

China: A Big Opening in Telecom

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Telecommunications has grown at an almost unbelievable pace in China over the past decade and, even with a slowdown in 2002, the market there could well spark a recovery in the global telecom industry, helping to lift it from its worst decline ever. Senior telecommunications executives in China elsewhere in Asia, who participated in TTI's World Network Equipment Industry Recovery 2002 - 2003 study, highlighted in *The Bandwidth Desk*, reported aggressive future capital spending plans - a 3.98% increase for 2003, for example - far more optimistic than those of their counterparts in other areas of the world. China's telecom capital expenditures are set at just under US\$32 billion, according to some market researchers, and the Beijing government has committed to an expenditure of at least US\$100 billion through the five years projected in its latest five-year plan.

Interliance, LLC, based in Costa Mesa, CA, last year observed that, "While the rest of the world retrenches, China appears to be gearing up for serious telecom infrastructure investment." That is one of the major reasons why China offers significant business opportunities for telecom companies in other nations who are willing to take the time and effort required to find the right niche and accept the rather formidable risks and uncertainties involved. Opportunities are most apparent for companies offering advanced technologies and equipment, marketing and management skills, operations support and customer relationship expertise - technologies, products and services complementary to those of China's established operators.

A growing number of foreign telecom companies - from service providers such as AT&T, to

technology and equipment companies, like Motorola, as well as marketing and customer relationship management firms - have worked to establish a base in China. John F. O'Neill, who has managed a business in China and other nations for years, says there is a temptation on the part of foreigners to look at China's huge population and succumb to the notion that success is just around the corner. The reality, O'Neill says, is that the Chinese are not ready to quickly hand over lucrative markets to large firms or entrepreneurs from abroad, and the Beijing government encourages telecom companies to buy Chinese products and support domestic manufacturers. On the other hand, leading companies recognize the value of quality, high performance products and managerial skills. Ordinarily, in O'Neill's view, success for U.S. and other foreign firms will come over time. Companies that succeed will likely have made a sustained effort to understand telecommunications in China and how to maneuver successfully through a sometimes inscrutable bureaucracy in this immense, complex and rapidly changing country.

Since 1990, China's fixed telephone lines have skyrocketed from fewer than a million, according to some estimates, to 190 million (all digital) lines in 2002, with as many as 200 million wireless subscribers. China has a total population of more than 1.3 billion people. Some 13.8% of households have telephone service - more in cities and eastern coastal areas and fewer in inland, rural areas. The country's 46 million Internet users represent just 3.6% of the population, but the number is growing at a 76% annual rate. There are just two million broadband users.

From a single, state-owned monopoly telephone provider at the beginning of the last decade, China now has several major domestic toll carriers, cellular providers and international carriers,



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31 provincial and municipal carriers who operate public networks, a number of Internet gateways and 620 Internet service providers. The country's largest telecom company, China Telecom, is now licensed to provide international telephone and Internet services between China and the U.S., which Chinese customers hope will help reduce today's prohibitive rates.

China is a world leader in fixed and wireless telecom and Internet services. Its terrestrial television market reaches 95% of households, according to Australia's Budde Communications, and satellite television service providers have been able to establish successful businesses in spite of continuing regulatory restrictions. Given its Communist roots, it is not surprising that there would be contradictions in the government's plan to deregulate and privatize the industry, as business leaders have confronted the unfamiliar and unsure promises of capitalism and competing government agencies were asked to share power and authority. Discrepancies and contradictions between rules set by different agencies and between rules and practices have been confusing and discouraging for many.

With all these uncertainties, China remains a land of opportunity for telecom service, technology, equipment and operations support providers everywhere. The Beijing government has committed to the World Trade Organization to open all of the nation's services to foreign investment and to establish government agencies to handle information and compliance requests. The government has said it will abide by trade related intellectual property guidelines - a major concern for U.S. content providers - help eliminate tariffs on IT equipment and encourage constructive regulatory reform.

More than that, as Kenneth J. DeWoskin argues in a recent issue of

PriceWaterhouseCoopers' InfoComm Review, China's telecom industry needs foreign investors, competencies and products now to attain its long-term goals. China's leading telecom companies need experience and expertise in managing complex global enterprises and satisfying conflicting customer demands in a fiercely competitive international marketplace.

Mynoon Doro, who has years of experience in the Asian telecommunications industry, China in particular, says that China's telecom firms recognize the need to sharpen their management skills, especially at lower managerial levels, and want to strengthen their operations and maintenance capabilities as well. Ms. Doro, who now heads her own international consulting firm, cautions, however, that Chinese companies remain reluctant to include foreign vendors in the management of their companies' core businesses. And the government shows more openness to foreign companies with advanced technology and those that invest in China. Among companies that have succeeded in navigating the exciting if somewhat treacherous waters of China's telecom industry is San Diego-based Qualcomm, which has developed and marketed its Code Division Multiple Access (CDMA) wireless technology throughout the world. Wireless providers in China have viewed CDMA as a way to gain ground on China Mobile, the dominant cellular provider.

South Korea's SK Telecom, which has been working closely with China Unicom, a highly spirited underdog cellular operator that is fighting hard to gain ground against China Mobile. Bruce Einhorn and Moon Ihlwan explained in a recent BusinessWeek online article how SK Telecom has drawn heavily upon its experience as a cellular operator utilizing CDMA technology in South Korea, to assist China Unicom. France Telecom, on the other hand, has entered into a joint

venture with China Unicom to help the Chinese firm strengthen and build out its GSM network in the Guangdong region.

As a result of the long anticipated breakup of China Telecom in the spring of 2002, intended to spur growth, China Netcom, a newly established company, was given ownership and control of China Telecom's northern networks, together with the assets of two smaller firms. The government's action was intended to give each province greater control over telecom development and, in July, 2002, Nortel Networks won separate contracts with China Telecom and China Netcom to install Nortel's Shasta 5000 broadband service nodes, in two provinces, each served by one of the carriers. Nortel had avidly pursued opportunities in China and the Shasta 5000 has been a top-ranked IP product for some time.

China has much to offer every segment of the telecommunications industry, but, more often than not, companies will have to know the market well and fight hard to win. That may hold for future opportunities in telecom everywhere.

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