

CHINA'S GOOD FORTUNE FOR GREEN ROOSTER YEAR

The Chinese are notoriously superstitious, an essential aspect of their culture. Superstitions dictate the color red for good luck and the number eight for prosperity. According to astrologists, the Year of the Green Wood Rooster in 2005 promises to be a favorable year for business.

For centuries China stood out for its genius in the arts and sciences, bringing great works and inventions to the Eastern and Western world. Then in the 19th and 20th centuries came famines, civil unrest, and foreign occupation, leading to the ruthless dictatorship of Mao Zedong. During the Communist regime, the economy was so tightly controlled that China underwent a tremendous social upheaval. Its psyche continues to recover from the Cultural Revolution, but booming production, the importation of goods and commodities, and rapid infrastructure development has been a relief.

How amazing it is that after decades of hard-line Communist rule, the Chinese have returned to a conspicuously capitalistic way of life. They can't get enough of luxury wares, cars, electronic devices, and cell phones. Shopping, talking, and deal making is de rigeur. In major Chinese cities today, people are on the move wearing the latest fashions and clutching cell phones. This thirst for consumer products and the rise of trade with the West has triggered huge demand for telecommunication services.

Telecom a Big Business

Telecom is one of the biggest industries in China, according to Tony Kumar, Roslyn Telco Group (Nivatel), "so prepaid here is very important." Calling cards are popular in China and readily available in grocery stores and at newsstands. Kumar believes the market will continue to grow because long distance rates are as cheap as domestic rates and the Chinese always call home.

Kumar points to the amount of trade between the US and China, another indicator of growing traffic. In minutes per month, he does 7 million or 235,000 minutes per day at a wholesale cost of .012 cents per minute and .013 retail. Some of Nivatel's biggest selling cards are JMD Phone Card, JMD Asia, Happy Phone Card, and UCN Diamond, with 50% of the total traffic to China alone.

"The flow of immigrants coming into the US is another reason for the high volume," says Dave Rosenthal, owner, DR Phone Communications in New York City. "Calling home has never been easier since the government opened up competition and expanded the telecom infrastructure."

DR Phone distributes WorldCard, South Seas, and MegaWorld. Dave estimates traffic at about 50 million minutes per month. Although the rate might be a penny or less, there are maintenance fees. "If the customer doesn't use the card in the time period, he loses some of the minutes," notes Dave.

China Government Loosens the Yoke

In late 1978, the Chinese leaders began moving the economy from a sluggish inefficient, Soviet-style centrally planned economy to a more market-oriented system. The economic influence of non-state organizations and individual citizens has been steadily increasing, according to CIA-The World Factbook. The old system of collectivization has been replaced by a local authority structure, letting small-scale enterprises grow and flourish.

The result has been a quadrupling of GDP since 1978. Measured on purchasing power parity (PPP) basis, China in 2003 stood as the second-largest economy in the world after the US. In per capita terms, however, the country is still poor.

Chinese government leaders recognize that the growth of the telecommunications sector is instrumental in continued economic development, according to Interliance, LLC, a corporate performance and investment advisor firm based in Costa Mesa, CA. An advisory report on “Telecommunications Industry in China,” states that the telecom sector keeps a growth rate of more than three times that of the national economic growth rate. Over the last decade, China’s telephone switching capacity jumped from fewer than 9 million lines to 130 million lines. Cellular subscriber growth also is strong, driven by falling handset prices, elimination of connection fees, and rapid adoption of prepaid services.

China’s six telecom operators, namely China Mobile, China Telecom, China Unicom, China Netcom, China TieTong, and China Satcom, are all state-owned companies. The industry is regarded by many as the most monopolized of all the business sectors, according to a recent survey by Social Survey Institute of China (SSIC). An analyst with the SSIC stated that customers are dissatisfied with “expiration of prepaid cards, unauthorized SMS (short messaging service) charging, mobile billing, and monthly fixed-line rental.”

“Telecom operators are making continuous efforts to improve their services,” asserts Hu Yonglong, vice president of the Shanghai Communications Administration. As of the end of November 2004, China had 313.156 million fixed-line users and 329.924 mobile users, according to China’s Ministry of Information Industry (MII).

VoIP Enables Growth

The growth of VoIP networks in China is keeping down the cost of prepaid card calling and domestic at-home calling, which has become a popular service. Of the nearly 300 million people with phone service in China today, a little over half of them just got it in the past four years, according to *The Wall Street Journal* (April 22, 04). In many parts of China, telecom networks are being built from scratch, with VoIP technology.

When new players were allowed to enter the Chinese market about five years ago, they found that the best way to build a network was to rely on Internet-based equipment rather than traditional switches. This would also allow them to mix voice traffic with other data.

The Chinese government encouraged them by not setting rates for calls on Internet-based networks.

China Telecom Corp is the former monopoly that remains the country's biggest carrier. It reports that its 2003 domestic long-distance use increased by 15% and its VoIP system handled a majority of its long distance calls—29 billion of 54 billion overall minutes. Its revenues, however, fell 1.2% in 2003 because VoIP calls cost so little.

Cisco helped build China Unicom Ltd.'s VoIP network, which stretches to 350 cities, according to Gordon Astles, president of Asian-Pacific operations for Cisco. Nortel announced a deal last year to help China Railcom Co. build a VoIP-based local phone service in Chongqing, China's third-largest city.

Though long-distance may be gaining in volume, the financial results are not commensurate. China Unicom, one of the first entries into the deregulated market, relies on VoIP for a majority of its long-distance traffic. Although use rose 50% last year, revenue only increased by 2.8%, as the company's VoIP network handled 57% of long-distance traffic, according to *The Wall Street Journal* (April 22, 04).

Will the Rooster Stumble?

China will soon be celebrating the Year of the Rooster in early February. But its economy is developing so fast that financial experts are concerned about a hard landing. During the past three years China has accounted for one-third of global economic growth (measured at purchasing-power parity), twice as much as the US, according to *The Economist* (May 13, 04). From mid-2003 – mid-2004, China's official GDP growth rate surged to 9.7%. Some economists reckon the true rate to be even higher.

A slump in China might only impact the US and Europe slightly, but other countries in the Asia/Pacific region would feel it the most. Meanwhile, everyone from small investors to corporate giants has been benefiting from China's re-entry into the global society. As for telecom, even if there is a bump in the road, the phones should keep on ringing, as long as the Chinese keep talking. Tony Kumar believes, "the prepaid market will remain strong because just like Indians, Chinese people love to talk a lot."