

Is it RIP for VoIP in China?

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Voice over Internet Protocol VoIP development is posing a threat to state-protected telecom carriers, calling into question China's willingness to let technology advances into the marketplace.

VoIP services took a big bite of nearly three percent out of China Telecom's revenues in the first half of 2005 according to BDA, a technology consultancy in Beijing.

BDA's research director Dongming Zhang told UPI, "China Telecom's long distance revenue totaled \$1.805 billion in the first half of 2005, down by 2.8 percent from \$1.858 billion in the first half of 2004."

"The decline in long distance revenue can be attributed to the impact of VoIP primarily," Zhang said adding, "long distance is China Telecom's second largest revenue source, accounting for 18.2 percent of its total revenue in 1H 2005."

Stories in the Chinese and foreign media late last week said that the Shenzhen branch of China Telecom, the country's largest telecommunications carrier, had begun blocking VoIP calls, made blacklists of users, and threatened to punish anyone trying to get around blocks on Skype, all in a bid to stop the revenue slide before China's 100 million-plus Internet users catch on to free and affordable PC-based long-distance calling services.

The European company's free computer-to-computer telephone service has not yet been affected by the Shenzhen action. Skype does not offer

its fee-based SkypeOut service on the mainland. The service enables PC users to place inexpensive fixed line and wireless phone calls worldwide. SkypeOut type Internet telephone services are illegal in China under a 2004 regulation to protect so-called market order.

Asked about the immediate and long term implications of the Shenzhen action, BDA sees this as only the first step. Citing domestic press reports, Zhang noted China Telecom has been in contact with software and hardware vendors concerning technical measures to monitor and disable the use of Skype. "A new monitoring system has started operations in Beijing, Shanghai, Guangzhou and Shenzhen, while nationwide deployment will take place from 2006 to 2007," Zhang said.

BDA told UPI the block by China Telecom "is definitely a negative" on Internet portal Tom Online's partnership with Skype announced earlier this month. "Right now, PC to Phone is still not allowed in China. Their joint venture is betting on the government will eventually open this market in the future," the research director added.

"Even after the government opens up the PC to Phone market, VoIP providers still need work with incumbent carriers on interconnection in order to call the fixed line users in China. China Telecom will always have a way to block Skype like VoIP providers if they want," Zhang said.

The mainland's six major telecom carriers (China Telecom, China Netcom, China Mobile, China Unicom, Railcom and Satcom) dominate VoIP. Government regulators allow them to offer telephone to telephone VoIP services mainly through prepaid cards as a means of blunting head-to-head competition.

China does not allow other firms in this VoIP service area. BDA believes China Telecom has the biggest market share in the segment. Zhang said

market size forecasts were available in an upcoming VoIP report the consultancy is releasing soon.

Analyst opinions worldwide on the China Telecom decision vary widely with arguments made for and against a carrier's right to limit damaging competition, as well as concerns being raised about the openness of the mainland's telecommunication market and its willingness to accept new software and service technologies.

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