



CMO NEWSLETTER N. 03/09
Università della Svizzera italiana (USI)

Lugano, May 2009

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The Chinese Telecommunication Industry

Franz Grueter, Chairman of green.ch Ltd., Switzerland.

A unique characteristic of the telecommunication industry, no matter which country, is the scalability and recurring revenues the business generates and the wider the subscriber base, the greater the scalability effects. Knowing this, there is no other country but China where the current and potential subscriber base for telecommunication services is bigger. The overall figures the Chinese Telecommunication industry has to offer are impressive in every way. And even in times of general economic downturns, the Chinese Telecommunication industry continues to grow and investments in infrastructure are further increased.

China owns the world's largest telecommunication networks in terms of both network capacity and number of subscribers. One of the core industries of the country - the telecom industry - has experienced double-digit growth in the past decade. And the recent move by the government aimed at restructuring the domestic telecom industry has brought about a wave of rapid development and deployment of telecom infrastructure throughout the country, according to "Restructuring and 3G - New Dimensions for China Telecom Sector", a recent market research report.

The move has ended with three main players on the domestic telecom industry: China Telecom, China Mobile and China Unicom. These operators have planned to invest billions of dollars in the development of world-class telecom infrastructure in the country and this has led to the growing demand for convergence, allowing operators to optimally use their existing networks while offering a new range of telecom services, such as fixed-line, voice, TV and broadband.

China's telecommunications

market saw its revenue expand by 7% to RMB 814 billion in 2008 (€87.29 billion). Again, in January 2009, China generated total telecom revenues of RMB 62.94 billion (€6.75 billion) in January, up 5.7% compared to the same period of 2008.

In just one month (January 2009) China gained 8.49 million new mobile phone subscribers, pushing the country's total figure up to 649.72 million mobile phone users at the end of January 2009. This means an increase of nearly 200 Mio. new mobile subscribers in the last two years!

The largest player in the mobile phone market is clearly China Mobile. In January 2009 China Mobile gained 6.67 million additional mobile phone subscribers, pushing its total subscriber base up to 463.92 million. This is more than the entire population of the United States and is making China Mobile the most profitable Chinese Telecommunication firm. China Mobile makes more profit than all the other Chinese telecommunication companies together.

It is interesting to see that despite these impressive figures the penetration rates of Internet Broadband, Mobile Phone Services and other Telecommunication Services is still on a low level compared to Western European countries or the USA. It also shows the huge potential for further growth in the future. China's telecom industry, fueled by GDP growth of 8 to 10 percent over the next five years, will continue to grow on all fronts.

Despite all the growing elements of the Chinese telecommunication market, there are also fields and trends where revenues and numbers of customers are dropping. Simultaneously with the

increasing number of mobile phone users, the number of fixed line customers is decreasing. This trend can also be seen in other countries. The penetration rate of fixed-line phones at the end of January was 25.8 %, while the penetration rate of mobile phones was 48.5 %. It is expected that this trend will continue in the coming years.

Telecommunication connections between China and other countries

China does not invest heavily only in its national telecom infrastructure. The country is also working on large improvements and enhancements of its connections to international telecommunication networks. For a long time the international telecommunication connections, especially between Europe and China, were weak and unreliable.

Several reasons led to a situation where most of the high performance fiber connections built in the past to connect China to other countries and continents were between China and the United States. Fiber connections to Eu-

rope were harder and more expensive to build. To date there are two main fiber connection lines between Europe and China. One runs from Hong Kong, via India and the Middle East, to Europe. The other runs from Hong Kong via Beijing, Mongolia and Russia to Europe. For many years Hong Kong was the only point of entry for all international telecommunication connections to China. Hong Kong was also the bottleneck, and peering points were in many cases hopelessly overloaded.

The results were slow, unreliable connections between China and Europe with very large latency times and huge package losses. In practice, the result was poor data connections, mainly between Europe and China. In many cases companies that depended on reliable high performance data and voice connections in Europe suffered.

In the last few years China has worked with large international companies and partners to improve its connections with the rest of the world. New and additional fiber connections have been built to the US as well as to Europe. Com-

Fig. 1 - One of the main fiber connections between China and Europe



panies such as FLAG and Indian Tata have improved connections to Europe by building additional high performance fiber data connections between China and Europe. Other companies such as the Swiss-based green.ch began operating fiber connections between Europe and China and were peering their networks with Chinese carriers to improve connections between China and Europe.

So, today the quality of telecommunication services between

China and other countries has improved tremendously.

It will be interesting to see what the next steps will be in the rapidly growing Chinese telecommunication industry. Already today many Chinese spend a higher percentage of their monthly income on pre-paid phone cards than Americans spend on food. This says a lot about the perceived importance of telecommunications in Chinese society today.

Tab. 1 - Telecom service subscribers in China at 31 January 2009

<i>Business Indicators</i>	<i>Subscribers (Mln)</i>	<i>Change from 2008 year end (%)</i>
<i>Total Fixed Line Telephone Subscribers</i>	339.79	-1.02
<i>Urban Fixed Line Telephone Subscribers</i>	231.52	-0.48
<i>Urban Residential Fixed Line Telephone Subscribers</i>	139.26	-16.79
<i>Rural Fixed Line Telephone Subscribers</i>	108.27	-0.54
<i>Rural Residential Fixed Line Telephone Subscribers</i>	95	-1.14
<i>Total Mobile Phone Subscribers</i>	649.72	8.49
<i>Mobile Data Service Subscribers</i>	276.01	22.09
<i>Dial-Up Internet Subscribers</i>	11.84	-2.53
<i>Special Line Internet Subscribers</i>	0.09	0.03
<i>Broadband Internet Subscribers</i>	84.63	1.21
<i>of which: XDSL Subscribers</i>	69.09	2.06

Source: Chinese Ministry of Industry and Information (MII).

Tab. 2 - Major business indicators for China's telecom industry at 31 January 2009

Business Indicators	Traffic Volume	Year on Year Change (%)
Local Fixed Line Telephone Traffic	45.69 bln calls	-16.82
Local Dial-Up Internet Traffic	807.41 Mio Calls	-31.9
Long Distance Fixed Line Telephone Traffic	6.41 bln minutes	-20.4
Domestic Long Distance Fixed Line Telephone Traffic	6.35 bln minutes	-20.1
International Outgoing Fixed Line Telephone Traffic	33.87 Mio minutes	-29.9
Outgoing Fixed Line Telephone Traffic to Hong Kong, Macao and Taiwan	29.17 Mio minutes	-50
Total Mobile Phone Traffic	258.29 bln minutes	16.4
Domestic Long Distance Mobile Phone Traffic	15.11 bln minutes	25
International Mobile Phone Traffic	62.62 Mio minutes	7.7
Mobile Phone Traffic to Hong Kong, Macao and Taiwan	78.32 Mio minutes	-4.2
SMS messages	69.7 bln	27.6
IP Telephone traffic	9.42 bln minutes	-19.2
Domestic Long Distance IP Telephone Traffic	9.3 bln minutes	-19.1
International IP Telephone Traffic	71.35 Mio minutes	-25.8
IP Telephone traffic to Hong Kong, Macao and Taiwan	42.94 Mio minutes	-32.7

Source: Chinese Ministry of Industry and Information (MII).

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SNS development in China

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SNS is the acronym of Social Network Service. Boyd and Ellison (2007) defined social network sites as sites which allow individuals to (1) construct a public or semi-public profile within a bounded system, (2) articulate a list of other users with whom they share a connection, and (3) view and traverse their list of connections and those made by others within the system. However, the concept of Social Network Service in this article has a broader meaning, including all websites with any one or combination of the above-mentioned characteristics.

1. Development of the Various Types of SNS in China

Before outlining SNS development in China, we need to look at the overall background of Internet development in China. By the end of December 2008 China netizens had reached 298 million. The Internet penetration rate reached 22.6%, exceeding the global average level (21.9%). The number of Chinese netizens overtook that of the United States last June and now rank first in the world; this trend remains high with a rate of growth of 41.9%. It is worth noting that 12.3% of China's netizens showed high penetration rates in SNS or SNS-related web applications (CNNIC 2009). Males and females account for 62.1% and 37.9% respectively with male users dominating. Importantly, 90% SNS users are in the under 30-year-old age group.

Following the huge success of Facebook in the USA, various SNS websites sprang up in China and became a hot spot in 2008. Some famous SNS websites like kaixin001.com, 51.com have entertainment functions; the former has increased its popularity through

games such as trading friend as 'slaves', a form borrowed from Facebook; the latter has succeeded due to the user basis of former QQ users. Xiaonei.com is a popular service with college students, while other SNS websites have a specific and relatively concentrated function such as making friends, dating or business communication. For example, baihe.com focuses on romantic relationships and marriage; douban.com enjoys a good reputation among groups who share similar interests in books, movies and music. Additionally, some popular video sharing SNS like youku.com, tudou.com are worthy of mention.

Advertising currently remains a major part of the revenue for these pure SNS websites. Although the market has reached a total of RMB450 million (€48,246 million) with a very rapid rate of growth of 82.2%, revenue is not promising in the long term (CCID, 2009). The danger caused by a weak and single revenue model is a tough problem for these websites. Depending solely on internet ads or imbedded ads in games is a risk for sustainable growth. Until now, hits can rocket suddenly when new games are promoted, but attention is easily diverted due to the day-to-day pressures of work or towards other interesting digital gadgets.

According to the definition given at the top of the article, SNS can be divided into different categories; the related analysis is presented below (see Tab. 3). Apart from these pure SNS websites, many other forms of SNS are imbedded in different websites. The first is the website portal, such as sina.com, sohu.com and 163.com, qq.com etc. These offer blogs and space where you can easily build a social network online. Users of the blogs are gradually merged with

that of other networks through technical connection.

The second is the instant messaging-based SNS. Qq.com has become extremely popular in China. The first thing nearly every Chinese teenager and young person does when they boot their computer is to log on to their QQ or/and MSN accounts. QQ has huge numbers of users who can be easily transferred to SNS applications. Its

monthly visiting rates can reach up to 200 million, surpassing the Facebook record of 175 billion, and it has become the largest SNS in the world (Iresearch, 2009). From QQ users can be easily linked to their own and friends' spaces to write or view blogs, share pictures, track friend's online activities and so on. Connected people are thus hooked on longer within this relationship circle. It should be noted that QQ

Tab. 3 - Comparative overview of different SNS

Type of SNS	Typical websites or internet tool	The form of the SNS	Business Model	Advantages	Disadvantages
SNS websites	<i>kaixin001.com, xiaonei.com, hainei.com</i>	<i>pure SNS websites</i>	<i>mainly rely on traditional internet ads or some imbedded ads in games</i>	<i>large existing user base</i>	<i>under pressure to keep users' active online engagement, weak revenue model, increasing the risk and cost of exploring games</i>
Website portal	<i>Sina.com, Sohu.com, 163.com</i>	<i>Online space to allow you to build a social network</i>	<i>Internet ads</i>	<i>large existing user base</i>	<i>weak revenue model</i>
Instant Messaging	<i>QQ and MSN</i>	<i>Attached to online space, miniblogs, online alumni space and a series of online transactions using virtual money</i>	<i>Internet ads, online transactions using virtual money</i>	<i>large existing user base, stable usage habits, high loyalty and involvement</i>	
Online community	<i>tianya.cn, hi.mop.com</i>	<i>Blogs attached to small games</i>	<i>Internet ads</i>	<i>high number of users and UGC</i>	<i>Interest in games wanes rapidly, single revenue model</i>
Software developed by telecommunication operators	<i>Fetion, QQ</i>	<i>Mobile phone number connected to the Fetion and QQ account</i>	<i>potentially increase usage frequency of mobile phones and communication fee</i>	<i>huge numbers of mobile users rooted in real social networks</i>	
Internet trade websites	<i>taobao.com, alibaba.com, amazon.cn</i>	<i>Online space</i>	<i>potentially increase internet sales through comments or blogs on sellers' or consumers' spaces.</i>	<i>existing pool of online traders</i>	<i>low ranks of SNS</i>
Official websites of famous manufacture brand	<i>iphone.com, nike.com.cn, addidas.com.cn</i>	<i>online space based on the community, BBS, etc.</i>	<i>potentially higher internet sales through comments or blogs</i>	<i>loyal consumers of these brands</i>	<i>low ranks of SNS</i>

posted revenues of €358.5 million and an operating profit of €164.3 million in 2007, surpassing Facebook's total revenues. Moreover, only 13% of this revenue comes from advertising while most relies on other business models such as online shopping based on virtual money. SNS encourages QQ users to buy virtual gifts for their friends or share their shopping experiences with each other. Meanwhile, different revenue models also attenuate the risk of the operation of only SNS websites, compared to some pure SNS websites.

The third type are SNS originating from BBS such as tianya.cn, hi.mop.com, etc. These kinds of websites have accumulated huge numbers of people and are have user-generated contents (UGC). But it is still worthwhile studying how they apply the UGC in their SNS. So far there does not appear to be any special competitive advantages for SNS operation, except some small games which catch people's eyes.

The fourth is the telecommunication operator like China Mobile, China Telecom, China Unicom. They are advanced to have millions of mobile users who are rooted in real social networks. This mobile network seamlessly connects users either online or offline using software such as Fetion, QQ, etc. Photos, phone blogs, ring tones, pictures and so on are exchanged among mobile and internet SNS users.

The fifth are internet trade websites such as Taobao.com (Chinese ebay), Alibaba.com, Amazon.com, etc. SNS on these trade websites are designed for promotions and sales. Users are encouraged to post comments on brands and share their experiences. Although these websites offer space to allow users to visit each other with the aim of word-of-mouth marketing, this function still does not prevail. The instant messaging and online community is more efficient and

less expensive than SNS. The only purpose for people to visit these shopping websites is for trade and they do not seem interested in the blogs, space etc.

Sixth, some official websites of famous brands such as iPhone supply online-communities based SNS. Users are encouraged to join thematic clubs, share their experiences and make new friends through various online games or competitions, ranking and voting. However, its aim it to attract and maintain people's attention.

2. Why it is so popular in China

Why are people so crazy about SNS? The change introduced by SNS is that it offers a new relationship-based means of communication. Boyd and Ellison (2007) pointed out that 'What makes social network sites unique is not that they allow individuals to meet strangers, but rather that they enable users to articulate and make visible their social networks.'

Apparently, SNS potentially satisfies people's needs. For users of xiaonei.com, for example, students can find material to take the entrance exam for a postgraduate course from the online friends in their desired university. For users of kainxin001.com, people are offered a convenient and low-cost way of getting in touch with friends of all levels rather than driving for two or three hours and paying for the dinner with friends. This is a solution borrowed from Facebook. Instead of encouraging UGC, kaixin001.com focuses on creating a platform where people can socialize.

More importantly, SNS allows net users to build social relationships in the form of a network. This means that you don't make friends one by one but lots of new friends online simultaneously through the network pattern, for example, of one of your friends.

In this way it leads to changes in the way relationships are built and differentiates from our past many-to-many internet-mediated communication when news was read through a search engine or portal. It encourages users to update their relationships, share their daily life experiences and obtain information through a network. This is the main reason why they meet today's generation's demands and have gained popularity in China.

3. Future development in China

The correct business model is crucial for the sustainable development of SNS in China. As shown above, there is already a large number of users. However, the entire industry relies mainly on internet advertisements and still stumbles and fails to find the multi-dimensional revenue model. Many websites are striving to expand. Successful ways have been found by QQ for example, i.e. trade based on virtual money and goods, and also by kaixin001.com, embedding advertising in game gadgets to compete for parking lots, purchase of houses, etc.

Moreover, the key to its future development is whether it can maintain a networked relationship rooted in reality. Maintaining this relationship means exploring the service to cater for people's real needs and demands and to allow them to exploit it every day. Study of the past three years of development shows that SNS websites are more clearly devoted to online entertainment applications and to consolidating existing relationships.

At the same time, the SNS websites need to cooperate to connect users' SNS accounts and thus alleviate the burden of keeping the over-pressured network relationships because this could either accelerate or slow down the growth of the number of users. Therefore, it is crucial to connect people with

same interests across different networks, no matter what kind of internet, whatever instant messaging or website portal or specific SNS website they use. Although this already exists abroad, its application in China is still in its early days. Network-relationship based communication patterns could shape people's life until this application comes of age.

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CHINESE MEDIA AT A GLANCE: NEWS FROM CHINA

China Media Observatory, USI, Switzerland.

China has promulgated the "Regulations for the administration of foreign organizations which provide financial information services in China"

On 30 April China officially promulgated "Regulations for the administration of foreign organizations which provide financial information services in China" ("Waiguo jigou zai Zhongguo jinnei tígong jingrong xīnxi fúwù guǎnlǐ guīdǐng") which will become effective on 1 June. According to the Regulations, foreign financial information service providers and whoever engages in financial analysis, financial transactions, financial decision-making or other financial activities in China that may affect users of financial market information and/or the operation of financial data services, must apply to the State Council Information Office and must be approved to carry out financial information services in China.

These Regulations are divided into six parts: general principles, approval, enterprises set up for investments, supervision and management, legal liability and supplementary provisions.

Source: *Xinhuanet, Huaerjie ribao (The Wall Street Journal, Chinese edition)* - April 30, 2009.

The state-run media Global Times launches its English edition

Global Times (*Huanqiu shibao*), the People's Daily-affiliated tabloid, has launched its English edition. This is a new international mouthpiece for the Chinese media, even if the editorial section of the Global Times website is full of Xinhua editorials. Content-wise, the paper combines original

feature reporting with news and opinion pieces translated from the Chinese-language press. The English edition of the Global Times will carry on the tradition of the Chinese edition: presenting the news from a Chinese perspective in a "fair, insightful, and courageous manner".

The Chinese edition of the Global Times has more than 500 overseas correspondents and contributing writers around the world. This network will serve the English edition well. In addition, the English edition has a team of around 100 journalists based in China.

Sources: *China Economic Review, Danwei* - April 20, 2009.

China opens TV channel for high school students

China Central Television (CCTV) opened a special digital cable TV channel on 4 May 2009 for high school students, their teachers and parents.

Shi Xiaoqiang, one of the senior executives of the channel, said outstanding teachers and education experts of the country will be invited to give lectures on a full range of subjects. The channel will also provide programs on juvenile psychology for teachers and parents and will allow as many students as possible to share quality education resources.

The TV programs can also be seen on the channel's website www.studytv.cn.

Source: www.chinaview.cn - May 4, 2009.

New Preferential Tax Policies for Private Cultural Enterprises

China's Ministry of Finance released a series of preferential tax policies for private corpora-

tions formed following the reform of state-owned cultural groups, in order to promote cultural industry reform and development from January 1, 2009, to December 31, 2013.

All the private culture and media corporations formed following the reform of profit-seeking state-owned enterprises will be eligible for corporate income tax exemptions under the new policies. Private corporations that were formerly owned by the state and funded by the Ministry of Finance will also be eligible for office building property tax exemptions.

Private corporations formed by central government-owned newspaper and periodical publishers will be exempt from value added taxes.

Film production and distribution corporations and cinema circuits will be exempt from the sales and value added taxes, including the taxes that apply to film distribution, copyright and ticket sales in rural areas.

Corporations exporting books, newspapers, magazines, audiovisual products, films, and TV dramas will also enjoy a tax refund policy. Corporations with revenues from overseas performances will also be exempt from sales taxes.

The Ministry of Finance and State Taxation Administration will also have discretion to lower corporate income taxes and value added taxes for private enterprises formed following the reform of state-owned organizations. The authorities will make these decisions on a case by case basis.

Source: CMM Intelligence - April 2009.

Hangzhou demands netizens use real names

People must use their real names in online forums, bulletin boards and chat rooms, according to a controversial pilot regulation introduced by the city of Hang-

zhou, capital of Zhejiang Province in eastern China.

The regulation also stipulates that content must not:

- jeopardize national security;
- incite public hatred of others;
- spread rumors;
- insult others
- publish private or personal information.

Internet service providers should employ staff to censor messages that violate the law and make a note for police purposes. The first public intellectual to propose people use their real names online was Professor Li Xiguang of Tsinghua University, Beijing, in 2002.

Source: Global Times (<http://en.huanqiu.com>) - May 2009.

Google China Music Search

Google China Music Search (Guge yinyue sousuo), a service launched in 2008 by Google to better compete in a market dominated by Baidu, is now publicly accessible worldwide and has a new homepage. The service has been created in partnership with Top100.cn to offer legal MP3 downloads.

The venture comes directly in the wake of Baidu's music search audience, offering high-quality music files embedded with a digital "watermark" that lets record labels track how often their songs are downloaded.

While the service is now accessible everywhere, you can only download music if you are in China. Google Music has a large collection of music and there's a visual tool that lets you find songs by choosing the beat, genre and other characteristics.

Prior to Google's entry, Baidu was the preferred source for music file downloads, but Google's service will provide ad-revenue supported access to artists from leading record labels, including Warner Music Group Corp., Vivendi SA's Universal Music Group, EMI Group

Ltd., and Sony Corp.'s Sony Music Entertainment.

Kai-Fu Lee, Google's Greater China president, told reporters that music downloads were "the key missing piece" of Google's service in China and that a lack of music searches has been "the most common reason" why Chinese users prefer another search engine.

Sources: *The Wall Street Journal*, *www.Sina.com* - March 30, 2009: <http://tech.sina.com.cn/i/2009-03-30/17582956049.shtml>

100 million Mobile Internet Users and New 16.2 million Chinese Netizens in the First Quarter of 2009

From the first quarter of 2009 China has more 16.2 million netizens for a total of 316 million users, of these 117.6 million use the mobile phone to surf the Internet, said Xi Guohua, the vice Minister for Industry and Information (MII) at the annual meeting of Boao Forum for Asia (BFA) held on 18 April.

Xi Guohua also said that, despite heavy losses in the real economy brought about by the international financial crisis, the development patterns of Internet in China remain positive: for instance, more than 90% Internet users have access to broadband services; in 2008 the total number of IPv4 (Internet Protocol version 4) users reached 180 million, while there are 16 million domain names and the number of domestic websites accounted for 2.878 million. In the Internet industry, e-commerce, online advertising and online games play an important role. According to the latest data, in 2008 the Chinese e-commerce market was worth RMB3,000 billion (€331.5 billion), a 41.7% growth over 2007; the market of online advertising was worth RMB12 billion (€1,326.88 billion), +55.8% over 2007 and the online games market is worth between RMB19 billion (€2.1 billion) and RMB20 bil-

lion (€2.2 billion), accounting for an increase of around 50% over 2007.

Yet, in China, despite the economic development, a relatively large part of the population still does not own a telephone. In March 2009, telephone users amounted to 1.006 billion people, of which 670 million (a 66.1% share) use mobile phones.

Source: *Xinhua* - April 18, 2009: http://news.xinhuanet.com/newscenter/2009-04/18/content_11208605.htm

Formally awarded 3G licenses expected to boost the development of China's information industry

In January 2009 the Chinese government officially issued 3G licenses, which are expected to foster the development of China's information industry. In accordance with the tlc operators' respective development plans, direct investments in 3G are expected to reach about RMB280 billion (€30.842 billion) in 2009 and 2010 while 3G network construction investments are expected to be approximately RMB400 billion (€44.04 billion) over a three year period. 3G is expected to bring with it „social investments" (i.e. private investments) for RMB2 trillion (€220.11 billion).

The development of the 3G industry in China is also expected to drive the growth of equipment manufacturers and terminal manufacturers and related services, such as the advertising industry, ISP/ICP (Internet Service Provider/Internet Content Provider) content development providers, thus providing an important contribution to the overall growth of the information industry.

Lu Yimin, general manager of China Unicom announced on 28 April that China Unicom's commercial trial of WCDMA (Wideband Code Division Multiple Access)

standard was scheduled to start on May 17. By then, China Unicom will launch 3G business commercial trials in the first batch of 55 cities.

On their side, on 28 April the other two Chinese tlc operators, China Mobile and China Telecom, signed an agreement with Alcatel-Lucent worth US\$ 1.7 billion (€1.2 billion) for the upgrading of the network, integration and maintenance services.

Source: *People's Daily Online (Renmingwang)* - April 29, 2009.

China's Next Generation Broadcasting (NGB) Network enters the Industrialization Stage

After more than ten years of research, the Next Generation Broadcasting (NGB) network in China has achieved a number of breakthroughs in core technologies. At present, China People Liberation Army Information Engineering University and Dalian High-Tech Industrial Park and other units have signed agreements that lead to the industrialization phase of the new technology.

China's NGB network will be based on the digital cable TV and China Mobile Multimedia Broadcasting (CMMB) networks, and supported by the core technology used by China's High-Performance Broadband Information Network (3TNet). The NGB network, which will manage the convergence of the three networks - telecom, Internet and broadcasting -, is being completed in Shanghai, Hangzhou and Nanjing, now reaching a coverage of 30,000 households.

With the completion of the NGB network, TV programs will be greatly enriched: the audience will not only see a large number of high-definition TV programs, but can see them according to their personal needs and choices. At the same time this network will provide the population with Internet service and telecommunication

network operations: for instance, the Internet connection speed will be far faster than the existing one and at better and cheaper conditions. Also, the NGB network can be controlled as a structure providing a strong regulatory capacity: the problem of spamming and undesirable information is expected to be definitively eliminated.

Sources: *Xinhua, Kezhi ribao (Science and Technology Daily)* - April 29, 2009.

FOCUS

CCID Consulting Analysis

The impact of the global financial crisis: development opportunities and challenges for China's information industry

CCID Consulting, Vice President Zhang Tao.

Under the impact of the global financial crisis, what opportunities and challenges do the various areas of China's information industry face? Some reflections on this issue are of special value for the future of China's information industry development.

Challenges

Challenge 1: As the pressure of the cyclical adjustment increases in the industry, the financial crisis leads to a sharp decline of external demand and increases the downward pressure on the industry.

Considering the development trend of the industry, in 2007 China's electronic information indus-

try reached an inflection point, a trend that was confirmed in 2008 as industry growth and profitability declined significantly. The global financial crisis has led to a sharp decline in external demand and at the same time has further increased the downward adjustment pressure; as a result, large industries face greater adjustments in their short-term development. In particular, the performance of exports of electronic information products appears to be more prominent: in the first two months in 2009, China's exports of electronic information showed double-digit negative growth, and in the coming months it will be difficult to achieve great improvements.

Challenge 2: The global economic slowdown will lead China's electronics manufacturing industry to a period of more relaxed growth after a long-term period of high growth rate.

Challenge 3: The impact of the financial crisis on the machine equipment manufacturing industry was already apparent in 2008: the negative impact on sectors such as components and informa-

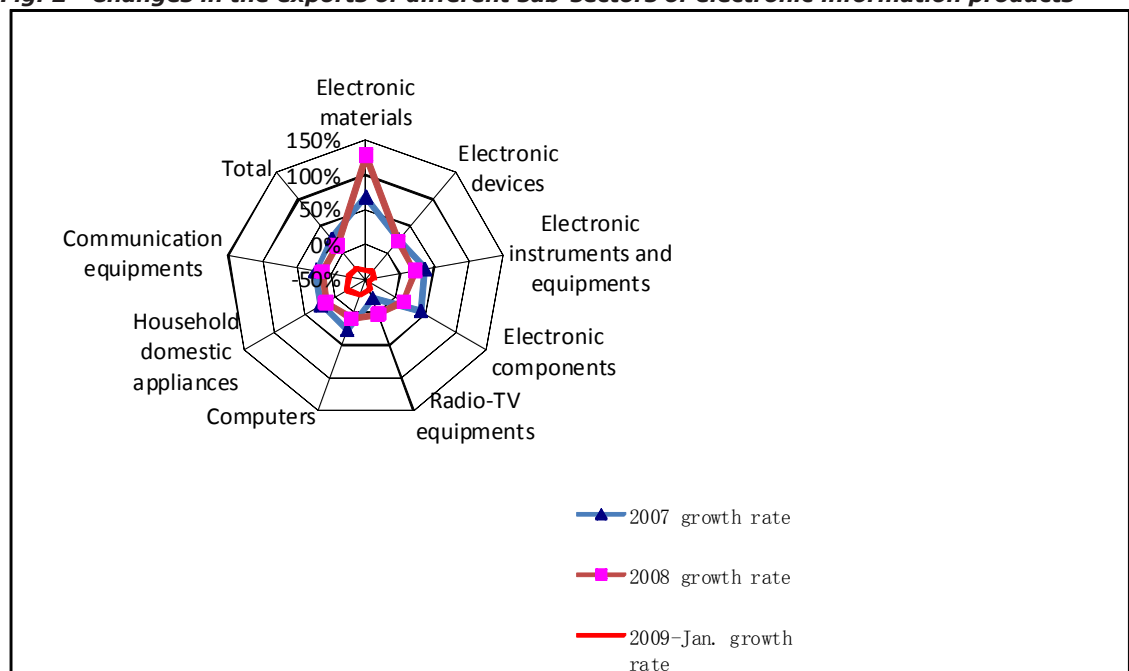
tion services (including software) is gradually emerging.

Computers, home audio products, consumer electronics and machine equipment were impacted by the financial crisis in 2008 while the components industry has been affected in 2009 (see Fig. 2). Information services (including software) have barely manage to avoid the impact of the shocks: on the one hand, the economic downturn will suppress the higher elasticity of demand of information services (including software); on the other hand, the rapid decline in the electronic manufacturing industry will further affect the information services industry (including software) requirements, although this is a lag effect.

Challenge 4: The financial crisis has led to increasing trade protectionism and trade frictions are expected to amplify.

In recent years, with its growing market share and international influence, China's electronic information industry has become the focus of international trade friction as there is a growing tendency to hinder Chinese exports in different ways. Because of the financial crisis, the international purchasing

Fig. 2 - Changes in the exports of different sub-sectors of electronic information products



Source: China Customs, February 2009.

power of developed countries has decreased, enhancing the competitiveness of low-cost Chinese electronic information products; this will lead importing countries to reinforce trade protection and raise trade barriers to China's electronic information exports.

Existing opportunities

Opportunity 1: Integration of information technology and industrialization to offer room for development.

Opportunity 2: the impact of China's overall economy on the development of the information industry is expected to gradually increase, domestic demand and self-innovation will become the next round of development of the information industry. Therefore, an important driving force will be the domestic demand-based information services (including software), as well as the need to strengthen independent innovation in order to break through the bottleneck of industrial development to achieve a more rapid growth.

For a long time China's information industry has relied mainly on export-led growth, but in 2007 the driving force of exports for industry growth was significantly weakened and the strength of this trend was even more evident in 2008: the industry's dependence on exports has dropped from more than 60% to 57.5%, showing that the impact of China's domestic market on the industry has strengthened.

Opportunity 3: The introduction of China's economic policies and economic incentives and revitalization plans to adjust the electronic information industry, on the one hand, have reduced the impact of the financial crisis on the industry in the short term and, on the other hand, they will create good opportunities

for the long-term development of the industry.

Opportunity 4: Formally awarded 3G licenses in China's information industry has become a major highlight of the development.

Opportunity 5: Chinese IT enterprises will gain from the advantages of China's financial markets to develop specific clientele, as well as short-term opportunities to buy technology.

Where does the financial crisis in new media ads go from here? Facing the financial crisis: where do the new media's ad investments go and come from?

CCID Consulting, Consumer Electronics Industry Research Center, senior analyst Liu Xiaojing.

2008 was an extraordinary year for China, with the long stream of events which brought a "shock" to the China's overall advertising market; in particular, a number of media which rely on advertising as the main revenue-generating mode have faced severe challenges and tests.

First of all, the Sichuan earthquake brought the national media's advertising almost to a standstill; then the Olympic atmosphere gradually boosted the domestic advertising market to reach a "stable" overall advertising market lately. However, the outbreak of the global financial crisis at the end of 2008 on the domestic market brought about a gradual dilution of China's advertising market growth prospects for 2009.

Small and medium-sized enterprises, and sectors more closely related with macroeconomic volatility, such as financial services, real estate and automobile indus-

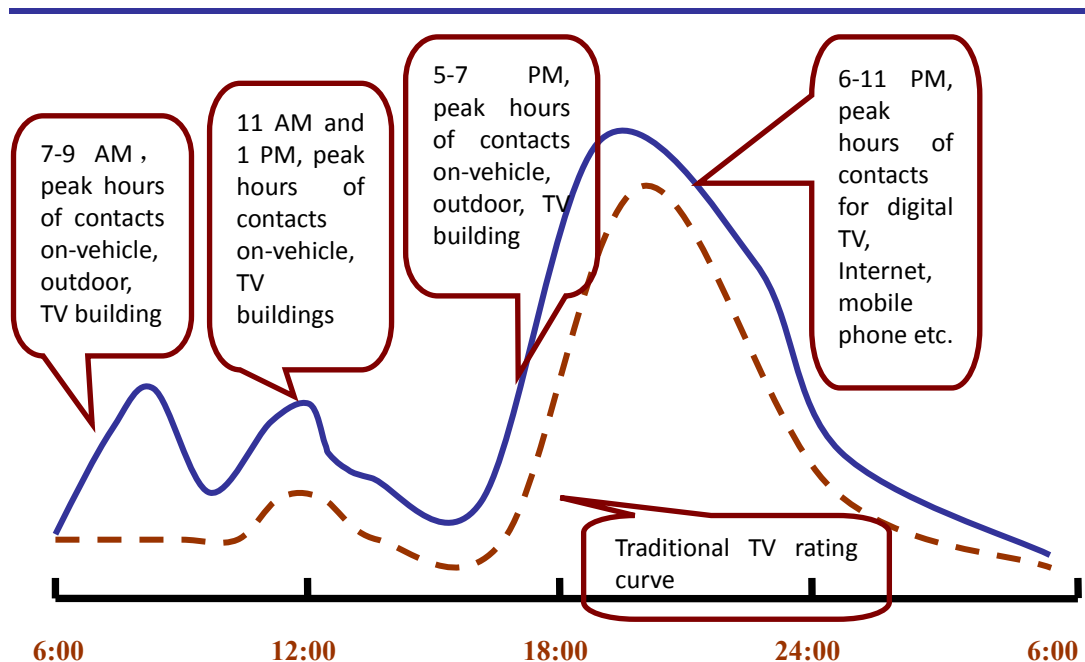
tries are greatly affected by the economic crisis. Therefore, within the crisis of the financial environment, with various enterprises reducing their advertising expenses, how to make a more effective use of limited funds has become a key consideration for the industry. For advertisers, the key question to address is: in the current status of their own brands, what kind of question do they need to address most? In order to solve these problems, how should the information be delivered to target groups? For this information to be delivered, what kind of media should be chosen to ensure the most suitable performance? Both local and foreign advertisers tend to use a „barbell-style,, marketing structure: maintaining the traditional advertising media such as television, newspapers and other mainstream traditional media and compressing investments on some local media and outdoor advertising, while increasing ad expenses in new media such as the Internet, public transportation and car mobile television. This will fill the lack of coverage and dissemination of

information, bringing good opportunities to the development of new media.

New media are based on computers, telecommunications, digital broadcasting technology and Internet, wireless communications networks as well as satellite channels to provide information which can be shared on terminals such as television, computers, mobile phones and other media. They have become one of the essential media for advertising expense as they combine the advantages of television and outdoor media, and their use on public transportation provides more extensive services and effective low cost self-promotional advantages by breaking with tradition and attracting more customer attention and recognition.

The profitability of the advertisers' capital drives the media according to different rating performances with a view to achieving the highest return on investment. When investing in brands, managers will have their own media goals; that is, to convey information to target customers at the lowest cost and in the most effective

Fig. 3 - Different time periods-media-audience



Source: CCID Consulting, May 2009.

way. Two indicators are obtained by breaking down this goal: the contact frequency within a time framework and the cost of contact. Over different time periods, the different way the audience chooses the media leads advertisers to consider flexible configurations of the media advertising options. As shown in Fig. 3, during working peak hours, from 7:00 to 9:00 am and from 5:00 p.m. to 7:00 p.m., on-vehicle and public mobile TV viewing achieve a relatively high rate, basically more than 10% over the prime time of traditional television. Therefore, an optimal advertising placing strategy should consider that during the daytime the choice of local public transportation ensures more mobile resources advantages, while in the evenings investments should be made in television channels with a higher share; a media mix strategy would be more efficient to advertisers.

According to CCID Consulting's monitoring data, considering the television audience, the crowd using public transportation show levels of education, jobs, income etc. that are slightly higher than

the general population: they consume the most mainstream market products.

The data also show that of the ad investments in the new media industry made in 2008, about 60% of the sales amount to over hundreds of millions of RMB (more than tens of millions of euro): this is more than sufficient to demonstrate that the new media have been recognized as a valuable advertising channel, suitable for public TV media. Sectors such as finance, telecommunications, real estate, electronics, automobile and other industries are increasing their expenses while sectors such as cosmetics have not invested yet, although the ad investments of this sector appear to be ideal for mobile TV media. This shows that this sector still needs to slowly improve confidence and services if they want advertisers to invest in public mobile television media.

■ Creativity and Innovation in Chinese Media

China Media Centre, University of Westminster, London, June 22-23.

The last thirty years have seen a transformation of the Chinese media. They have moved from being solely the "throat and tongue of the party" supported by state subsidies to a situation where the majority of their income comes from advertising revenue, for which they must vigorously compete with each other. The need to gain and hold an audience are today central to the concerns of media managers, journalists and creative workers. At the same time, they still need to follow the party line and carry positive messages about China's development. Many observers have noted how these two tasks impose unique burdens on the media and oblige them to develop new strategies to report the news and to entertain the audience. These themes will be debated at the conference. For further information, please visit: <http://www.wmin.ac.uk/mad/page-1264>

New & Notable Books

Identity, Tradition and Globalism: Post-Cultural Revolution Chinese Feature Films 1977- 1996, Adam Lam, VDM Verlag Dr. Müller, 2008.

Chinese reforms began in 1978, after the official end of the Cultural Revolution. Besides the initial economical goals, changes occurred across other fields ranging from politics to culture, from society to the legal system. These changes had a significant impact on the development of Chinese film. Applying contemporary theories, the author examines the works of acclaimed Chinese third- to sixth-generation directors from 1977 to 1996. Many of these filmmakers are now internationally famous either for their cinematic achievements or for the political controversies arising from their films. The author argues that Chinese film during this period experienced a shift of cultural identity from subjection to Chinese tradition to submission to transnational globalism. The analysis of how and why Chinese films have become internationally popular recently should be especially useful to those interested in Chinese cinema.

China's Information and Communications Technology Revolution. Social changes and state responses, Xiaoling Zhang and Yongnian Zheng (eds.), Routledge, 2009.

In recent years, China has experienced a revolution in information and communications technology (ICT). Indeed, China surpassed the US as the world's largest telephone market in 2003, and as of February 2008 the number of Chinese Internet users has become the largest in the world. However, this transformation has occurred against the backdrop of a resolutely authoritarian political system and strict censorship by the Party-state.

The authors examine China's ICT revolution, exploring the social, cultural and political implications of China's transition to a more information-rich and communication-intensive society. This book considers the ICT revolution in various aspects: for instance, outlining the dominant trends, the impact on other countries of China as an ICT exporter, strategies of government censorship and use of ICT for propaganda, the political implications of internet culture and blogging, and the role of domestic and foreign NGOs.

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