As the world was getting flattened by the recent global recession, China was less affected than the western world (Figure 1.1). While the western world continues to try to figure out a way out of this doldrum, emerging economies such as China and India are applying brakes to their growth to avoid inflationary pressures.

**Figure 1.1**

Flattening During a Global Crisis
China’s growth over the last five years was dominated by growth in its tertiary sector (Figure 1.2).

The Communications sector in China, classified under ‘Information transmission, computer service, and software’, grew slower than the average tertiary sector and slower than GDP during the period 2005-2010 (Figure 1.3). Twelve out of 14 tertiary industries experienced higher increases that the reported 56% increase of Telecommunications during that period. In 2009, this account contributed to only 1.2% of the 2009-2008 GDP growth, far behind leading tertiary contributors such as real estate (13.9%), banking (10.4%), wholesale (10.3%), and education (5.7%). In India, as you may recall from our India Brief, the corresponding Communications sector provided much of the impetus for growth during this period (see India Economic Sector Brief Issue 1, September 2011).

Information Transmission sector which roughly corresponds to the Indian Communication sector classification was one of the laggards among the tertiary industries group (figure 1.4) with capital expenditures for upgrading to newer generation services etc taking a back seat to stimulus programs.
• This marginal growth can be explained in part by the decrease in the land-line communications market and the slow growth in the mobile phone market. During the last decade, the land-line communications market has been in decline in most developed countries but not as much in China. This country registered strong increases in the number of fixed lines per person during 2002-2006, and only after 2007, followed the mainstream with a solid decline (fig 1.5). In 2010, the number of fixed lines per person in China was 10 times greater than the one in India, and just 11 points below the U.S.

• The other cause of the stagnant growth in the telecom industry is the slow mobile market penetration. While India has been experiencing an exponential increase in the number of cellphones in the last five years, the mobile market penetration growth in China has been rather linear (fig. 1.6). The low GDP per capita may have limited further mobile market penetration in China along with the fact that the telecom industry in China is monopolized by state-run corporations.

• Not all the regions in China had the same access to mobile telephony. Large metropolitan areas were early adopters and some of them became already mature mobile markets, particularly Beijing and Shanghai (fig 1.7).
China, as with India, has immense rural areas in which access to cell phone is still rather limited. Some provinces, including Henan, Anhui, Guangxi, and Jiangxi showed below 50% market penetrations (fig 1.8). The Chinese provinces of Guizhou, Gansu, Tibet, and Hainan experienced the highest mobile phone growth rates during 2006-2010.

As wireless data communications have become more affordable and faster, a growing number of Internet subscribers use their mobile phones to access the Internet. In June of 2011, 66% of mobile users accessed the Internet from their devices, while just four years ago only 27% accessed the net from their mobile phones (fig 1.9).

The Internet usage will become a key driver of the communications industry. 36.2% of the population in China accessed the Internet in June 2011, 14% more than a year ago. The annual YoY growth in penetration, however, has been declining in the last four years, from 55% registered between June ‘07 and June ‘08 to only 14% for June 2011(fig 1.10).
The composition of Internet users by education has changed in the last five years. The share of elementary and middle school students accessing the internet has increased from 5% and 17% to 9% and 35%, respectively, at expense of college students, graduates and above (fig. 1.11).

The composition of Internet users by income also changed. The share of higher income users is greater than four years ago, while the share of lower income users dropped during the same period (fig. 1.12).

Chinese telecommunications are centralized, controlled and operated by the state. 84% of the mobile market is served by the state-owned operators China Mobile Limited and China Unicom (fig. 1.13). China Mobile is the largest and Unicom the third largest mobile telecommunications company in the world. Both are listed on New York Stock Exchange and Hong Kong Stock Exchange. The state-owned China Telecom Corporation is the provider of fixed lines in China.

As the world slowly tries to shake off the hangover induced by the global recession, and China moves away from stimulating its economy, investments in 4G communications technology and rural communications are gradually beginning to take on a principal role again.