

China's Broadband Industry Development Shouldn't Copy the Western Countries

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“China's broadband industry development shouldn't copy the models of the western countries. It should find its own way.” When recently interviewed by our staff reporter, Thomas S. Costello, vice president of the International Engineering Consortium, noted that there is huge potential in China's broadband industry, but the operators and suppliers were short of adequate capital and technology. Therefore Chinese companies should enhance cooperation with foreign companies.

Industry experts in China commented that foreign capital was glaring at the nation's broadband industry, and domestic operators and suppliers should take full advantage of the foreign experience to accomplish its business expansion as soon as possible.

Foreign capitals are glaring at the Chinese market

At present, the rapid development of China's broadband industry has drawn attention from all over the world. Statistics from the Ministry of Information Industry indicate that, by the end of 2006, the number of the nation's broadband users had exceeded 50,000,000 lines, and it will keep a rapid annual increase of more than 10,000,000 lines in the coming years, and it's estimated that the number is expected to surpass 100,000,000 lines by 2010.

Business results from China Telecom and China Netcom, the two largest broadband operators in China, revealed a rapid increase in broadband users. Recently, China Telecom announced that its broadband users increased by 710,000 in March, 2007 to make the total user number 30,500,000. China Netcom also announced recently that

its broadband users increased to 15,945,000 during the first quarter, an increase of 1,516,000 over 14,429,000 at the end of 2006 and a year-on-year rise of 32 percent. “The broadband market in China is probably larger in opportunities than any other market in any other countries around the world. If you take a look at the current situation of China’s wireline and wireless network, you will find out that China has the largest network in the world,” commented Thomas S. Costello.

Broadband operators are facing a tough problem of transformation

The staff reporter learned that some foreign investors also think that China’s broadband operators are facing a tough problem of business expansion. Even though there is huge potential in China’s market, China’s operators are short of adequate capital and technology to deploy new business, which leads to the result that China’s operators have to depend on the participation of foreign capitals in the future.

In fact, China’s broadband operators are really facing a lot of problems. First, with the fast development of the nation’s broadband access market, operators experienced a big increase in expenses. Second, facing the existing network and the increasing number of tens millions of broadband users in the coming years, the challenge of effectively securing existing user’s business is also bothering the operators.

However, the biggest headache for operators is transformation. Currently, due to the decline of the traditional business model, voice business, the revenue of fixed-network operators, is consequently declining. Operators are seeking to transform to a different model with more distinctive services and applications.

Actually, in other parts of the world such as North America and western Europe, operators also faced such problems. The reasons for the decline of voice business include not only the substitution of mobile business or the involvement of the VoIP operators into the competition, but also the packaged services of entertainment,

broadband access and voice that some cable TV operators started to provide. “Fixed-network operators need to find innovative solutions and keep a defensive attitude all the time,” said Thomas S. Costello.

However, this doesn’t mean that the fixed-network operators have no way out. Ao Li, head of the Communications Standard Research Center of the Telecommunication Research Institute at the Ministry of Information Industry, noted in public that fixed-network operators should thank the Internet because, with the Internet, new experience is brought to the users, which also brought new business and opportunities for applications to the operators. However, Ao Li also said that the transformation of China’s operators will be painful and take a long time. Besides securing the implementation of the globalization strategy, they have to select a development path that is suitable for China’s market.

China should find its own way

“Experience from foreign operators shouldn’t be taken as it is, but it can be studied, thought over and learned from,” said Ao Li.

It is known that transformation models of operators in developed countries are various. Among them, some were successful, while some were failing.

Take France Telecom for example. It was a state-owned enterprise before 1997, and then it experienced a transformation into a shareholding company. As a traditional fixed-network operator, it has also faced a lot of troubles. In 2001, France Telecom came to a record loss. In 2004, it conducted a strategic transformation and developed new services. First of all it offered home business to enhance customer loyalty through the concept of the home gateway. Currently, France Telecom’s services consist mainly of new communications business and new entertainment business. Taking the information entertainment service for example, besides IPTV business, it

also provides picture sharing, life services, social and medical services and more.

In addition, operators' transformation has seen examples of failure. Taking Deutsche Telecom for example, its 2006 business and profit declined and its broadband network is being upgraded slowly, which causes it to face a lot of unsolved problems with launching new services and applications next.

Furthermore, the selections of accessing broadband technology in different countries are not the same. Experts believe that it can't be judged at present which technology is better, and that the driving force of the market and the industry will finally decide on which technology will become a nation's future mainstream technology, including GSM and CDMA technologies in mobile field.

Industry experts believe that China's broadband market is different from that of other countries. The main difference is shown in the penetration rate. In western Europe and North America, the penetration rate is very high and operators are using a great number of optical fibers and optical cables to provide broadband service. In South America, the case is not just the same, where there isn't enough infrastructure. China shouldn't copy the West's development models. China must find a development path that is suitable for itself.

