

iPhone comes to China without key feature

October 30 2009, By JOE McDONALD , AP Business Writer



In this Monday, Oct. 26, 2009 photo, a pedestrian talking on her mobile phone walks in front of the iPhone display at an Apple store on Michigan Avenue in downtown Chicago. (AP Photo/Kiichiro Sato)

(AP) -- Apple's iPhone is making its long-awaited formal debut in the world's most populous mobile phone market, without a key feature and at higher prices than widely available black market models.

Apple's local service provider, China Unicom Ltd., hopes the iPhone will give it an edge against giant rival China Mobile Ltd., the world's biggest phone company by subscribers.

Unicom was to start selling iPhones equipped for third-generation service Friday night at 2,000 stores in areas as farflung as Tibet. Chinese

news reports say Unicom hopes to sell 5 million in three years, but the company declined to confirm that.

Unicom's first iPhones lack WiFi, a possible handicap with sophisticated, demanding Chinese buyers. The technology, a key part of the iPhone's appeal, allows the phones in other markets to use wireless networks in cafes and offices to download e-mail and the latest applications for free.

"There's going to be a perception that the phone they have is dumbed down from the one that somebody has in California," said Duncan Clark, chairman of BDA China Ltd., a Beijing-based technology research firm. "We've seen before that Chinese consumers don't like to be treated like second-class citizens."

Apple Inc. and Unicom also could face competition from an unusual source: unlocked iPhones brought in from abroad that have WiFi.

There are already an estimated 1.5 million to 2 million such phones in China using China Mobile 3G service that allows Internet access and other features.

Unicom's prices range from 4,999 yuan (\$730) to 6,999 yuan (\$1,025) for the high-end, 32-gigabyte iPhone 3GS. That is 20 percent above the 5,700 yuan (\$835) charged by merchants at Chinese street markets for a 3GS with WiFi.

The iPhone's awkward, delayed entry into China reflects the regulatory and technical hurdles of a fast-changing market where other global technology companies have struggled to establish themselves.

Unicom's iPhones lack WiFi because it was temporarily banned by Beijing, which was promoting a rival Chinese system, according to

BDA. The ban was relaxed in May after manufacturing had begun.

A Unicom spokesman, Yi Difei, said the company hopes to have WiFi in the next batch of phones.

"We are talking with Apple and expect the problem to be solved by the end of this year," Yi said.

The iPhone debuted in the United States in June 2007 but its formal arrival in China was delayed as Apple carried on talks with service providers that Chinese media said snagged on disagreements about how to divide revenues.

China has more than 650 million mobile phone accounts, despite an average annual income of \$3,000 per person. Consumers trade in phones as often as several times a year to get the latest models and features.

China Unicom has 143 million mobile accounts, which would be an impressive figure in any other market but lags far behind China's Mobile's 508 million accounts.

Global technology companies that dominate other markets have struggled to get a foothold in China. Search engine Google Inc. has less than 30 percent of the market, versus more than 60 percent for local rival Baidu Inc. Yahoo Inc. turned over its China operation to a local partner after failing to expand its market share.

China's state-owned phone companies were restructured by the communist government into three groups last year in hopes of reviving competition after the explosive popularity of mobile service turned China Mobile into a behemoth.

Unicom, China Mobile and the third company, China Telecom Ltd., all

emerged with mobile and fixed-line services.

[China Mobile](#) has announced its own smart phone, dubbed the OPhone, and says seven models will be available by next year.

Chinese news reports in August said Unicom's deal with Apple called for buying 5 million handsets for 10 billion yuan (\$1.5 billion). Chairman Chang Xiaobin denied that but refused to give financial details.

The lack of WiFi means Unicom [iPhone](#) customers will have to pay to connect to the phone network for every function. BDA's Clark said that could alienate users if it leads to high monthly bills.

"This could be a real fiasco," he said.

On the Net:

Apple Inc.: <http://www.apple.com>

[China Unicom](#) Ltd.: <http://www.chinaunicom.com.cn>

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