



Last year, China's economy grew by 9.5%, its highest rate for eight years. In such a climate, China's production of computers is growing at phenomenal speeds. While in

1995, China produced just \$5.6 billion worth of computer hardware, by 2003, this figure had jumped to \$59 billion, bypassing Japan to become the global number two computer manufacturer.

China's number one computer manufacturer, Lenovo, recently announced a \$1.75 billion deal with IBM, to buy its PC hardware division. This deal will make the division the third largest PC vendor in the world.

At present, most of the IT industry is run by multinational companies – and most particularly Taiwanese companies – who are using China as a low cost platform for their Asian or global production.

Foreign investment is being supported by the Chinese government through initiatives such as tax breaks and provision of land, housing, infrastructure and worker training.

Yet the government is increasingly focusing on the development of domestic technologies and standards and on the promotion of national firms. In particular, software has become the focus point of the latest government policy, with China seeking options in the computing platforms available in order to avoid the situation in the West where Microsoft and Intel

dominate the market. As a result, the Chinese government sponsoring various initiatives based on open-source technologies, such as the Linux operating system. One initiative is based on its own procurement rules, whereby government offices, universities and certain other companies are required to use open-source systems.

The government has also backed a local company, Red Flag Linux, which was co-founded by the Chinese Academy of Sciences and is funded by the Ministry of Information Industry. Red Flag is due to launch a local version of Linux, Asianux 2.0, in July, in collaboration with Japanese and Korean partners.

Further initiatives include foreign companies: in October 2004, STMicroelectronics announced a partnership with China's Ministry of Science and Technology to develop Linux-based microprocessors.

However, it remains unclear whether the government's promotion of such software is finding support among consumers. According to research undertaken by the University of California, Irvine, many agencies are purchasing hardware with Linux systems, but then removing it in favour of Windows. Furthermore, until now, there have been few Chinese applications that run on Linux, making it unappealing to consumers.

The Europe Japan Centre specializes in conducting research in the Asia Pacific region. With a large network of associates throughout the whole region, we offer high-quality, local and personalized research services at competitive prices.