely inefficient as piracy plagued the content market providing users no reason to purchase content through Amazon when they could obtain the content for free. In response, Amazon had to completely change their business plan to achieve higher profit on the e-reader with less concern of content profit. After releasing the Joyo brand and emerging as

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<sup>73</sup> Carol Xiaojuan Ou and Robert M. Davison . "Why eBay Lost to Taobao in China: the Global Advantage." *Communications of the ACM* 52, Issue 1 (2009): 145-148.

<sup>74</sup>Helen Wang, "How eBay Failed in China," *Forbes*, September 12, 2010, <http://www.forbes.com/sites/china/2010/09/12/how-ebay-failed-in-china/#5c2aaa157abf> (accessed 3/20/2015).

<sup>75</sup> Shen, Yang, and Lin. "Current Status of Internet Commerce and Taxation Problem in China."

Amazon.cn, Amazon had trouble securing approval for its wireless devices, which under Chinese regulations required approval from three separate governmental agencies.<sup>76</sup>

Many points of comparison emerge as direct parallels to Google's case. First of all, neither Western corporation directly adapted to the needs, wants, and fears of the market, thus leaving room for their competitors to capitalize upon. eBay, for instance, was unable to provide an integrated communications system to convince customers or users that their transactions had a higher rate of succeeding instead of being fraudulent. Google failed to adapt to the market in that Chinese consumers utilized search engines more in favor of entertainment results rather than for serious search queries. Additionally, these points exhibit an inability to provide greater freshness in a product. While Taobao was able to capitalize on the consumers' demands for packaged service, eBay only provided a space for sellers to list their contact information for other applications. Taobao had improved eBay's two-step process into a quick, efficient method that made the consumer able to shop safely on a whim.

In an article on Amazon's time in China, Justin Ren of Boston University addresses many of Western corporations' woes in China by claiming that many of the problems that plague Amazon are characteristic of a majority of large Western corporations in China. In his opinion, many Western corporations seek to enter the Chinese market with woefully insufficient knowledge of the business climate or particular requirements of the market different from those in the West. Ren compares the speed of change occurring in the automobile industry and electronic sector, such as e-commerce and by extension all business over the web, stating that, while experience in automobile production may transfer all over the globe, most businesses

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<sup>76</sup> Ana Swanson, "Amazon China: A Lightweight." *Cheung Kong Graduate School of Business*, January 14, 2015, <http://knowledge.ckgsb.edu.cn/2015/01/14/china-business-strategy/amazon-china-a-lightweight/> (accessed 12/2/2015).

dealing with the internet "don't really have time to understand the Chinese customer, and by the time they think they understand them, things have changed."<sup>77</sup> Additionally, Sun Baohong, a professor of marketing at the Cheung Kong Graduate School of Business in Beijing, states that many businesses that are just copying their successful Western business strategy struggle because they "refuse to act fast to the changing demand of Chinese customers... [and] don't know how to work with the government."<sup>78</sup>

In sum, these two comparisons indicate that the difficulties of navigating the Chinese market are not limited to Google. Instead, an inability or possible ignorance of the business customs of the Chinese market present a large stumbling block to most Western corporations looking to thrive in the Chinese market. Although Sun Baohong and Justin Ren underscore that Western companies have not had sufficient time or opportunities to become accustomed to the Chinese market, Kai-Fu Lee's struggle with the officials situated in Mountain View to turn around Google's woes provides a counter-explanation. Rather than being a case of ignorant foreigners not knowing the intricacies of business culture and the wants of the consumer, Kai-Fu Lee's experience and testimony suggests that the executives do not care enough to make all of the numerous, rapid changes to conquer a market as diverse and vast as the Chinese electronic market. Instead of aggressively adapting to the customs of business or advertisement strategy, Google allowed itself to lose to Baidu in the battle for users as well as passively accept the censorship without finding an effective path to fulfill the requirements of the Chinese government and needs of the netizen base.

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<sup>77</sup> Ana Swanson, "Amazon China: A Lightweight."

<sup>78</sup> Ana Swanson, "Amazon China: A Lightweight."

### *Google's Success in Other East Asian Countries*

While comparisons to other Western companies provide a picture of the business climate within a particular region and highlight the struggles foreign corporations may encounter in China, a comparison of a particular company within various countries throughout East Asia may further illustrate a flaw in the business plan of that company. Additionally, a look across various nations of the same region may potentially point out cultural obstacles that prove to be insurmountable for the foreign company. For this reason, I examine Google's track record in Japan and South Korea in order to further understand Google's struggles.

#### *Japan*

Within Japan, Yahoo has long been the dominant force. Yahoo Japan's success is starkly different from its American counterpart.<sup>79</sup> In fact, Yahoo's holdings of Yahoo Japan stock are considered by some to be one of their greatest assets. Within 2015, Yahoo Japan on average pulled 38.9 million unique users per month, while Google in Japan typically receives 24.9 million unique users per month.<sup>80</sup> This situation is reversed in the United States and many European countries where Google reigns supreme with Bing as the most formidable competitor.<sup>81</sup> Google fails to capture the Japanese market because, to many Japanese citizens, it is seen as less "Japanese" than Yahoo. This perception of Google as more foreign primarily stems from how Yahoo Japan began and created the synonymous connection between Yahoo Japan and being an inherently Japanese corporation.

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<sup>79</sup> Serkan Toto, "Why Yahoo Japan is Worth Nearly as Much as Yahoo," *TechCrunch*, August 23, 2008, <http://techcrunch.com/2008/08/23/3-reasons-why-the-internet-in-japan-is-ruled-by-one-single-company-yahoo/> (accessed 3/2/2015).

<sup>80</sup> Jun Hongo, "Japanese PC Users Favor Yahoo Over Google, Nielsen Says," *Wall Street Journal*, December 18, 2015, <http://blogs.wsj.com/japanrealtime/2015/12/18/japanese-pc-users-favor-yahoo-over-google-nielsen-says/> (accessed 1/2/2016).

<sup>81</sup> No author, "2015 Search Engine Market Share by Country," *Return on Now*, 2015, <http://returnonnow.com/internet-marketing-resources/2015-search-engine-market-share-by-country/> (accessed 4/23/2016).

Yahoo Japan began as a joint venture between Yahoo and the Japanese corporation Softbank in 1996, while Google arrived in the Japanese market in 2001. Softbank, a well-developed telecommunications company within Japan owned by Masayoshi Son, owns a majority of the shares in Yahoo Japan. This intrinsic connection to Softbank is invaluable to Yahoo Japan because it provides a large framework for Yahoo Japan to work off of, especially since Softbank makes Yahoo Japan the default start page for the 15 million users of its mobile internet service.<sup>82</sup> Softbank's large and already-developed infrastructure provided Yahoo Japan a better starting point compared to Google Japan, which was a corporation coming into a market as the challenger to the developed service of Yahoo Japan. In addition, Yahoo Japan and Softbank have worked to completely integrate much of the users' needs into a "one-stop shop" of sorts by creating a portal.

To this extent, Yahoo Japan even powers their own search engine by paying Google to power it for them. Yahoo's primary addition to its search process is the emphasis of entertainment options towards the top or sometimes interjecting unique results;<sup>83</sup> however, in additions to their own site, Yahoo Japan and Softbank have added various other services onto the initial portal, such as their own message boards, social networks, video sites, and news services.<sup>84</sup> Masayoshi Son, considered by many to be at the forefront of the internet industry within Japan, drives these innovations wholeheartedly in an effort to fulfill his plan of creating an internet version of the giant corporate skyscrapers that tower over various Japanese cities.<sup>85</sup>

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<sup>82</sup> Serkan Toto, "Why Yahoo Japan is Worth Nearly as Much as Yahoo."

<sup>83</sup> Motoko Hunt, "Who Does It Better: Yahoo Japan or Google Japan?" *ClickZ*, April 15, 2015, <https://www.clickz.com/clickz/column/2404179/who-does-it-better-yahoo-japan-or-google-japan> (accessed 10/15/2015).

<sup>84</sup> Serkan Toto, "Why Yahoo Japan is Worth Nearly as Much as Yahoo."

<sup>85</sup> Neel Chowdhury, "How Son Captured Japan's Internet Economy," *Fortune* 140, Issue 4 (1999).

Within the unique results Yahoo injects into the search engine, the article by Motoko Hunt exemplifies a key difference between Google Japan and Yahoo Japan. By searching for various keywords (headache, Hiroshima Toyo Carp the baseball team, and Okonomiyaki the dish), Hunt shows that, in spite of Google actually powering Yahoo Japan's search instead of Microsoft's search engine used by its American counterpart Yahoo Inc.,<sup>86</sup> Yahoo Japan still receives or prioritizes unique results. These results tend to be more colorful or flashy in order to draw the eye as emphasized by Hunt's use of headache as the search keyword.

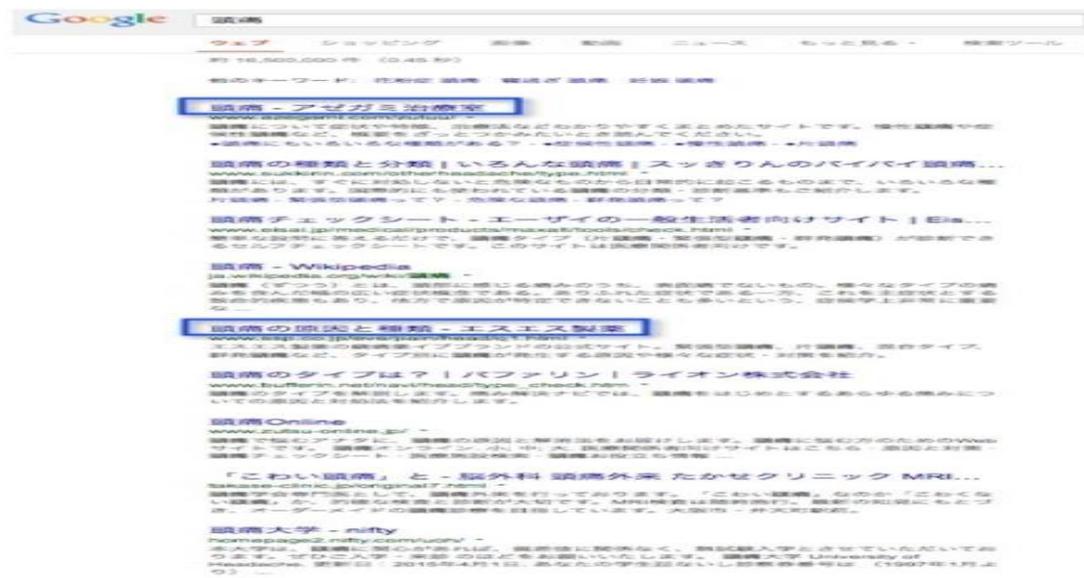
### Yahoo Japan Search of Headache<sup>87</sup>



<sup>86</sup> No author, "Yahoo Japan to use Google Search," *BBC News*, July 27, 2010, <http://www.bbc.com/news/business-10773532> (accessed 12/14/2015).

<sup>87</sup> Motoko Hunt, "Who Does It Better: Yahoo Japan or Google Japan?"

## Google Japan Search of Headache<sup>88</sup>



The two screenshots exhibited show the difference in Yahoo Japan's results and Google Japan's results. Although Google's technology is used to power both Google Japan and Yahoo Japan, Yahoo Japan interjects and weighs a few results differently in order to provide more eye-catching scenes compared to Google's web design, which seems typical of a research based website. Even on a topic as bland as a headache, Google's page seems stark and very bare, while Yahoo has various results included with bright pictures that intrigue netizens.

Throughout the narrative of Yahoo Japan, many parallels between its own path over Google in Japan and the success experienced by Baidu over Google China become apparent. First in their vision to consolidate all of the consumer's needs in one location, the two are identical. This idea of a web-portal being the main priority, rather than being solely a search engine, seems pivotal to the success of the two. Both companies exhibit a strategy that seeks to innovate within the market and capitalize on the wants of the user by creating applications that

<sup>88</sup> Motoko Hunt, "Who Does It Better: Yahoo Japan or Google Japan?"

meet these needs and by seeking to combine all of the applications in one centralized web location. In addition to the added focus and weight of search results on entertainment, these facts showcase that Yahoo Japan and Baidu had a large margin of success within their relative countries due to the knowledge and attention paid to the demands of their markets.

A second similarity is the emphasis on portraying itself as the native company and somewhat vilifying Google and other foreign competitors as the outsiders. By forming Yahoo Japan as a joint venture with his already well-established Japanese corporation, Son utilized his reputation as a tech-guru to lend credibility to Yahoo Japan. With a well known Japanese elite attached to the company in such an integral way, Japanese citizens can point to Yahoo Japan as a corporation firmly rooted within Japan, not necessarily a completely foreign corporation. Additionally, by utilizing the connections gained with Softbank's internet service and various infrastructure, Yahoo Japan could connect with customers that view it as a further extension of Softbank's services rather than its own standalone product.

### *South Korea*

Google's experience in South Korea is indicative of its struggles to claim a leading portion of the search engine market, but one that differs from that of its history in both China and Japan. Google in South Korea is eclipsed by the giant that is Naver. Naver addressed an issue that plagued internet users within South Korea: a dearth of South Korean websites existed. This problem meant that, if one lacked foreign language skills, getting results that could satisfy one's questions was difficult. To counter this, Naver created an initial system that would not only solve

the issue of lack of answers, but would also encourage interaction and socialization between users: a question-and-answer board.<sup>89</sup>

Becoming a more notable presence in early 2000, this novel idea of a message board became an extremely popular web destination. In fact, the board quickly grew to receive over 1,000 new questions a day.<sup>90</sup> Additionally, the company incentivizes users to answer effectively by grading users who answer anywhere from "commoner" to "superhuman." This tactic is increasingly effective due to the ability to showcase one's prowess and wealth of knowledge. As Lim Wonki put it, "everyone wanted to be God in cyberspace."<sup>91</sup> Naver thus urged users not only to find answers to the questions on their minds, but also to participate in answering other individuals' questions. By answering correctly, users could flaunt their knowledge and expertise by showcasing their status, especially those ranking as "superhuman."

By creating the question-and-answer board, Naver additionally made itself extremely exclusive and created a barrier to entry for other companies by ensuring that all the information and posts contained on their board were not accessible to competitors' search engine or web portal results. As Naver become a wealthier company, it continued this trend by buying the rights to various online material, such as encyclopedias or the rights to various videos, creating a need to use Naver to access certain material.<sup>92</sup> This method could force other search engines attempting to compete within the region to obtain or create other exclusive material or products, lest there be no actual reason to use another search engine in lieu of Naver.

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<sup>89</sup> Seongnam, "South Korea's Internet Giant: Now or Naver," *The Economist*, March 1, 2014, <http://www.economist.com/news/business/21597937-home-south-koreas-biggest-web-portal-has-thrashed-yahoo-and-kept-google-bay-now-its> (accessed 11/24/2015).

<sup>90</sup> Mandy Shin, "How Naver Came to Dominate Search in South Korea." *L'Atelier*, March 25, 2014, [http://www.atelier.net/en/trends/articles/how-naver-came-dominate-search-south-korea\\_428288](http://www.atelier.net/en/trends/articles/how-naver-came-dominate-search-south-korea_428288) (accessed 11/20/2015).

<sup>91</sup> Seongnam, "South Korea's Internet Giant: Now or Naver." .

<sup>92</sup> Seongnam, "South Korea's Internet Giant: Now or Naver."

Google has made improvements in South Korea. Google's presence within the search market tripled in the 2010-2013 period from 5 million in 2010 to 17.2 million in 2013.

Additionally, Google is succeeding in a newer facet of the search engine market: the mobile phone search engine market. Although its share of the PC search engine market was a meager 3.5% during 2014, the percentage of mobile users utilizing Google gives a positive outlook. Within the mobile community, Google in 2014 claimed 12.5% of the mobile search engine market, which the author accredited to the growing number of Western phones that may have Google already as the home page for searches.<sup>93</sup> Although the numbers are not astounding, it is something positive for Google, as it gives a greater foothold to rise from compared to a grim 3.5%.

In an article analyzing Naver's control over the South Korean market, Mandy Shin lists four particular reasons she believes Naver still maintains a firm grasp. First, Shin addresses the ability of Naver to inform users on what the most popular current trends in search are, displaying both the most common terms and trends that have been searched for in the past few hours. Secondly, Naver seamlessly integrates a social aspect into the news as it allows users to view the story, browse comments on the news in question, and even express whether they like or dislike the comments. These features add a social factor into the web portal as it incentivizes users to post their thoughts in hopes of garnering thousands of likes or the ability for their comment to go viral.

The third reason Shin lists is that Naver created a web-toon/web-novel interface that allows users to create their own works on whatever issue they would like and share them with the entirety of Naver. The popular comics portion can attain up to 30,000 ratings and over 10,000 reviews within half a day; Naver will often hire the most skilled comic creator. Within the web-novel aspect, Naver has allowed the program to monetize creating the opportunity for some users

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<sup>93</sup>Mandy Shin, "How Naver Came to Dominate Search in South Korea."

to make up to 10,000 U.S. dollars a month. Finally, Shin points to the all-inclusive aspect of Naver's portal as a reason for its success in South Korea. When a user searches on Naver, it pulls results from every aspect of the site on the page, whether that be advertisements, news, blogs, the search engine, or just related keywords that may offer a search similar, yet unique, to their original query.<sup>94</sup>

In sum, Shin's analysis and the article from *The Economist* strengthens the idea that Naver's aim with their web portal is to create an all-inclusive, one-stop shop that reduces the need of users to utilize any other search engine or web portal. By creating answers and content only accessible through Naver, the company creates a huge advantage as a potential first site for searching or entertainment. Additionally, the use of the all-inclusive search, the user ask-and-answer function, and the encouragement to make one's own content has been keeping users staying on Naver and keeping them from other sources. Even if the user only wants to potentially search for the answer to a simple question, the search results including all aspects of Naver's web portal and the addition of related keyword searches have the potential to get users spending hours on tangentially related topics all because of a flashy ad or interesting headline.

Although the cluttered aspect of Naver's search results is a detraction to some, many individuals maintain that Naver is the giant in South Korea simply because it understands what South Koreans want: more than a simple search engine. To this end, MVF Global Customer Acquisition as quoted by Maureen Gleeson states:

"All of the South Korean search engines appear more like portals and the homepages have a combination of images and user generated content, which suggest South Koreans prefer more than search. It appears that in the majority of cases it is only after using user generated content and blogs that the user will turn to the natural search results. Internet marketers need to be

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<sup>94</sup> Mandy Shin, "How Naver Came to Dominate Search in South Korea."

aware of these preferences and consider whether user generated content such as product reviews would be suitable for their chosen areas of internet marketing."<sup>95</sup>

This quote exemplifies the biggest potential hurdle for Google in South Korea. Google excels in the United States and many Western countries because its main service that the users want is a functioning and well-designed search engine; however, in South Korea and many other countries, simply excelling at the search aspect does not always put a company at the top of the pile. Instead, South Koreans seem to be focused primarily on integration, ease, and interaction with other users. This trend seems to echo Google's struggles within China as well, because Baidu is superior at innovating and cementing their brand into the users' lives. Much in the same vein, Baidu's flashier results in combination with its higher resemblance to a web portal rather than simple search engine may be a larger factor than anticipated as it seems that a high number of East Asian users prefer interaction over bland results.

In response to the recently improved numbers, the South Korean startup-tech platform, beSUCCESS, explains Google's success to innovation and a greater wealth of sources to use their leading search algorithm on. Google's recent success comes from the innovation and improvement of applications designed to increase the ease of the user, such as improving Google's voice search function. Additionally, the most-striking of these developments is Google Now, a personal assistant application that answers the user's question through a voice interface even making recommendations if applicable. The author also notes that the application brings other relevant information to the user.<sup>96</sup> This article indicates that Google may be embracing the

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<sup>95</sup> Maureen Gleeson, "Why Google Can't Dominate Search in South Korea," *Oban Digital*, January 30, 2015, <http://www.obandigital.com/gb/blog/2015/01/30/why-google-cant-dominate-search-in-south-korea/> (accessed 12/15/2015).

<sup>96</sup> No author, "Google Korea Searches for Deep Truths About its Poor Showing, and finds Answers?" *beSUCCESS*, January 16, 2014, <http://besuccess.com/2014/01/google-korea-searches-for-deep-truths-about-its-poor-showing-and-finds-answers/> (accessed 12/15/2015).

more connected aspect of a web-portal type service, yet still keeping its brand primarily associated with the search application.

Japan and South Korea's cases provide an interesting first look into Google's experience in other East Asian nations. Although Google experienced significant roadblocks in the form of censorship and governmental opposition in mainland China, this pushback is practically non-existent in South Korea or Japan, yet its market share of East Asia is still relatively small in comparison to its success in Europe and North America. Google even had a harder time grasping the Korean market than the Chinese one, yet there existed no governmental censorship. While Google China's main obstacles were consumer tastes and governmental opposition, Google faced a very different barrier in Korea: a scarcity of sources to apply its algorithm to. Although the two present radically different circumstances, the one common factor in Google's shortcomings is Google's inability to grasp the wants of consumers in East Asia. For further insight, Taiwan and Hong Kong can provide additional cases to determine the shortcomings in Google's East Asian business plan.

#### *Taiwan and Hong Kong*

Despite a relative paucity of sources, those relating to Google's fortunes in Taiwan and Hong Kong present some interesting parallels that can add insight and valuable comparisons to the case study. At first glance, many of the sources indicate that Yahoo is winning in Hong Kong and Taiwan, yet according to Alexa, an analytical website that provides a ranking of the most popular websites by country, the 2015 statistics indicate a shift in favor of Google in Hong Kong.

<sup>97</sup> Taiwan's page additionally reveals that Google has taken over as the dominant search engine.<sup>98</sup>

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<sup>97</sup> Alexa.com. "Top Sites in Hong Kong." <http://www.alexa.com/topsites/countries/HK> (accessed 12/12/2015).

<sup>98</sup> Alexa.com. "Top Sites in Taiwan." <http://www.alexa.com/topsites/countries/TW> (accessed 12/12/2015)

While a scarcity of sources leaves this overtaking without full explanation, scouring through sources, one can find numerous opinions on why Yahoo initially was the major site in these regions, and these opinions echo reasons listed as for other sites dominance in East Asian cyberspace. In an interview by Thomas Crampton (a global news and social media specialist), Ivy Wong, who claims to be Yahoo Hong Kong's first employee, details the reasons she believes Yahoo Hong Kong has succeeded over Google Hong Kong. Yahoo in Hong Kong initially bested Google primarily due to its firmer grasp on fully embracing localization. In this aspect, Wong continues to say that Yahoo made it a top priority to hire local people, not only to gather a reputation as a local business, but also as a means of ensuring a connection to what the Hong Kong users want. Secondly, Yahoo Hong Kong developed the local version of Yahoo News while in partnership with "local content providers" so that they may best organize news stories and write their own stories based upon what the citizens of Hong Kong want to read.

In a more technical aspect, Yahoo Hong Kong tailored its search to be more in tune with local culture. To give an example, Wong discusses that, if one were to use Google back in her time at Yahoo to search for the term "cookies, one would get results only of the baked goods; however, if Yahoo were instead utilized, it would return results not only for the dessert, but also for the local female band of the same name. Lastly, since Crampton began the interview by listing more regions where Yahoo was besting Google (such as Taiwan), Wong states that she believes Yahoo is better than Google at providing services and localized tools, such as more expansive blogging or auction add-ons depending on the region's wants.<sup>99</sup> Google's growing success may also have to do with the decision in 2010 to relocate its Chinese headquarters to Hong Kong. Due to Hong Kong's relaxed sanctions and internet security controls because of the

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<sup>99</sup> Ivy Wong, "Ivy Wong: 4 Reasons Yahoo Beats Google in Asia," interviewed by Thomas Crampton. June 3, 2008.

one country-two systems framework, Google boost in users may be due to the fact that it can offer an uncensored search engine for users seeking a search engine with a Western feel.

Although Google may now be drawing the most visitors according to alexa.com, Yahoo was previously the major search engine powerhouse in Taiwan for the same reasons it had succeeded in other East Asian markets. In a 2011 analysis of why Yahoo was besting Google in some East Asian markets and specifically Taiwan, James Hill, a representative of the Institute for Information Industry of Taiwan, provided various reasons for Yahoo's powerful grasp of the market. First of all, he states that, for many Taiwanese citizens, using Yahoo was a move of habit rather than conscious choice due to Yahoo's acquisition of Kimo. Kimo, one of Taiwan's largest web portals,<sup>100</sup> was acquired and incorporated with Yahoo in 2001 giving Yahoo a staggering lead in the region. After the acquisition, Yahoo Kimo, the combined corporation, decided to take Kimo's headquarters in Taipei and initially had around 180 employees.<sup>101</sup> At this point, Yahoo integrated all Kimo emails into the Yahoo mail system, which brought over a significant portion of the established user base.

Secondly, Hill points to the better integration and superior set-up of Yahoo's shopping service, Yahoo! Stores, as an alluring factor for the web giant, since online shopping capabilities are extremely important to the Taiwanese consumer. In his third point, Hill discusses the concept of fengfu 丰富, or abundance, in Chinese culture and how it is translated into the demands of search engine users. Using a screenshot of Yahoo Taiwan's homepage, he illustrates that the

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<sup>100</sup> James Hill and Jon Russell. "Why Yahoo! - not Google- Rules Taiwan's Webpace," *Asian Correspondent*, May 25, 2011, <https://asiancorrespondent.com/2011/05/focus-on-taiwan-where-yahoo-not-google-rules-the-countrys-webpace/> (accessed 12/15/2015).

<sup>101</sup> Terho Uimonen and Stephen Lawson. "Yahoo Finalizes Kimo.com Acquisition," *IT World Canada*, February 26, 2011, <http://www.itworldcanada.com/article/yahoo-finalizes-kimo-com-acquisition/29848> (accessed 12/12/2015).

apparent "business" of the page to Western users is actually interpreted by many Taiwanese users as possessing more interesting and greater content.<sup>102</sup>

## Screenshot of Yahoo Taiwan's Homepage

The screenshot displays the Yahoo Taiwan homepage with a navigation bar at the top containing links for Home, Mail, News, Stock, Weather, Sports, Movies, Entertainment, Flickr, Shopping Center, City, Auction, and More. A search bar and login/register options are also present.

The main content area is divided into several sections:

- News:** Features a large article titled "勞退試算錯10年 勞動部認了" (Labor Retirement Calculation Mistaken by 10 Years, Labor Department Admits) and other news items like "最新! 八仙塵爆承辦機座猝逝" and "何時簽約? 鴻海夏普發聯合聲明".
- Shopping:** Includes a "超級商城" (Super Mall) section with various product listings such as clothing, shoes, and accessories.
- Entertainment:** Promotes shows like "琅琊榜: 全劇線上免費" (The Legend of Miyang: Full Series Available Online for Free).
- Travel:** Offers travel deals under "旅遊專區" (Travel Special Area), including packages to Japan and other destinations.
- Hot Topics:** A "熱門" (Hot) section featuring an article about a 40-year-old woman, "40歲林心如長這樣太逆天! 7張照片看驚人逆生長" (40-year-old Lin Huiyin looks so young! 7 photos show incredible anti-aging).

On the left side, there is a vertical menu with categories like News, Auction, Stock, Finance, Sports, Entertainment, Movies, Music, Games, and more. On the right side, there are sections for "旗艦專區" (Flagship Area) and "優惠特區" (Special Offer Area).

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<sup>102</sup> James Hill and Jon Russell. "Why Yahoo! - not Google- Rules Taiwan's Webspace."

<sup>103</sup> "Yahoo Taiwan Homepage." Tw.Yahoo.com.

## Screenshot of Google Taiwan's Homepage



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From these screenshots gathered, it is quite easy to see Hill's point illustrated. Yahoo Taiwan offers a content-rich homepage immediately as the users receive a range of applications, which can include anything from local news to shopping offers. In contrast, Google's page is quite stark offering the main search box as the primary focus of the page in addition to their signature logo that may change based upon special occasion. Hill claims that these "doodles" do not draw in the Taiwanese users as much as the crowded homepage.<sup>104</sup> He also echoes a point made by Wong about the Hong Kong market that Yahoo Taiwan more clearly and effectively localized the search engine product by taking local culture and terms into mind. Hill claims that Yahoo Taiwan more effectively utilized linguistic nuances varying between Taiwan and mainland China.

<sup>104</sup> "Google Taiwan Homepage." Google.com.tw.

<sup>105</sup> James Hill and Jon Russell. "Why Yahoo! - not Google- Rules Taiwan's Webspace."

For instance, he uses the example of micro-blogging. While in the mainland it is phrased "wēibó (微博)," micro-blogging in Taiwan is typically phrased as "wēiwǎngzhì (微网志)." While the difference may appear subtle to some, Hill claims this lack of localization and knowledge of local culture actually created a feeling of alienation for some Taiwanese users. This superior knowledge packaged with superior products, such as Yahoo! Knowledge that provides users with answers to questions, gave Yahoo the appearance of greater quality of product.

Lastly, Hill states that Yahoo's co-founder had much to do with Yahoo Taiwan's appeal and success within the area. Jerry Yang is a Taiwanese American, who Hill claims has a vast knowledge of the Chinese market.<sup>106</sup> This point helps solidify the fact that many Taiwan users may identify with using Yahoo Taiwan as it is more of a Taiwanese tool than Google, which was a latecomer to the market. Additionally, Yahoo Taiwan worked to solidify this view as intrinsically connected to the Taiwanese public with its 2006 purchase of the extremely popular blogging and image publishing site, Wretch. The deal brought Wretch under the Yahoo Taiwan brand connecting one of the most popular sites of the late 2000s to Yahoo Taiwan.<sup>107</sup>

Hill's analysis of the Taiwanese market, while dated to 2011, gives a view into why Taiwan was dominated by Yahoo Taiwan. Although Google may have taken over as the most visited website for Hong Kong and Taiwan, these cases offer important insight as they echo many of the points that apply to Google's shortcomings in China, Japan, and South Korea. Google succeeds at providing an effective search engine; if it did not, it would not be getting paid to provide search results and advertisements for its competitor, Yahoo, in some areas, such

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<sup>106</sup> James Hill, and Jon Russell. "Why Yahoo! - not Google- Rules Taiwan's Webspace."

<sup>107</sup> Dan Nystedt, "Yahoo to Buy Taiwan Blog Site Wretch," *InfoWorld* December 15, 2006, <http://www.infoworld.com/article/2658783/applications/yahoo-to-buy-taiwan-blog-site-wretch.html> (accessed 12/2/2015).

as Taiwan and Hong Kong.<sup>108</sup> Google's shortcomings in Hong Kong and Taiwan are primarily due to the company itself not accurately grasping the wants of the local consumer base or how best to connect with the netizens present.

*Analysis of Google's Record in Other East Asian Markets*

Altogether, the comparisons between Google's struggles to take a majority share in the other East Asian markets, while not as exaggerated or worrisome for the company as their situation in mainland China, do expose some problems within Google's own business strategy without the compounding element of censorship. In reference to the four determinants listed previously in the paper (ease, relevance, comprehensiveness, and speed), Google within South Korea, Japan, Hong Kong, and Taiwan fails to create a substantial reason for it to be the greater choice and pull a large majority from the established search engines, especially within Japan and South Korea.

Speed seems to be relatively stable across the choices as few sources mentioned connectivity issues as a problem. This creates a base situation different from Google's experience in China as the lack of interference in speed means that the greatest determinants are the other categories. This point also exemplifies that censorship, as it is the chief reason for Google's lack of speed within mainland China, is not a necessary condition for Google to fail, yet it is possible to be a large factor in a user's choice to primarily use a different search engine or web portal.

Compared to Google in China, Google's products in other East Asian markets would seem to experience a boost in comprehensiveness due to a relative lightening of censorship, but this is not the complete story. From the analysis of Google's foreign market presence, it appears

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<sup>108</sup> Todd Bishop, "Yahoo Reaches Search Deal With Google After Loosening Microsoft Ties," *GeekWire*, October 20, 2015, <http://www.geekwire.com/2015/yahoo-reaches-search-deal-with-google-after-loosening-its-ties-to-microsoft/> (accessed November 30, 2015).

that Google's lack of clear information on local culture and how to appropriately localize creates a barrier to comprehensiveness. Google's past inability to initially understand the nature of the market seems to have exacerbated the existing obstacles; this is especially evident in the case of South Korea. As South Korea had a known lack of South Korean web pages and search results, Naver's choice to create more pages through their knowledge sharing service fulfilled an excellent answer to the existing problem. Counter to this, Google's choice to enter the market without a clear plan to access Naver's immense number of pages created an inferior product. South Korea's Google could function and pull up the few existing South Korean pages, yet due to the scarcity, it rarely produced meaningful results compared to Naver.

Secondly, in the aspect of comprehensiveness suffering, Google's inability to accurately take local culture into account when searching may have played a role in turning users to other search engines that they felt better understood the local market. Wong's example of using a search engine to look up "cookies" as the girl band and the use of unfamiliar terms such as "微網址" created a drop in comprehensiveness as users may feel discouraged that the result does not immediately show up. These examples also create a feeling of alienation as the user may believe the search engine is not appropriately suited for use by an individual of their country if the company cannot even acclimate to the local culture and provide relevant results to popular queries.

The two above points provide a segue into discussing Google's relevant lack of ease experienced in these markets as well. As the various versions of Google for these markets were not aptly and fully customized to take local customs and language into account, the user would experience a drop in ease. The user would have to use overly specific keywords to obtain the

same results a search engine more geared towards local netizens, like Naver or Yahoo in East Asia, could obtain with fewer terms. These other options created a more intuitive experience for the user with less effort required on their part to retrieve the relevant results. Relevancy as a whole would be quite comparable across the board unless it came to issues dealing with local culture or differences in slang. Additionally, relevancy may have taken a hit in South Korea due to the fact that there were a low amount of sources to draw from.

Another point that relates to Google's relative failure within these countries (although the evidence seems to point to Google being number one in Hong Kong and Taiwan even if only by a miniscule amount of visitors) is the amount of information and content that various websites like Naver and the versions of Yahoo would offer all within their homepage. The East Asian users seem to prefer more of a web portal based service rather than simply a search engine. Connecting this back to the four characteristics, this aspect correlates to an increase in both comprehensiveness and ease. By having everything from shopping to local news to current issues being searched about all within the homepage, these other companies seek to connect users and provide them with a wide variety of tools and content to choose from immediately. The vast offerings serve a double purpose as it can keep users on the website and keep them from using other websites by connecting them to issues, stories, or items in which they may be particularly interested. If the market prefers entertainment and shopping based content, the starkness of the Google homepage may easily be bested by a web portal offering tons of content all from the same screen.

In short, Google's track record in these other East Asian nations exemplifies that the corporate giant does stumble without governmental interference. Its own business plan and understanding of markets can appear to be so inherently flawed at times that it fails to overtake

the entrenched corporations already succeeding in the area. By failing to address adequately the needs of the market, Google fails to make much headway in the East Asian markets. Users prefer the multiple, better-localized companies that integrate them into the community and offer a multitude of information and entertainment options within the same initial page. The users prefer the immediate convenience of various web portals compared to the starkness of Google.

## **VI. Analysis of Google China and Conclusion**

After analyzing various Western corporations in China, Google within East Asian markets, and most importantly, factors impeding Google's success in China, the reasons for Google's failure within China becomes much more apparent. Although some may claim that Google failed primarily due to China's censorship, the issue is not so cut-and-dry. Instead, many nuances come to light that offer explanations for why Google struggled to best Baidu, and although censorship certainly did play a substantial role in Google's failure, it was greatly assisted and possibly even matched by failures by Google to address the needs and wants of the Chinese market.

Without a doubt, it is impossible to fully discount censorship as negatively affecting Google's chances to succeed within the Chinese market, but it was not always Chinese laws and regulations that hampered Google. The Chinese government's strict laws on the location of servers forced Google into a tight spot as it decided it could not place servers into the mainland lest it be forced to hand over all records the government requested. After the U.S. government made its stance known on Western companies turning over Chinese dissidents' information, Google decided not to place its servers in the mainland and, because it did not possess the

appropriate servers, not to offer mailing or blogging services. Additionally, the United States' copyright laws bound Google to laws that Baidu did not have to follow.

Regarding the above facts, Google's identity as a Western corporation hindered its ability to offer various services inherent to the evolving World Wide Web. As blogging, mail, and online music became extremely popular, Baidu's comprehensiveness and ease of use skyrocketed while Google seemed to offer less and less to the Chinese public. Obviously, the direct downtime as a result of tampering by the Chinese government affected speed and forced censorship affected comprehensiveness of the results, yet it was Google's identity as a Western corporation and the pressure placed on it by the United States' government that actually forced it to take the hit to comprehensiveness and user friendliness. Baidu could produce similar search results while providing a multitude of connected tools and services. Google's advantage was a greater connection to Western information and a notice that some information was being withheld from the results.

Although Google was held back due to attempting to appease the Chinese government and attempting not to anger the U.S. government, the issue still stands that Baidu was more innovative than Google. Earlier in the paper, the figure 56 applications is used to describe the offerings of Baidu while in the same year Google offered only 43, some of which were not available to the average Chinese user. Google's failure to innovate cannot be explained solely by the stipulations of the American and Chinese governments; it is an issue that has been shown to plague it in various East Asian markets. Google simply does not understand the market of some nations as deeply as other corporations at times, and because of this lack of understanding, other companies succeed in its wake, offering far more comprehensiveness, ease, and relevancy to the user. Through this analysis, these problems seem to be inherent in multiple Western corporations'

business plans. Localized East Asian firms appeared to do better because they have a firmer grasp on what the local citizens want in terms of applications and tools. These local firms also integrate methods or customs into their services that closer mimic the business practices or local behavior, such as the case in Taobao.

Google was inhibited by censorship. Unexplainable downtime and fighting with the Chinese government cast a shadow on the corporation and led many to view the company as a Western company coming to China to run a business the Western way and expect things to bend to its will. Google coming to the market before realizing that Chinese citizens primarily use the internet for entertainment-related issues without drastically changing its business plan exhibits a lack of research into the market on Google's account. Google's inability to adapt properly to the market and efficiently localize exacerbated the disadvantage already present due to inexplicable downtime and governmental interference.

Additionally, this ignorance of the market's wants and needs, whether accidental or just due to not caring to research the market, did little to stifle the growing resentment of Google as a foreign corporation that could not adequately address Chinese netizens' online needs. Google's own actions to not trust the engineers with the source code for the company-mandated extra projects alienated workers and created internal tension. By estranging workers and angering the government, Google did little to win supporters and allies. Baidu, on the other hand, capitalized on the situation working well with the government and even running advertisements depicting Google as a Western corporation out of touch with Chinese society. In this way, Google both lagged behind in most of the four determinants of search engine loyalty and fell prey to socio-political issues that alienated citizens resulting in Baidu creating a seemingly insurmountable lead.

Throughout this project, censorship did play an important role within the Google's relative failure within Baidu, yet it was not the sole cause as some would like to portray. Instead, through the analysis of its tenure in China, Google's tenure in other East Asian markets, and through various other Western companies' experiences in China, the reader can see that there does exist an inherent flaw in Google's business model for China. An inherent disconnect seems to have existed that kept the technology giant from having the same success it experiences in many of the world's largest internet markets. A fundamental disconnect exists in Google's strategy that seems to believe all users, regardless of market, use the internet as a primary means of research and information-seeking, yet it appears to be different in East Asian markets. These markets prefer the multitude of bells-and-whistles offered by companies such as Baidu, Naver, and Yahoo in East Asia.

Mistakes could have occurred in this paper due to the inability to properly gather sources accurately exhibiting the political and cultural climate of the internet market in East Asia, particularly China, yet the paper does offer a sound comprehensive view of the multitude of factors that affected Google's success within mainland China. Google's inability to out-innovate and out-localize the competition left Baidu with a superior sense of comprehensiveness and ease for the user while also creating applications that could capitalize on consumers' desire for entertainment. Various missteps by Google and conflicts with the government created a distancing by some users as the government utilized nationalistic pride to support domestic companies. All in all, while an extremely effective and ferocious competitor in the West, Google's failure in China seems to be indicative of reasons both in their control and outside of it. Censorship's role cannot be understated as an obstacle for Google to overcome, yet in the end,

Google's inability to realize the trends of the market intensified the gap leaving Baidu firmly in control of one of the most fertile and dynamic internet markets in the world.

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