

# China as Number One – In Mobiles

Report >  
China

22–23 May 2002  
Stockholm, Sweden

Mobile telecommunications will play an increasingly important role in communication and information exchange in every part of the world. Europe took the world by surprise when developing and offering the GSM standard, which still maintains a dominant position. The next momentous development took place in Japan where mobile Internet (i-mode) became a very successful paradigm for using mobile handsets. Today China is on the verge of becoming the biggest single player in all aspects of mobile telecommunications – in number of subscribers, in manufacture of handsets, as operators, and as contents providers. This note highlights some of the topics and issues that were discussed at the workshop ‘Mobility and Mobiles in China’ held in Stockholm, Sweden.

By Jon Sigurdson

In 2001 China became the number-one country in the world in terms of its mobile subscriber base with 145 million mobile phone users by the end of the year. An extraordinary interest in mobile phones in an environment with limited Internet access has resulted in an unusual willingness to accept mobile terminals and an appreciation for mobile services. Nokia and Ericsson are now estimating that there will be approximately 350 million mobile phone users in China by the end of 2004. Analysts suggest that by 2005 China will make up as much as 34 per cent of the projected global market for mobile phones in the world – some 233 million mobile phones annually.<sup>1</sup> China is now expanding the second-generation mobile telephone system (digital 2G), and the speed of growth is almost beyond imagination. The number of users has turned China into the number one market of the world, although the proportion of mobile users is still little more than 10 per cent at a population of 1.3 billion.

The telecommunication industry has already become one of the important components of the national economy, playing a great and active pulling role in China’s economic growth. The Ministry of Information Industry (MII) in early January 2002 announced that the main carrier, China Telecom, would split up with the objective of having four nation-

al integrated telecom operators that provide fixed-line, mobile data and other basic telecom services in a move to make the telecom market more competitive. In the light of promises by the Chinese government, after entering the WTO, foreign mobile voice and data service providers are allowed to set up joint-ventures in Shanghai, Beijing, and Guangzhou, and provide services in these cities.

## Monternet – mobile Internet in China

China Mobile, by far the largest operator in the country, provides General Packet Radio Services (GPRS) commercial Internet services since July 2001 in 16 provinces and 25 cities. This emergence of 2.5G may substantially increase the lifecycle of 2G in China. One of the most important breakthroughs for Monternet has been the introduction of a standardized billing system. The system was also one of the biggest challenges in the initial implementation because of China Mobile’s distribution and operational structure. Since each province and major metropolitan area operates independently of one another, each local operation had to be upgraded separately to support Monternet’s new billing requirements. This obstacle caused early setbacks in the months after Monternet was launched.

## Technology and setting standards

China has become a global leader in terms of subscribers and will soon become the ‘Handset Production Capital of the World’.<sup>2</sup> However, China is far from being a technological leader and may move into an early start of R&D for the next generation of mobile telecommunications – 4G – with the ambition of catching up in the process of technology and market development. We could possibly see China using the

coming ten years to research and develop 4G products, then raising its national industry to assume a strong position in the market of mobile communications, and joining in the competition race with the now-dominant global players.

A follow-up workshop to be organized in China in 2003 will use mobile telecommunications as a vehicle for understanding the revolution in the production and dissemination of knowledge, and analyse the use of policy instruments to achieve different objectives in various countries. Thus, participants invited from Europe and Asia will be encouraged to view mobile telecommunications – with all of the ramifications thereof – as a Knowledge System in order to highlight various important characteristics such as technology transfer, industrial development, social welfare, or economic development. <

*Professor Jon Sigurdson is coordinator at the Swedish School of Advanced Asia Pacific Studies (www.ssaaps.stint.se). He is director of the East Asia Science and Technology Programme (www.hhs.se/eijs/eastp) at Stockholm School of Economics (The European Institute of Japanese Studies). As a researcher in science policy he has developed special expertise in technology management at national and company levels. jon.sigurdson@hhs.se*

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## Notes >

- 1 Made for China (MFC) Newsletter
- 2 ‘China: Future Handset Production Capital of the World’, Made for China (MFC) Report, Beijing, January 2002.

# Mobility and Mobiles in China

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Nearly ten years after Deng Xiaoping’s appeal for accelerating economic reforms, the telecommunication industry in China has gone through many changes. The promising prospects that mobile Internet services carry are coming to attention in China’s telecommunication market. By 2002, China has become the biggest market for mobile phone services with an estimated 170 million subscribers, which can be compared with 35 million Internet users. The Chinese government is supporting liberalization in the telecom sector, which is considered one of the main engines for continued economic growth in the socialist market economy. China Mobile has constructed the so-called Monternet, and its counterpart China Unicom has recently launched the world’s largest CDMA network. The capacity and bandwidth of these two networks makes services other than voice possible for cellular phones.

By Anders Ravn Nielsen

The activities of Chinese Internet Service Providers (ISP) illustrate the conditions and prospects for mobile Internet services. China’s ISP industry has never been successful in terms of services for private Internet users mainly because of China Telecom’s high rental fees for connection to backbone networks. Those ISPs determined on developing a strategy away from traditional services started to offer services that matched the technological progress and prospects of commercial Internet use. These are simple services such as domain registration, web hosting, and web design; while other ISPs have engaged in providing IT courses, software applications, e-commerce solutions, and consultancy services related to online marketing.

The ISP services have in common that they, by nature, are related to e-commerce, and most potential clients are companies and organizations. However, the conditions for e-commerce services in China have always been complicated. China does not have a nationwide transaction system for all bankcards and due to unclear regulations, companies are hesitant to get involved with commercial online services. An inefficient regulatory system does not encourage potential clients to take advantage of ISP services related to e-commerce.

Another significant concern for e-commerce and ISP services are Internet users. Online marketing and sales services become less attractive considering the profile. According to the biannual surveys on Internet use released by the China Network Information Centre

(CNNIC), less than 3 per cent of the total population uses the Internet. The majority of users are found in East China and the typical Internet user is young with a relatively small income. Furthermore, the preferences of Internet users for email, information search, news, downloads, and chat facilities show that they mainly use online services as a communication and entertainment medium, rather than as a marketplace. It is significant that income does not seem to be a determining factor in obtaining access to information and entertainment on the Internet.

Because of the underprivileged conditions for e-commerce services, mobile Internet services should be a potential strategy for Chinese ISPs. There are obvious reasons for this. Since the launch of the Internet, the Chinese ISPs have been cut off from

services to private users, but the development of mobile Internet technologies makes it possible for ISPs to offer services directly to private users with a mobile phone or to clients who want to engage in mobile Internet services.

Comparing the number of mobile phone users with Internet users, the market for mobile Internet services is bigger than the market for more traditional Internet services. Furthermore, the government’s green light for competition between the telecommunication companies, which construct the backbone networks for telecommunication, will reduce costs and benefit all users.

At the moment the hottest mobile Internet service in China is no doubt SMS. Some companies have already been successful in offering services for mobile phone users. Linktone of Shanghai was set up in 1999 and began distributing melodies for incoming calls and quizzes earlier than any of its competitors. Tencent Technology, a provider of Instant Messaging Service in Shenzhen, has been experiencing amazing growth after entering into the SMS business. Tencent has acquired about one million subscribers and it recorded monthly sales of more than 5 million yuan in a single year. The larger content providers have started to

focus on distribution of pay contents to portable phones, as sales of Internet advertising have been relatively slow.

Attractive mobile Internet services will not only benefit the ISP industry but also the whole Chinese telecommunication industry, including sales of mobile phones and related equipment. The dark horse is still the government and the regulatory framework of the country. In terms of the use of Internet and e-commerce, the implementation of a regulatory framework has been ineffective due to the fact that different ministries are all trying to draft regulations within their own jurisdiction. The resulting highly bureaucratic process hardly encourages companies to engage in e-commerce services. Importantly, mobile Internet services, other than SMS and downloads, may require certain regulations, which will involve the growth of a bureaucratic process that can damage the expansion of mobile Internet services. <

*Anders Ravn Nielsen, MA has a Chinese and Information Science BA and a Chinese MA (both at the University of Aarhus). He is currently a researcher at Fiducia Management Consultance, Shanghai, whose main research interests are Internet/Telecom development trends and investment vehicles in China. ravni@sohu.com*