Making inroads in India, but at a cost

Chinese telecom firms discover challenges in sub-continent

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Chinese telecom equipment makers Huawei Technologies Co and ZTE Corp vowed to continue making a full commitment to the Indian market despite local regulatory uncertainties and intensified competition.

TELECOMS Huawei, the world's second biggest telecom equipment manufacturer, based in Shenzhen, said India is one of its most important strategic markets. The company operates in more than 140 countries and regions. Huawei has invested more than $400 million in research and development in India since it entered the market in 1999, the company wrote in an email to China Daily.

"Huawei is currently investing $150 million to construct a new state-of-the-art R&D campus in Bangalore which will have capacity for 5,000 staff upon completion in mid-2013," the email stated.

Huawei is about to invest $2 billion over the next four years in India as it looks to aggressively market consumer devices and set up the global R&D center, the Economic Times, an Indian newspaper, reported in June.

India is also the largest single-country overseas market for ZTE, the world's fifth largest telecom equipment provider. ZTE has recently won part of a mobile network expansion contract, worth around $1.09 billion, from India's state-run mobile operator BSNL, to supply equipment and software technology.

"We have operated in India for more than a decade. Looking ahead, ZTE is determined to expand operations and be more localized in India," Cui Liangjun, general manager of ZTE India, told China Daily.

Both the Chinese telecom equipment makers have seen their Indian businesses taking off in the past decade. ZTE revealed its annual sales in India reached a record high of $1.5 billion in 2009, from about $100 million in 2004. However, its annual revenue in India in 2010 and 2011 slightly slipped, because of "the downturn of the whole telecom market", Cui said.

Huawei currently employs 6,000-plus direct staff members in India, with 90 percent of them being local residents. Huawei clocked $1.5 billion in revenues from India in 2011-12, the Economic Times reported. Of them, $1.2 billion was contributed by its network business driven by 3G deployment and network expansion by operators. The remaining $300 million came from devices such as handsets, software protection keys known as dongles and set-top boxes, the paper said.

Developing quickly in the Indian telecom market was by no means an easy thing. One of the biggest obstacles for Chinese telecom companies was adverse policies. Because of security concerns, Indian authorities made Huawei and ZTE jump through hoops to get a foothold in India's vast telecommunications space.

In August 2006, the Foreign Investment Promotion Board of India rejected ZTE's application seeking approval to undertake trading activities. ZTE has not been given permission by the FIPB to carry out cash-and-carry activities with telecom equipment, which prevents ZTE from undertaking retail and bulk selling of products.

At the same time, Huawei, which also wanted to trade its telecom products in India, had been in negotiations with the FIPB over the previous four years regarding security concerns, Indian media reported.

In 2010, the Indian government temporarily banned 25 Chinese network equipment suppliers, including Huawei and ZTE, from taking part in infrastructure projects. It is reported that the Indian government fears malicious software in foreign equipment could put national security at risk.

It is particularly wary of China because the two rising nations share a long border and a rocky history, local media said.

There is the possibility of a corruption scandal over the 2008 sale of spectrum for second-generation mobile phone services. The Supreme Court of India revoked 122 telecommunications licenses that were issued at below-market prices earlier this year.

The ruling applies to licenses for eight operators. Many of them had purchased equipment from Chinese vendors including Huawei and ZTE. Analysts have started to worry that the two companies may fail to collect money.

"Yes, it is challenging in the India market. First, because all vendors have a strong presence in India, high quality, good service and price play an important role in winning any customers. Second, there are also many regulatory issues which also affect operations in India from time to time," Huawei said.

Cui Liangjun said there were a total of 16 telecom carriers in the Indian market. The level of competition has made them extremely sensitive to price. As a result, operators have become very demanding and tend to transfer risks to telecom equipment companies.

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> GENERAL MANAGER, ZTE INDIA

"Moreover, we have a different culture to India and that creates difficulties over internal communication and management," Cui added.

Nonetheless, Chinese telecom companies feel obliged to pay attention to the country because it is a fast-developing market, analysts said.

The Indian market is one of the largest in the world, with the number of telecom subscribers second only to China.

The number of mobile subscribers in India rose to more than 900 million today from about 4 million in 2001. The rate of increase of new mobile users has sometimes surpassed China. India adds around 6 million to 7 million mobile users a month currently.

In order to succeed in an emerging market such as India, both companies have clear strategies. Huawei said the first important thing in doing business in India is to understand the unique needs there and to manage challenges and opportunities.

"Then we need to sustain innovation and to foster local cooperation and achieve win-win success," Huawei said.

Cui at ZTE said it insists on a localization strategy. About 85 percent of ZTE India employees are local residents. The company built a software research institute in Bangalore in 2005 to develop added-value software and customized products. Meanwhile, ZTE set up its biggest overseas network operation and maintenance center in India to better support local telecom carriers.

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Chinese and Indian employees at a Huawei research and development center in Bangalore, India. Chinese IT companies, including Huawei and ZTE Corp, are strengthening their footholds in the Indian market because they see a great talent pool in the country and a huge market demand.

Growth: Chinese years ahead of rival neighboring country

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China's National Bureau of Statistics data show that the urban population in the nation currently accounts for about 51 percent of the total population. Compared with 2000, the number increased about 14 percentage points.

However, in 2011, India, with about 247 million households, had an urban population of about 30 percent.

"With an urban population smaller than China and an even sharper gap between rich and poor, the development difference between the two countries is accelerating," said Wang.

Economically speaking, the IT industry has become one of the biggest economic growth drivers for India. According to Prashant L. Rao, the editor of India's long established IT publisher Express Computer, the SME slice of the Indian PC market works out at about 27 percent of the total PC market.

According to a survey made by the International Labour Organization, the average monthly salary was $295 in India last year and $656 in China. A child's chance of surviving more than five years after birth is the same in India today as it was in China in the 1970s.

During the financial crisis, more so than with China, India's domestic economy provided a cushion from external economic pressures. Private domestic consumption contributed 57 percent of GDP in India compared with only 35 percent in China. Despite this, "potential IT purchases are significantly less than in China," said Wang.

International firms

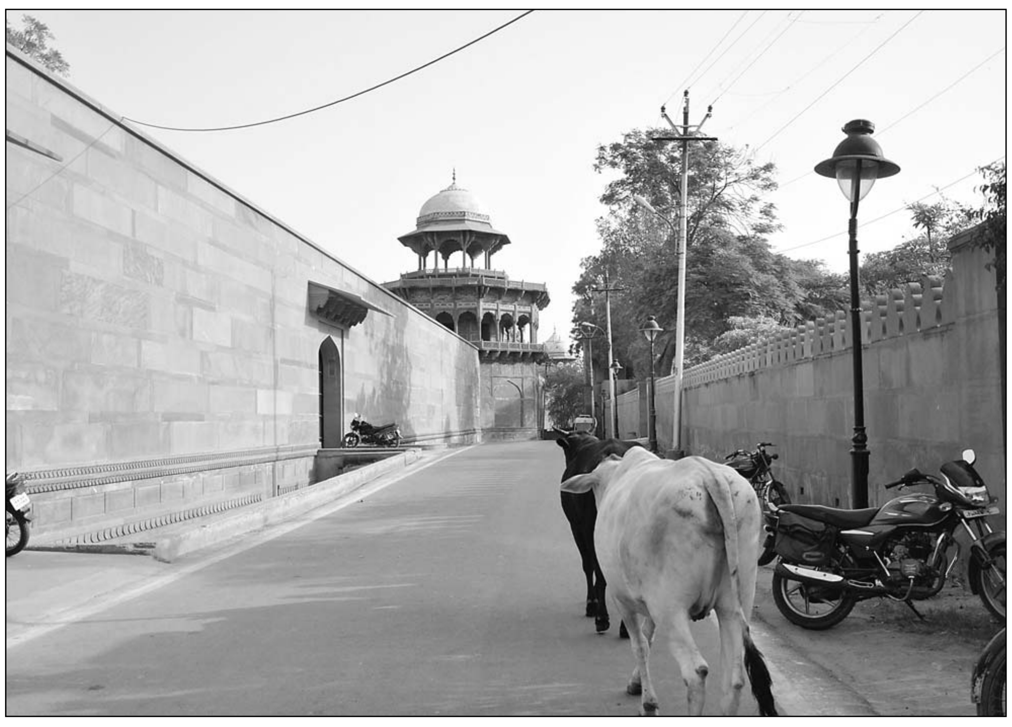
There are many Lenovo Group stores — the biggest Chinese PC company — in India. However, there is not a single Indian PC exclusive store or Internet mobile maker in China.

Last year, the top two PC vendors in India were Dell Inc with 16.4 percent market share and HP with 12.8 percent. In the first quarter of this year, Lenovo became the largest PC company in the Indian market for the first time.

Dell entered India in 1998, six years later than it entered the Chinese market, and built its first factory in the nation in 2007.

China, as the largest market for Dell outside the United States, contributes about 10 percent of Dell's global sales now, while India contributes about 2 percent and is in the No 10 slot, according to Amit Midha, president of Dell Asia-Pacific and Japan, chairman of Dell global emerging markets.

At Dell's Dell Women's Entrepreneur Network event which was held in New Delhi from June 17 to 19 this year, he mentioned that although the investment Dell puts into the Chinese market is more than it puts into the Indian market, it employs three times more people in India than in China. That is because the employees not only service the Indian market but also the US market.



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India has more rural residents compared with China and, with a big gap between rich and poor, the development difference between the two countries is accelerating.

Currently the company has 27,000 employees in India and can cover 88 percent of the nation with sales and delivery.

HCL, the largest local PC maker in the Indian market, has never entered the Chinese market.

Economies

India has been one of the fastest growth trade partners with China in the last few years. In 2011, bilateral trade between China and India reached $78.9 billion in infrastructure, finance and technology, said Peng Gang, commercial counsellor of China's embassy in India.

As a consequence of the global financial crisis, exports of both countries have encountered difficulties, causing GDP growth to slip.

India's GDP growth was 5.3 percent in the first quarter of this year, the lowest in the past 10 years, as was China.

The common point between the two economies is that they have a huge domestic demand. Peng said that the Indian government has enforced many policies and rules to boost domestic demand.

However, compared with China, India's economy doesn't depend on exports that much.

Languages

IDC data shows that because India's official languages are Hindi and English, in the past 10 years India IT services have made rapid progress.

"Service outsourcing is the most impressive industry in India worldwide," Wang said.

He mentioned that India IT services and software were almost double the size of China's. Spending on operations management software is higher in India, with China measuring 59.2 percent of India's output in 2011.

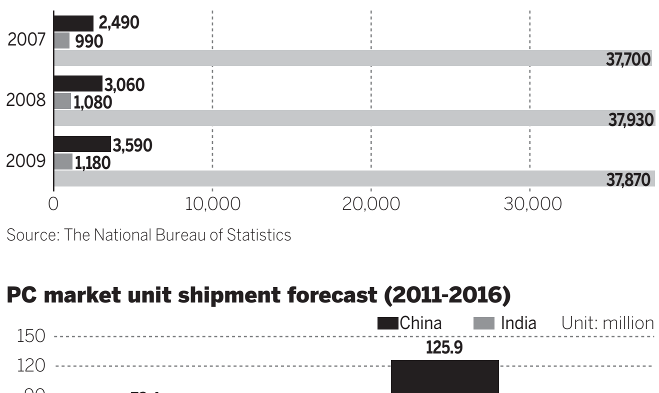
INDIAN ECONOMY AND IT MARKET COMPARISON WITH CHINA

China and India (2011-2012)

	China	India	Years since China was at India's current level
Life expectancy	73	65	36
Adult literacy rate, % of 15+	94	63	25
Electricity consumption, mW an hour per person	2.5	0.5	18
Internet users, % of pop.	32	9	5
Gross higher-education enrolment, % of age group	25	13	5
Cars per 1,000 pop.	36	24	2

Source: CEIC, IEA, IMF, ILO, International Road Federation, Internet World Stats, UN, World Bank, The Economist

Average per capita income

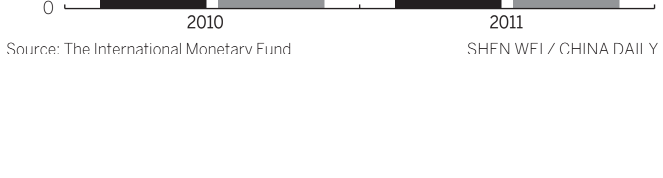


Source: The National Bureau of Statistics

PC market unit shipment forecast (2011-2016)

Source: IDC Worldwide PC Tracker 2012Q1

Gross domestic product



Source: The International Monetary Fund

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