

# connections

world communications report

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## China

### The world's most tempting telephone market

China is an alluring target for the world's biggest telecommunications manufacturers. Their representatives are finding selling to China a lonely waiting game, with no fun and little profit. But they dare not give up. China sincerely wants to modernise. Our special correspondent, Joel Solkoff, reports from Beijing.

Beijing (the capital of China, formerly transliterated as Peking) is a city of 9m people and 127,000 telephones. Telephone service is so bad that many businessmen prefer to take a taxi across town than to try to use the telephone. An American embassy official said that after two months of dialling to an annex three blocks away, he had never reached the person he wanted. "At least when I walk," he said, "I know I'll get there."

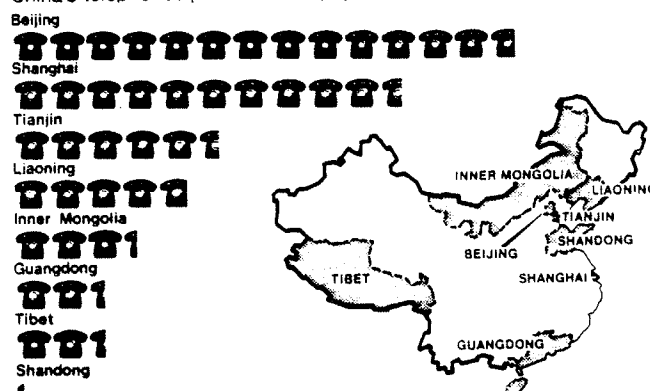
Where it exists, telephone service is even worse in the rest of China. For its billion-plus population and its area larger than the United States, China has only 2m telephones, and they don't work well. Fewer than 50% of Chinese telephone calls, according to one estimate, are completed successfully.

Inter-city direct dialling does not exist. To reach Shanghai, China's largest city (nearly 12m people, 130,000 telephones), one first calls the operator, then waits for up to an hour.

The Chinese are candid about the awfulness of their system. Their sixth five-year plan, covering 1981-85 (published in 1984) admitted that posts and telecommunications were "particularly weak links" in the national economy.

#### A telephone desert

China's telephones per thousand population (1983)



Province	Number of Telephones	Provincial population	Province	Number of Telephones	Provincial population
Beijing	127,000	9,231,000	Inner Mongolia	64,700	19,274,000
Shanghai	125,900	11,860,000	Guangdong	144,400	59,299,000
Tianjin	43,400	7,754,000	Tibet	4,600	1,892,000
Liaoning	171,800	35,722,000	Shandong	13,900	74,419,000

According to Mr Zhou Zehe, an official with the Ministry of Posts and Telecommunications (MPT), factories throughout China are waiting for telephones to be installed and many businesses have to function without telex machines. People with offi-

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 ces in Guangzhou (also known as Canton) cannot send a telex directly to Beijing but have to route it through other cities. The greatest critic of the system, said Mr Zhou, is the minister in charge of the MPT, **Mr Wen Minsheng**. One day (Mr Zhou recounted with some awe) Mr Wen became so enraged at being unable to complete a call that he **slammed** his fist on the receiver and ordered his secretary to dial all his calls for him from then on.

One recent exception to the **appalling service**: international calls. The Chinese are hungry for the foreign exchange generated by such calls (\$40 for an eight-minute call to America) so they whiz through without problems. Your correspondent placed more than a dozen phone calls to the United States from seven separate hotels in three different cities. None took longer than 10 minutes to connect. Other travellers report the same. But calls from the United States to China often take hours to complete.

### Import now, pay later

China acknowledges that its telecommunications problems are so great that only imported equipment can solve them. In 1981 the outside world sold nearly \$537m worth of telecommunications "apparatus" to China, an increase from sales of \$367m in 1980. These figures, published by the American Central Intelligence Agency, are the most recent available and represent at best a good guess. Most countries which sell to China do not list telecommunications equipment separately on their export reports. Also, they are indulging the Chinese in their habitual reluctance to pay cash for anything. As a result, Chinese telecommunications purchases are under-recorded.

The Chinese don't ask for credit, they ask for "joint licencing". As Mr Zhou explained, "We need help to acquire and manufacture advanced technology items. That is why foreign companies are joining with us in creating cooperative ventures here in China. We put money in these ventures and the foreign companies put in money, and after production begins we both benefit."

In 1983, for example, Bell Telephone Manufacturing Equipment Company, a Belgian subsidiary of ITT, entered into an agreement with MPT to manufacture digital telephone exchanges (ITT model 1240) in a factory currently under construction in Shanghai. Production is expected to begin by the end of this year. The \$350m multi-year agreement also will provide Beijing and Shanghai with 150,000 additional telephone lines.

Chinese officials currently **seem to be punishing American companies to the benefit of Japanese and European competitors**. In 1983, China was angry at the **Americans** for imposing restrictions on textile exports when they know that textiles represent China's largest source of **foreign exchange**. This exchange, Chinese officials said repeatedly, could have been used to purchase American products. Instead, in 1983 China retaliated by buying 15% less from the United States than the year before.

Sales of American telecommunications equipment to China increased in 1983 to \$18m from \$11.7m in 1982. But the non-American companies won the best contracts. In 1983 the Chinese chose Nippon Electric (NEC) to provide Tianjin, a city of nearly 8m people, with an electronic digital switching system, including 10,000 local lines, and 5,000 pushbutton telephone sets. The Chinese also selected NEC to provide Beijing with its third satellite earth station—even though it took its previous two from GTE and RCA. And it picked the Swedish L.M. Ericsson to

provide switching equipment and 20,000 telephone lines to Guangzhou.

Swedish and Japanese trade statistics do not yet reflect their Chinese success. In the first nine months of 1983, Sweden sold China only \$2.4m worth of telephone switching equipment. For all of 1982, Japan sold only \$50,165 worth of switchboard and exchange equipment, \$19,000 worth of multiline telephone equipment, \$32,560 worth of telephone sets, \$34,523 worth of microswitches, \$112,713 worth of electronic line telephonic apparatus and \$207,506 worth of parts. As Japan is China's principal banker and trading partner, its banks and telecommunications companies seem especially willing to extend credit to the Chinese in the hope that the new telecommunications market will eventually prove profitable. Meanwhile, MPT officials, under pressure from their dissatisfied superiors on the State Council—who demand that telecommunications modernization must move more quickly—are thinking of doing more straight-forward buying.

### A waiting game

Most telecommunications companies wooing China, however, have not found the experience a happy one. One American diplomat said, "Your chances of making a profit are better if you've maintained a presence in China for at least 10 years. I believe that there are some folks making a profit, but they're in the minority. Most are losing and are willing to gamble that the future will pay off."

The Beijing manager of one international telecommunications company, which recently won a contract for switching equipment and thousands of telephone connections, described the frustrations. "The Chinese start from such a low technological base that they don't know what they need. So we have to invest in researching and developing a realistic plan for their requirements and then provide a bid. Then they have a policy of going to at least three manufacturers before awarding a contract. Generally, they go to more than three. Sometimes, they go to more than 10. Then they tell you, 'Your competitors are willing to undersell you. Won't you reconsider and lower your price?'"

"The Chinese negotiate all the time. When we're not working around the clock to give them information, we're waiting days or weeks at a time with nothing to do—waiting for them to make up their minds."

In Beijing, a city short of housing and offices, the luckiest foreign salesmen are those who have an office in the Beijing Hotel and live in the Jianguo Hotel, or vice versa. They break up the boredom by taking cabs back and forth, or by eating at a fancy French restaurant in the recently built Jianguo. The Beijing architecture is a cross between Moscow modern and Los Angeles asphalt. Dust and cold air blow in from the Gobi desert in the winter. Since foreigners are rarely able to make friends with the Chinese, competitors in telecommunications have no one to talk to but each other, and even that has its restrictions.

Over the years, the foreign salesmen tend to become suspicious of visitors. And for good reason. After years of diligently reading the government's English-language *China Daily*, they will know, say, that Tianjin will spend \$75 million this year to expand its telephone service. So why tell newcomers?

In time they become more secretive than the Chinese themselves. The American embassy's directory of firms doing business in Beijing says that a Mr Evan S. Shen of AT&T International has an office in room 5036 of the Beijing Hotel. But room 5036

houses the Chicago-based law firm of Baker & McKenzie. How come? Because, says Mr Jesse Chang, an Australian-accredited lawyer, Baker & McKenzie represent AT&T in Beijing. Why he will not say: "You'll have to ask the Embassy."

#### **You do have to know the language**

For a foreigner intent on business, a working knowledge of Chinese is essential. Few Chinese know any language but their own. Relying on the English-speaking resources of the telecommunications ministry is unwise. Mr Zhou, although deputy chief for the division of international relations, does not understand English. His official English-language translator cannot handle "licencing agreement", "digital switching equipment", and "mutual cooperation".

A closed society offers some surprising exceptions. Compilations of economic statistics, including the number of telephones in China, are sold in the bookstore of the Beijing Hotel. At least three telephone books are available in English, including one published by the telecommunications ministry, which confesses, "Owing to a shortage of experience in the compiling of the work,

there may be something inappropriate. We honestly invite users comments and opinions for our future improvement."

#### **Write now**

Getting into China to sell telecommunications equipment is tricky. You can only expect to develop a business relationship if you are invited to visit China under the auspices of the telecommunications ministry or one of the government-run trading corporations which report to it. A Chinese official explained, "If you are outside China and have not received an invitation in the past, you are unlikely to get one in the future."

But Mr Zhou had a message for readers of *Connections*. "Tell them that it is not too late for telecommunications companies not currently doing business with China." They should write or call him directly: Zhou Zehe, deputy chief, division of international relations, department of external affairs, Ministry of Posts and Telecommunications, 13 West Chang An Avenue, Beijing, China. Phone: 660540. Cable: DEPAFEX. They should describe their services and, if possible, how they may be of service to China. □

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