

Chinese Firms Could Benefit From Microsoft's Loss in China

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By awarding software contracts to six Chinese vendors, including Red Flag, the Beijing municipal government builds momentum for Chinese vendors and the Linux operating system while rejecting Microsoft.

NEWS ANALYSIS

Event

On 28 December 2001, the Beijing municipal government selected several vendors to provide operating system (OS), office automation (OA) and antivirus software for government PCs acquired without copyrighted software. Beijing selected only Chinese companies, including Red Flag (for its Linux OS) and Kingsoft (for its WPS Office OA product). Microsoft, which was among the seven vendors that bid for the contract, was the only one not selected.

Analysis

These results indicate China's determination to support Chinese software vendors. Beijing's choice of indigenous vendors will likely boost the domestic OS, OA and other software markets.

Beijing's decision to ensure that copyrighted software is being used marks a significant step in China's effort to protect intellectual property, which it agreed to do when it entered the World Trade Organization. Other actions, such as destroying pirated audio, video CDs and software products, also reflect China's determination to protect intellectual property. However, the full adoption and implementation of this policy around the country will take time due to China's vast territory, highly decentralized government hierarchy and long-established custom of using low-priced pirated versions.

Gartner believes that Microsoft's failure to win this particular bid is indicative of the challenges that multinational companies face when doing business in China — issues such as unique deal negotiation processes, and the criticality of building ongoing relationships with key parties, such as the Chinese government. These issues aside, the key factor has been the Chinese government's support of indigenous vendors, such as the Chinese Academy of Sciences' development support of Red Flag's Linux OS.

Apart from government support, the adoption of Linux in China largely depends on some strong external factors, such as the applications that run on Linux, training and education capabilities, purchase and maintenance costs, and support service levels. So far, Linux holds only a slight market share compared with Microsoft's offerings and represents a sensible deployment platform only in certain environments, such as entry-level and edge-of-network server implementations. For mission-critical functions, Linux still needs to catch up, and Chinese enterprises should ensure that applications running on Linux can meet their business requirements. Chinese firms should take this opportunity to seek additional discounts and other incentives from Microsoft, for whom China represents an important market.

Analytical Source: Louisa Liu, Enterprise Network Strategies Pacific

Need to Know: Reference Material and Recommended Reading

- "IT Layoffs Show Global Economic Woes Touching China" (E-14-9902). The global economic downturn has finally surfaced in China, and enterprises should take advantage of favorable deals on IT. **By Louisa Liu**
- "Drivers and Barriers in China's B2C Market" (COM-13-9715). Enterprises considering investments in China's consumer e-commerce market should know what factors inhibit and drive its growth. **By Louisa Liu**

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