

# Globe Talk: France Telecom's China leap

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Few were surprised by France Telecom's announcement this week that it will be working closely with Chinese telecommunications group ZTE. Yet while the partnership may prove fruitful in the longer term, expectations for any major developments in the near future that might lead to higher profits are fairly low.

Still, the fact that the French communications giant will be collaborating with China's leading mobile-handset manufacturer on research and development is in itself a significant development not only for the Chinese telecommunications market, but for industrialized nations that are seeking to tap into some of the world's most talented pool of engineers and get first dibs on some of the best ideas available.

To be sure, multinational corporations have avoided the Chinese market at their peril, with over 80 percent of all Fortune 500-listed companies financially committed to the world's now seventh-largest economy. Still, the bulk of those investments have been made to bolster their manufacturing base in the country, often to take advantage of the country's cheap production costs, rather than to engage in basic research-and-development efforts.

France Telecom, however, said that its latest alliance with ZTE "will capitalize on France Telecom's presence in China, and more specifically its R&D laboratory in Beijing, where the group's local teams are able to analyse the specific features of the Asian market and anticipate future developments in the global telecommunications sector."

The deal "is fully in line with the France Telecom Group's strategy in China, which is based on a local R&D laboratory as well as our strategic partnership with China Telecom," said France Telecom Chairman Didier Lombard.

The announcement coincided with the visit to France by Chinese Prime Minister Wen Jiabao. During his four-day stay in the country, Wen was wooed by the French government and corporations, including Airbus, which is currently considering the possibility of setting up an assembly line for its aircrafts in China.

So the partnership between the French telecommunications giant and the Chinese communications group appears to make a great deal of sense, not just because of the price competitiveness of the Chinese market, but also because of the rich pool of talent that is becoming increasingly available in the country. Unlike in the United States, engineering continues to attract some of the country's most talented students in China as well as India.

Recently appointed dean for undergraduate education at the Massachusetts Institute of Technology, Daniel Hastings said in a recent interview with MIT's newspaper that in coming years "there will be more of people, competing with other nations such as China or India who are producing lots of good trained individuals, but who cost much less. One-fifth of the cost."

Furthermore, of the 26,000 or so doctorates awarded by U.S. universities last year, non-U.S. nationals made up 32 percent of total recipients, with many from China and India, according to the National Science Foundation. In fact, of the total 1,186 physics doctorates awarded in 2004, Chinese citizens were awarded 185, followed by India with 34. Of course, until recently, the bulk of Ph.D.-wielding scientists remained in the United States in light of better employment prospects. But as the

economies of China and India continue to boom, some of the best and brightest at top U.S. universities are going back to their home countries to make full use of their degrees.

So tapping into that labor pool of highly skilled information-technology and engineering professionals in China, as France Telecom plans to, "makes a lot of sense," said Annabel Dodd, a telecommunications expert.

"Everyone wants to do something in China right now. That's what's going on," Dodd added.

Under the latest agreement, France Telecom will partner with ZTE initially to work on applying the Linux operating system for third-generation technology smartphone handsets.

Still, the alliance is a strategic move for ZTE too in going beyond the Chinese borders.

"This agreement strengthens ZTE's strategy in Europe; through this kind of technology cooperation with France Telecom ... ZTE will expand its understanding of its customers' requirements (and) thus enhance ZTE's competitive position," said Yin Yimin, chief executive of the Chinese manufacturer.

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