

Microsoft's Yahoo Gambit

By Michael S. Malone

SUNNYVALE, California—Yahoo, be coy, but take the Microsoft deal.

Microsoft's interest in buying Yahoo had been rumored for so long that when the bid—\$44.6 billion—was finally made last week, it managed to surprise just about everyone in the high-tech world. With merger rumors fading and Yahoo slumping, it was generally assumed that cofounder and CEO Jerry Yang and his team were hunkering down to cut their losses with layoffs and then embark on a major re-organization.

Microsoft's offer has changed everything. Within minutes after the news broke, the mainstream media and the blogosphere were on fire with speculation on what it all meant. Here in Silicon Valley, and other high-tech enclaves around the world, the debate was a welcome respite from the increasingly depressing news that always accompanies the industry's quadrennial slide into recession.

The announcement also brought to the surface a lot of old emotions, including Silicon Valley versus Seattle, corporate capitalism versus entrepreneurship—but most of all, the fear of Microsoft as an unstoppable force crushing all competitors before it. Pundits instantly started asking if the feds would even allow such a merger. Meanwhile, at Yahoo's photo-sharing subsidiary Flickr, members are throwing a collective (and characteristically clever) tantrum about being handed over to their new overlords.

The low point came on Sunday when David Drummond, Google's senior vice president and chief legal officer, darkly summoned the ghost of Microsoft past. "Could Microsoft," he asked ominously on the company's Web site, "now attempt to exert the same sort of inappropriate and illegal influence over the Internet that it

did with the PC?" He was dangling the bait in front of the Federal Trade Commission to see if it would nibble—all while conveniently ignoring the fact that if there is any monopoly at work in the digital world these days, it is Google's absolute dominance of Internet searches. Its market share surely equals IBM in computers, Intel in microprocessors and, yes, Microsoft in PC operating systems at their peaks.

Still, you can understand Google's paranoia. Company CEO Eric Schmidt has twice fought Microsoft in the past—at Sun and Novell—and been crushed both times. At Google he has triumphed at last by forcing Microsoft to play to his strategy, only now to see Microsoft try to change the rules. That's got to make you sleepless and edgy.

The rest of us don't have the same excuse. Years ago on a Sunday morning news show, Bill Gates made perhaps his most prescient comment ever. If you look at the history of technology companies, he said, none have ever been able to stay at the top for long. This is Microsoft's moment, he continued, but it won't last forever.

He was right. If you look at Microsoft with an objective eye, it becomes apparent that it is a giant company past its prime. It is big and rich, but increasingly toothless. It is able to use its money to put on a great show at the Consumer Electronics Show, underwrite an interesting market initiative—or buy another big company—but it no longer has the fire of ambition or the addiction to risk to ruthlessly execute on those desires any more. As has been noted before, once you look past all of the high profile moves (such as MSN, MSNBC, Zune and Xbox), Microsoft has only really been as successful as its reputation would suggest in just two businesses: Windows and Office. Most everything else is flash.

Even Microsoft's full-out assault on Netscape (which, ironically, will officially die on March 1) for control of the Internet browser industry—justly earning it the sobriquet "Evil Empire"—in retrospect was less a brilliant maneuver by Gates & Co. to capture a hot new industry and more a desperate (and questionable) scramble by a market leader caught napping.

That corporate somnolence, rather than its more-remembered ruthlessness, has far better characterized Microsoft over the

past decade. Even the Vista operating system, the most recent upgrade of Microsoft's core product line, managed to be so late that it almost crippled the personal computer industry. It finally arrived to a chorus of boos, most of them undeserved (it's a pretty good operating

system), but some dead-on (it's a technological hop when it should have been a leap). Microsoft lost its killer instinct a long time ago. On the rare occasions when the mood resurfaces, the company doesn't have the chops anymore to execute on its desires.

And that brings us to the Microsoft-Yahoo deal. For all of the excitement, this is just a big, rich, but slow-moving giant looking to buy another slow-moving giant, the latter having stuck to an obsolete business plan too long and lost its way. The scheme is less predation than it is desperation: In the world of search, Google owns these two lumbering monsters.

Microsoft understandably covets the sheer size of Yahoo's subscriber rolls, believing it can accomplish what Yahoo has failed to do: convert more of those 130 million monthly visitors into real, paying customers. But Microsoft has hardly shown it can do that at MSN. So, can it really find a solution to Yahoo's structural problems?

That remains to be seen—and Mi-

crosoft's one genius is as a late adopter. The real problem Yahoo—and perhaps soon Microsoft—faces is that those legions of Yahoo users don't want to be stuck inside a small corner of the Web, not getting all of the experiences and services (like live TV and first-run movies) they were promised. Especially not when they can run around and find all of those things, in abundance, elsewhere on the Web. Microsoft is even less prepared to solve that problem than Yahoo.

That leaves search, which is probably the real reason Microsoft wants Yahoo. Combining the two search engines would, in terms of sheer numbers, represent the biggest challenge to Google to date. But the sum of two also-rans is almost never a winner—unless the newly merged is very, very lucky in its competitors. That's what happened with HP and Compaq: Who'd have guessed that Dell would suddenly fall on its face?

Incredibly, the same may happen with a Microsoft-Yahoo deal if it happens. If you look at the stock market, peruse the industry gossip blogs, follow the departure of key employees, or read about the various new initiatives (energy?) the company is pursuing, it becomes increasingly apparent that Google is a company about to have an early midlife crisis. Microsoft-Yahoo may turn out to be a pedestrian idea with absolutely brilliant timing.

If that is the case, and the merger proves successful, it will have more to do with Google than Microsoft and Yahoo. Which is why the feds should stay out of it.

So, Yahoo: Take the deal (unless a better one comes along). Microsoft: Let this be the first of many high-risk moves. Treat Yahoo as a heart transplant, not a skin graft. And Google: This new competition should be a warning to stop fooling around and get back to business.

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South China Seizure

By Duy Hoang

When China created a new administrative unit covering three archipelagos in the South China Sea in December 2007—including two claimed by Vietnam—Beijing re-ignited a vexing dilemma for Hanoi. Should Vietnam assert its national interest by pressing the nation's historical claim to the disputed territory, or defend the narrow interests of Vietnam's Communist Party by kowtowing to a Chinese leadership that has lent political support to Hanoi?

This dilemma is the latest development in a long-standing dispute. The Spratly and

Paracel archipelagos in the South China Sea consist of tiny islands and reefs with rich fishing and, possibly, petroleum reserves, and are strategically located in one of the world's busiest shipping lanes. For countries that have an interest in freedom of navigation and a peaceful resolution to maritime disputes, the issue of the South China Sea has strategic implications. Oil from the Persian Gulf to Japan and South Korea passes through these waters. And the American navy does not want China to treat the South China Sea as its personal lake.

Vietnamese imperial dynasties going back several centuries had claimed what are now known as the Paracels and Spratlys. And the Vietnamese aren't the only ones with their eyes on the islands. China, Taiwan, Brunei, Malaysia and the Philippines claim all or part of either or both of the chains. Taiwan's President Chen Shui-bian even personally inaugu-

rated an airplane runway on one of the Spratlys earlier this month.

In the 20th century, Vietnam's claim became a bargaining chip in the broader struggle for control of the country. In 1958, four years after the partition of Vietnam into North and South at the 17th parallel, North Vietnamese Prime Minister Pham Van Dong

sent a cable to Zhou Enlai acknowledging Beijing's sweeping claims over the entire South China Sea. Vietnam's communists hoped that by doing so they'd secure China's backing for the war against the South.

Never mind that the islands weren't Hanoi's to give away at that time—South Vietnam

had de jure and de facto possession of the archipelagos because they lay below the 17th parallel. In 1974, taking advantage of the war in Vietnam, Beijing sought to cement its claim by invading the Paracels. In a three-day naval battle, China seized control of the archipelago from South Vietnam. The reaction in the communist North was muted, with Hanoi's propagandists claiming it was better to have the islands in the hands of a fellow socialist state than those of the Saigon regime.

Following the war, Hanoi officially maintained that the Paracels and Spratlys are Vietnam's, but often accommodated China's efforts to cement control over the chains. In recent years, Chinese naval vessels have occasionally fired on Vietnamese fishing boats and killed scores of people in waters off Vietnam, which China treats as its exclusive economic zone. China has called the Vietnamese fishermen pirates.

But Vietnamese state media have largely ignored the attacks and in a few tepid articles mentioned the shooting of fishermen by "foreign" ships.

Meanwhile, Vietnam's claims to the islands strike a nationalist chord domestically. Despite the regime's best efforts to keep the dispute out of people's minds to avoid stoking tensions with Beijing, it's still an issue that inflames passions on the street. There have recently been calls from the blogger movement inside Vietnam for the government to bring the issue of the Paracels and Spratlys before the United Nations Security Council. News that China had tightened its administrative grip on the islands unleashed unprecedented student protests outside the Chinese embassy in Hanoi and consulate in Ho Chi Minh City.

Vietnamese authorities took steps to deter and subsequently ban street demonstrations. Police went as far as detaining bloggers who publicized the protests. But even so, the pressure may have become a little too great. The official media gave wide coverage to an article in the South China Morning Post several weeks later which quoted a local Chinese official who said he was unaware of the incorporation, in an attempt to downplay the seriousness of China's recent action.

Complicating matters is Vietnam's hard-won seat on the Security Council. The regime hoped the seat would be an opportunity to burnish its image at home and abroad. Now Hanoi has to answer to public calls for it to use its lofty position on the world stage to pursue a nationalist territorial claim that runs counter to the best interests of the ruling party.

Without a doubt there are many in the Hanoi regime—and especially the People's Army of Viet Nam—who are concerned about China's expansionist moves. But

there are an even greater number within the regime who are scared about "peaceful evolution," the Communist Party's code-word for democratic change, which could result from tilting relations away from China and toward the West. It would be hard for Hanoi to continue following the Chinese model—open economy, closed politics—while confronting its patron at the same time, given Hanoi's ideological reliance on China. Yet the greatest fear for the regime is not China. It's that a new generation of Vietnamese are becoming engaged in a debate that pits the national interest against the party interest; that this generation is coming down on the side of the nation; and that they're less willing to tolerate government censorship of that debate.

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Pepper . . . and Salt

THE WALL STREET JOURNAL



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