China telecoms feel foreign competition

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Perhaps no other industry is as global and dynamic as the mobile telecommunications industry these days, as multinationals jostle for the top spot in providing better services to more subscribers in more countries. So while Finland's Nokia may currently be the world's biggest cellular-handset manufacturer in the world, and while Germany's T-Mobile and Britain's Vodafone compete for the top spot as global providers, most industry analysts broadly agree that the existing hierarchy among multinational corporations will not be permanent.

Certainly, demand for phones with ever more functions, far beyond simply making calls, has been a driving force in innovation, especially in countries where a mobile handset is seen to reflect income status and fashion consciousness. Indeed, the design of a product is often seen as equally important as its functionality among high-end phone users. So while mobile manufacturers and providers alike may be seeking to produce cheaper phones for mass use in some of the world's poorer countries where cellular outpaces landlines as the main telephone network, it is in industrialized and wealthier emerging markets that the financial returns have been the highest.

Given China's rising income levels, particularly in major cities along the coast, in addition to the plethora of trend-loving youthful consumers, the Chinese market has become particularly attractive to foreign companies. Granted, most companies including U.S. mobile giant Motorola, which was one of the first multinationals that initially pursued an aggressive Chinese marketing effort, have found that penetrating the Chinese telecommunications market is no easy feat.

One executive at a major U.S. industry association in Washington said that while making profits in China is a challenge in any industry, it has been particularly difficult to gain a firm foothold in the Chinese telecommunications market given the politically sensitive nature of the business. Indeed, phone networks have been one of the highly protected industries even in some of the world's richest nations, and the privatization of phone companies in countries such as France and Japan is still fairly recent history.

Nevertheless, it appears that even Chinese telecommunications groups are feeling the heat from foreign competition these days, and domestic companies are publicly seeking more protectionism from the government in order to stay ahead.

In fact, in an interview with London's Financial Times Monday the head of one of China's telecommunications groups argued that China was actually more open to foreign companies than many other countries and that the government was doing too little to help Chinese companies thrive amid heightened competition, even though the government has set up tariff and non-tariff barriers to allow Chinese corporations to make a bigger profit than their foreign rivals.

Indeed, in a paper on the telecommunications sector by the U.S. Department of Commerce earlier this year the U.S. government pointed out that "it is important to recognize that, while the Chinese government appears committed to foster a more competitive telecommunications service environment, this commitment does not necessarily mean that equipment vendors with the best technology and/or lowest prices will success in the Chinese marketplace."

Nevertheless, ZTE Chairman Hou Weigui said, "We hope that our government will offer reasonable protection for our own manufacturing sector under the framework of the World Trade Organization and in accordance with regulatory practices of every country around the world. Action has been too weak on this front." He did not, however, elaborate further on what steps the government could take to protect domestic companies.

Together with Huawei, ZTE is one of the biggest players in China's telecommunications market and has competed hitherto head-on with better-known multinational giants including Motorola and Nokia. But while home-grown computer group Lenovo bought out U.S. giant IBM's personal computer business earlier this year, Chinese telecom companies are threatened by the rapidly changing landscape of the global telecommunications market, as third-generation mobile technology further expands the potential of broadband.

As a result, while Chinese names dominate the market, companies such as Sweden's Ericsson, France's Alcatel, Siemens of Germany, and Lucent Technologies are making it less cozy for the home-grown corporations, and the heat is expected to get even hotter in coming years.