

VoIP Battle in China

June 2006

ROA Group Consulting Team (business@researchonasia.com)



Table of Contents:

INTRODUCTION3

1. VOIP SERVICE PROVIDERS IN CHINA3

1.1. CHINA TELECOM AND CHINA NETCOM.....4

1.2. CHINA SATCOM AND TOM ONLINE4

1.3. SKYPE.....4

2. OUTLOOK FOR VOIP IN CHINA.....5

Introduction

VoIP (Voice over Internet Protocol) is a new communications technology in which voice is transmitted over a computer network. VoIP's greatest appeal is cheap call rates. VoIP service enables users to overcome the limits of distance and time at a very cheap rate compared to the conventional long-distance telephone service.

In terms of VoIP, China falls more than three years behind the United States. While the US consumers place their focus on service providers' value added services, Chinese consumers are still mostly interested in reducing telecommunication expenses. In the years to come, the Chinese consumer's perception about VoIP would change. Enterprises that are eager to reduce operational costs, college students who use campus resources and common households are expected to emerge as major subscriber groups of VoIP in China.

Currently, the fate of VoIP market development and structure is in the hands of Ministry of Information Industry (MII) as it is controlling the market growth by granting VoIP licenses only to China Netcom and China Telecom, the two major fixed carriers. MII has announced that it would pursue a stable and reliable development of VoIP by performing trials actively. As the commercial launch of VoIP is expected to have a ripple effect strong enough to require the reorganization of the conventional fixed phone business, the Chinese government would announce the timing of 100% opening of China's VoIP market after carefully comparing the economic benefits of traditional telecom services and VoIP.

Even though the Chinese government is trying to control the market through the regulations and it has granted licenses only to the two major fixed carriers, thousands of firms are in a hurry to participate in the industry, both domestic and foreign ones.

1. VoIP Service Providers in China

In the current situation, the complete opening of China's VoIP market seems impossible. MII plans to carefully pursue the full commercialization of VoIP on a gradual basis while preparing for the entry of foreign VoIP related companies in the Chinese market and negotiating with local telecom companies about the timing of replacing their PSTN

(Public Switched Telephone Network) equipment with VoIP. The main players are briefly introduced in the following. These include China Telecom, China Netcom, China Satcom, Tom Online and Skype.

1.1. China Telecom and China Netcom

MII approved VoIP trial services to China Telecom and China Netcom in July, 2005. These two major carriers are allowed to make VoIP rate-related decisions by themselves and their only obligation is to notify MII and Telecommunication Bureau of their decisions. China Telecom has carried out trials for its PC phone-type VoIP service in Shenzhen and Jiangxi while China Netcom has carried out trials in Jilin and Shandong.

China Netcom is planning to upgrade its long-distance core network to NGN (Next Generation Network) in 2006. NGN is a next generation network based on traditional fixed network and it can deliver a wealth of data and multimedia services such as ringtones and long-distance video telephone calls. Other carriers have also started to build their own NGN.

1.2. China Satcom and Tom Online

China Satcom has recently entered the VoIP segment together with D3net. D3net's Easy Voice Connector is a killer application that is simply inserted to web pages, on-line ads or e-mail to support voice calls. Although currently D3net cannot forge a full-blown partnership with China Satcom due to the government's VoIP policy, the two companies are expected to establish an actual partnership sooner or later as the government is loosening its control over the VoIP market.

In September 2005, Tom Online issued a joint statement on the establishment of a joint venture in China together with Skype. Tom Online will hold 51% of the joint venture.

1.3. Skype

As the telephone rates are still high in China, it's a good market ground for Skype but it has had a rough start. In September 2005, Shenzhen Telecom blocked Skype completely because Chinese fixed carriers see service providers like Skype threatening. Skype is attracting about 170,000 subscribers every day, eroding the global voice call

market. The use of Skype by Chinese consumers means not only an increase in Skype's profit but also the beginning of free telephone service in China.

Table 1. Chinese VoIP Market Players

Company	Current Situation
China Telecom	Started trial services in July, 2005 in Shenzhen and Jiangxi.
China Netcom	Started trial services in July, 2005, in Jilin and Shandong.
China Satcom	Entered the VoIP field together with D3net. Not able to have a full partnership due to government policies.
Tom Online	Planning to establish a joint venture with Skype.
Skype	Facing barriers in entering the market due to government policies. Skype was blocked by Shenzhen Telecom in September, 2005. Planning to establish a joint venture with Tom Online.

Source: ROA Group

2. Outlook for VoIP in China

Hardware equipment manufacturers are actively supporting the commercialization of VoIP in China and would be able to generate considerable profits with the opening of VoIP market. Without VoIP itself, VoIP dealers would lose their reason for existence. Therefore, VoIP dealers are paying keen attention to MII's policies while being careful not to go against MII.

From MII's point of view, telecommunications is one of the nation's mainstay industries. Therefore, even though the government is currently controlling the market by blocking the entry of foreign competitors through regulations, it cannot go against the unavoidable technological trend. As the Chinese government is expected to announce the opening of China's VoIP market after carefully comparing the economic benefits of traditional telecom services and VoIP, the commercialization of VoIP is a matter of

when, not if.

In Europe, North America and Japan where VoIP has been adopted earlier, it has already grown significantly threatening the traditional telecom service providers. In the years to come, VoIP would make inroads into the mobile market as well. As of the end of 2004, the number of households using VoIP service in the US was estimated at about 1 million and the number increased three fold by December 2005. For the Chinese telecom companies, VoIP will be a big challenge. Especially fixed and long-distance telephone service providers would need to renovate their business models in order to survive.

If the VoIP service providers are to meet the needs of the Chinese customers in the future, including corporate ones, they should guarantee a certain level of service quality and make sure that their service networks are advanced, reliable as well as easy to maintain.

This white paper is published by Research On Asia (ROA) Group, Inc.
For more information on ROA Group, please visit www.researchonasia.com
Thank You.