

China: Telecom Equipment Industry

Overview of Emerging Tier II Markets



INTRODUCTION

Objective of this report is to provide an overview of the Chinese market for telecom equipment, with focus on four key emerging markets, beyond established cities such as Shanghai and Beijing. An overview of the telecom service market is also included, as it is the key driver for demand of telecom equipment.

EXECUTIVE SUMMARY

China telecom service market. China's telecom market is estimated at \$84 billion and is expected to reach \$130 billion by 2009. With population of 1.3 billion people, China owns the world's largest fixed-line and mobile network in terms of both network capacity and number of subscribers. At the end of August 2006, China had approximately 368 million fixed-line subscribers and 437 million mobile customers, with more than 1.25 million new cellular subscribers every week.



China telecom equipment market. China's telecom equipment market is estimated to be worth about \$30 billion in 2006, with significant different levels of import / export. In 2006, exports were \$66 billion, more than five times the value of import, which reached \$12 billion in the same period. Imports of telecom equipment have been growing at 14% CAGR between 2002 and 2006 - a significant growth but still lower than the overall market growth estimated at about the current growth of 15%-20% per year. Leading countries are Japan, and South Korea. U.S. has a limited share, or about 6% of total imports. Even if Chinese manufacturers dominate the market thanks to low cost production and good level of technology, foreign players still have opportunities in the latest technology segment (e.g., 3G¹ equipment).

¹ Third Generation, often referred to as "3G"

Key emerging markets. Besides the established Tier I markets, there are opportunities in rapidly growing Tier-II cities such as Shenzhen, Tianjin, Nanjing and Qingdao focus of this report. Tianjin and Qingdao are two out of eight target cities in which the pre-building of the 3G network will start. Shenzhen is currently the largest importer of telecom equipment and largest production base. Nanjing is important for its proximity to Shanghai and for the high number of fixed-line and mobile subscribers. Other emerging markets, not analyzed in this report, include Xi'an, Xiamen, Hangzhou and Dalian.

3G Technology. The Chinese telecommunication industry is on the brink of a major transformation as carriers prepare to invest heavily in 3G technologies. The issuing of 3G operating licenses is planned for January 2008, though further delays are possible. It is estimated that the investment in telecom equipment will be about \$1 billion.

Best prospects. Best prospects for foreign exporters are related to 3G network building equipment and all testing and maintenance equipment (such as spectral efficiency tester) since the telecom carriers are starting trial operations to test the network. Moreover, demand for broadband network solutions, optical line and wireless coverage equipment is also expected to increase. In the telecom equipment market for the business/corporate sector, radio satellite and communication system and empowering telecommunication products/technology will also experience strong growth.

