

# Chapter 4.28

## China:

### M-Commerce in World's Largest Mobile Market

**Nir Kshetri**

*University of North Carolina at Greensboro, USA*

**Nicholas Williamson**

*University of North Carolina at Greensboro, USA*

**David L. Bourgoin**

*University of Hawaii at Manoa, USA*

#### **ABSTRACT**

*China is emerging as a global capital of m-commerce applications. China is the world's biggest mobile market in terms of subscriber base and the fastest growing in the history of telecommunications. Although China currently lacks advanced mobile applications compared to Europe, North America, Japan and Korea, a number of mobile players are rapidly launching sophisticated mobile applications. Unique institutions and the nature of mobile market conditions in China, however, superimpose in a complex interaction that harbors a paradoxical nature. The Chinese m-commerce market is thus drastically different from that of the Western world. This chapter examines the Chinese m-commerce landscape and analyzes*

*its drivers. We also examine the Chinese market from the CLIP perspective.*

#### **INTRODUCTION**

Consider the following observations on the development of mobile technology and the potential of m-commerce in China:

*For the tech industry, it's China — not Europe, or Japan, or other Asian countries — that will soon be its [USA's] main rival. The implications are profound. No longer content to cheaply make other people's products, a task it has clearly mastered, China wants to be a global standards setter. ... One place to watch the flexing of power is in*

*mobile phones*<sup>1</sup>. *The mobile Internet has really saved China's Internet industry*<sup>2</sup>.

As the above statement indicates, China has emerged as a capital of the global mobile market. The growth rate achieved by the Chinese mobile network, the biggest in the world, is the fastest in the history of telecommunications. Rapid development in the Chinese mobile market has driven increasingly China-centric activities of major players in the global mobile market (Kshetri, 2004a, 2004b).

Unique institutions and the nature of mobile market conditions in China, however, superimpose in a complex interaction that harbors a paradoxical nature (Kshetri, 2005). This chapter provides a brief survey of the paradoxical Chinese m-commerce market and analyzes its driving force. The chapter structure is as follows: The next section provides a brief overview of the Chinese mobile market. The paper then analyzes some major forces behind China's rapid growth in this market. Next, we examine the Chinese market from the CLIP perspective. Finally, the paper presents its conclusions.

## **A BRIEF SURVEY OF THE CHINESE MOBILE MARKET**

The Chinese mobile market became the largest in the Asia Pacific in 2000 and the world's largest in 2002 (Stout, 2001). By the end of 2004, there were over 300 million mobile subscribers in China and an additional 75 million "Little Smart"<sup>3</sup> users (BBC News, 2004). During 2004, mobile phone users in China grew by 27 per cent (Reuters, 2004). An estimate by the telecom analyst firm, EMC, suggests that China will have 36 million 3GSM<sup>4</sup> (W-CDMA) subscribers by 2009 (globalsources.com, 2004).

In 2002, 120 million handsets, or 27 percent of the world total, were produced in China. The proportion increased to 33 percent in 2003, 35.1

percent (233.5 million) in 2004 (*SinoCast, China Business Daily News*, 2005a) and is estimated to reach 50 percent by 2008 (Symbianphone.com, 2003). China's handset exports increased from 22.75 million in 2000 (*GIS News*, 2001) to 55 million in 2002. During the first half of 2003, China exported 37 million handsets.

China's Time Division — Synchronous Code Division Multiple Access (TD-SCDMA) — developed by Datang is currently accepted as a global third generation (3G) standard. Among 16 proposals submitted for IMT-2000<sup>5</sup> standards, TD-SCDMA was one of the three 3G mobile standards selected by the International Telecommunications Union (ITU) in May 2000. The other two standards are the U.S. based CDMA2000 system and Europe's WCDMA. The Third Generation Partnership Project (3GPP) accepted the TD-SCDMA in March 2001.

TD-SCDMA is scheduled for launch in the second half of 2005. Estimates are that following its launch, the TD-SCDMA will capture 30 percent of the Chinese market and 10 percent outside China (Einhorn, 2003). It is also interesting to note that some innovative m-commerce applications were first developed and employed in China. To take one example, the world's first electronic stock trading over a wireless network, took place on byair.com in Shanghai, China, in 1998<sup>6</sup> (see Box 1).

By 2008, China's wireless mobile market is estimated to exceed US\$200 billion<sup>7</sup>. An estimate by Lehman Brothers Inc. suggests that revenues of mobile portals generated by sending news updates, games and online dating amounted to \$200 million in 2001, and was estimated at \$3 billion in 2004. China Mobile, the world's largest mobile operator, was the most profitable telecom operator in the Asia-Pacific region in 2002, with a profit of \$3.5 billion on revenues of \$12.2 billion. A 28 percent return on revenue is an excellent indication of where the Chinese market is developing.

China introduced Wireless Fidelity (Wi-Fi) technology in 2002 and is diffusing rapidly (Clark

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