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Apple Struggles With Chinese Checkers

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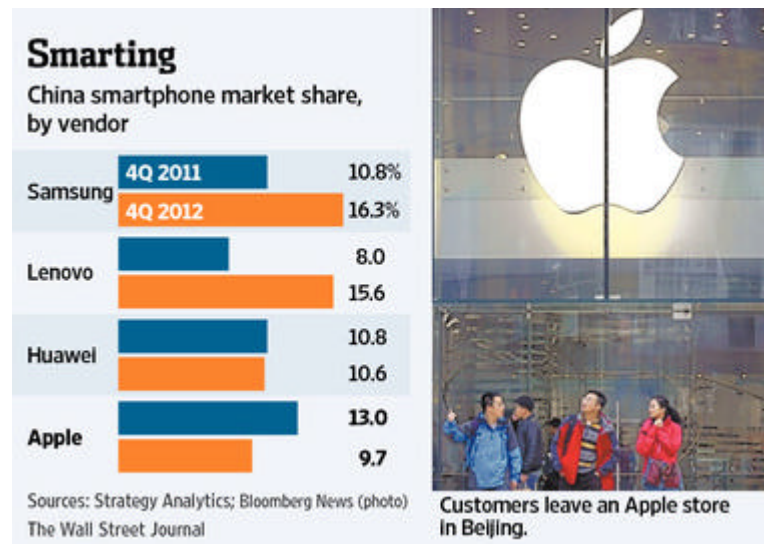
Despite its seeming invincibility, even [Apple](#) [AAPL_+0.04%](#) may struggle to climb the Great Firewall of China.

China is Apple's main growth market. In the quarter ended in December, China accounted for 13% of Apple's revenue, and Chief Executive [Tim Cook](#) has said he expects it will become Apple's largest market. Shareholders anxiously await a deal with [China Mobile](#), [0941.HK_+1.29%](#) the world's largest wireless carrier by subscribers, to officially carry the iPhone.

Yet a string of criticisms and proposed regulatory curbs suggest Apple's trajectory in China may deviate from the cosmic course many expect.

The latest came in Wednesday's edition of the People's Daily. An article included Apple in a list of websites and app stores that have been investigated for providing pornographic content in China. This comes a month after Apple was attacked by China Central Television over its iPhone warranties, prompting an apology from Mr. Cook.

Then there is a proposed law that could give the Chinese government more control over apps and put new standards in place that may force companies to help the government track users.



Why does Apple suddenly find itself in the cross hairs? The proposed law suggests the Chinese government is wary of the growing power of a company whose smartphone "ecosystem" Beijing doesn't control.

This would fit a pattern. [Facebook](#) FB_+0.62% is a "walled garden" of content that is blocked to Chinese Web surfers entirely. Twitter is, too. And then there is [Google](#) GOOG_+4.68% which, in effect, kicked itself out of China's mainland search market after refusing censorship demands.

Ironically, Google's Android mobile operating system dominates the smartphone market in China, despite the company's strained relationship with the government. But those devices don't come with Google services that are standard elsewhere, such as YouTube, search, and Google Maps. Also, without access to the Google Play store, Chinese users have a weaker selection of apps to choose from.

Apple is famous for the control it exerts over so many aspects of its devices, including the apps available to users. This is a big part of the iPhone's appeal: Apps just work and are largely free of bugs or malicious code. Mr. Cook will be in a tough spot if, for instance, Beijing requires Apple to alter its services in a way that lends itself more easily to government control.

Not that China is exclusively focused on Apple. A Chinese government research institute said in March that the country is too reliant on Android and that local manufacturers should have more control over it.

One issue Beijing must deal with, though, is that iPhones and Android devices are popular for a reason. And Chinese consumers will grow more attached to them over time, especially as there are few good alternatives today. Curbing Chinese consumers' access to such technology would likely cause grumbling across the country, something the government has historically been keen to avoid.

Still, any adversity for Apple and Google in China could spell opportunity for local smartphone makers like [Lenovo](#) [0992.HK_+9.46%](#) and Huawei Technologies. Together, these two had about 26% of China's smartphone market in the fourth quarter of 2012, estimates Strategy Analytics.

Foreigners [Samsung](#) [005930.SE_-0.54%](#) and Apple had 16% and 10%, respectively. [Hewlett-Packard](#) [HPQ_-2.47%](#) offers a cautionary tale here. Its share of China's personal-computer market collapsed after it came under fire from state media in 2010 over product quality. Lenovo's market share increased sharply.

Apple's reputation, and huge valuation, rests on its ability to create new markets that it then dominates. China won't necessarily fit that model.

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