Connecting the Dragon

With a population of 1.3 billion, China owns the world's largest fixed-line and mobile network in terms of both network capacity and number of subscribers.

China's telecom market, currently worth about $84 billion, is expected to reach $130 billion by 2009. If all goes according to plan, the Beijing Olympics this summer is expected to bring about major transformations in this sector that will create new opportunities for both foreign and local telecom players.

3G – THE NEXT BIG LEAP

During the Sydney Olympics, text messages bearing good news flooded China's mobile network whenever a Chinese athlete secured a medal. The Beijing Olympics is expected to mark another major milestone for the nation's telecommunications industry. This time, some of China's 500 million mobile subscribers will have the choice to receive the latest Olympic updates in a "revolutionary" manner – through 3G technology.

China is gearing up for this moment; planning of 3G operating licence issuance started since 2006, telecom carriers have started to invest heavily in planning and trial of their 3G network, and numerous companies are working around the clock to develop the latest and greatest in mobile applications technology. Overall, 200 million Chinese are expected to become 3G users by 2009 and the implementation of the new technology is estimated to achieve $5 billion investment annually from 2008 to 2010.

Though promising, the potential of 3G cannot be realised without the development of an extensive telecoms network and infrastructure. And the Chinese government realises this. Since March this year, the nation started testing the local 3G standard – TD-SCDMA network - in eight cities, including the six Olympic cities – Beijing, Shanghai, Tianjin, Qingdao, Shenyang, Qinghuangdao, as well as Xiamen and Baoding. For a start, China Mobile – the industry leader in China's mobile communication – will set up a total of 8,000 to 10,000 TD-SCDMA base stations in these cities; and the expansion of 3G network to other coastal cities will soon follow.

All the above indicates a promising future for wireless communication in China. This serves not only as a springboard for more opportunities for the existing telecom players; it would also benefit foreign companies that are eyeing the Chinese market when the market becomes more deregulated after China fulfils its WTO obligations.

MARKET ACCESS FOR FOREIGN FIRMS

Before China's accession to the World Trade Organization (WTO) in 2001, many restrictions were imposed on foreign investors interested in its telecom industry. In particular, foreign network providers have not been able to penetrate this protected industry. Gradually over the past few years, the Central Government has introduced a series of reforms aimed at increasing competitiveness and facilitating technology transfer in this sector. Though foreign players are still not permitted to have a wholly owned corporation in China, they can now form joint ventures with local companies and invest up to 50% in the area of value added services; up to 49% in domestic and international wired services and up to 49% in the area of mobile and fixed-line services.

As opposed to service providers, foreign equipment suppliers find it far easier to access China's telecom market. Almost all the top Original Equipment Manufacturers (OEM) have established local manufacturing and research and development (R&D) facilities in China since the late 1990s. Currently active in the market are top players such as Canadian Nortel, Alcatel-Lucent-Shanghai Bell, Ericsson, Siemens and Motorola. Japanese telecommunication equipment manufacturers such as NEC, Fujitsu and Hitachi, as well as Korea's Samsung and LG also have an established presence in the Chinese market.

WEIGHING OUT THE CHALLENGES AND OPPORTUNITIES

However, there are challenges which foreign players need to overcome. Even though China's telecommunications equipment sector has been growing at an astonishing rate of at least 15-20% in the past few years, (faster than China's overall economy), some foreign equipment manufacturers now face tougher competition in the Chinese market.

Historically, the key weakness of Chinese producers has been the lack of knowhow. This gave foreign manufacturers opportunities to penetrate niche markets with their superior technologies and expertise. But the situation is gradually changing as domestic manufacturers make significant technological advancements and start to narrow the gap between domestic and foreign products. A good example is the globalisation of China's two biggest Chinese telecom equipment manufacturers – Huawei and ZTE (Zhongxing) – which are starting to win projects for building telecom networks in emerging markets such as Africa.

Moreover, local manufacturers have the strong support of the Central Government. The Ministry of Information Industry (MII) – the main regulator of telecommunications in China – has encouraged Chinese operators to purchase telecommunication equipment from Chinese manufacturers, including leading suppliers such as Huawei, ZTE, Datang and Great Dragon.

Above all, weak enforcement of Intellectual Property Rights (IPR) in China also poses a tough challenge to foreign players.

To remain competitive in China's telecom market, it is extremely important that foreign players continuously innovate, adapt and react quickly to market changes and prepare themselves to be aggressive in sales and marketing.

FINDING A NICHE IN SECOND-TIER CITIES

One viable option is to look beyond the saturated markets of Beijing and Shanghai to explore some promising second-tier cities, such as Shenzhen, Tianjin and Nanjing. Other emerging markets include Qingdao, Xi'an, Hangzhou and Dalian.

JOIN FORCES WITH THE CHINESE PLAYERS

Another strategy employed by the large global players to secure faster access to the Chinese market is to partner domestic suppliers. This works especially well, if they are targeting the government-controlled telecom carriers.

In 2000, Siemens joined forces with Huawei and China Academy of Telecommunication Technology to form the TD-SCDMA international forum to develop the next generation mobile technology. Alcatel also established a strategic alliance with Shanghai Bell and Shanghai Telecom Administration, while Ericsson partnered Panda Electronics in Nanjing.

With more than 1.25 million cellular subscribers signing up on the China network every week, the Chinese telecom market is one that cannot be ignored. To reap the long-term rewards from this promising market, investors must first take on the challenge, be innovative and stay committed to their cause. ■

City	Import Growth (2002-2006)	Market Potential
Shenzhen	26%	- China's largest importer of telecom equipment, after Beijing and Shanghai - An important distribution base for other provinces
Tianjin	33%	- An ideal gateway for foreign suppliers to serve the North China market - One of the eight cities selected for 3G trials
Nanjing	44%	- Shows strongest import growth trend - Economic advancement of this city and its neighbouring Jiangsu province drives demand for higher quality telecom equipment

Source: Multiple sources including news reports, interviews, World Trade Atlas and JLJ Analysis

This article is contributed by The JLJ Group – a Shanghai-based firm assisting foreign companies to enter and grow in China – www.jljgroup.com