

Entry Regulation into Mobile Phone Manufacturing in China: Why Did It End?

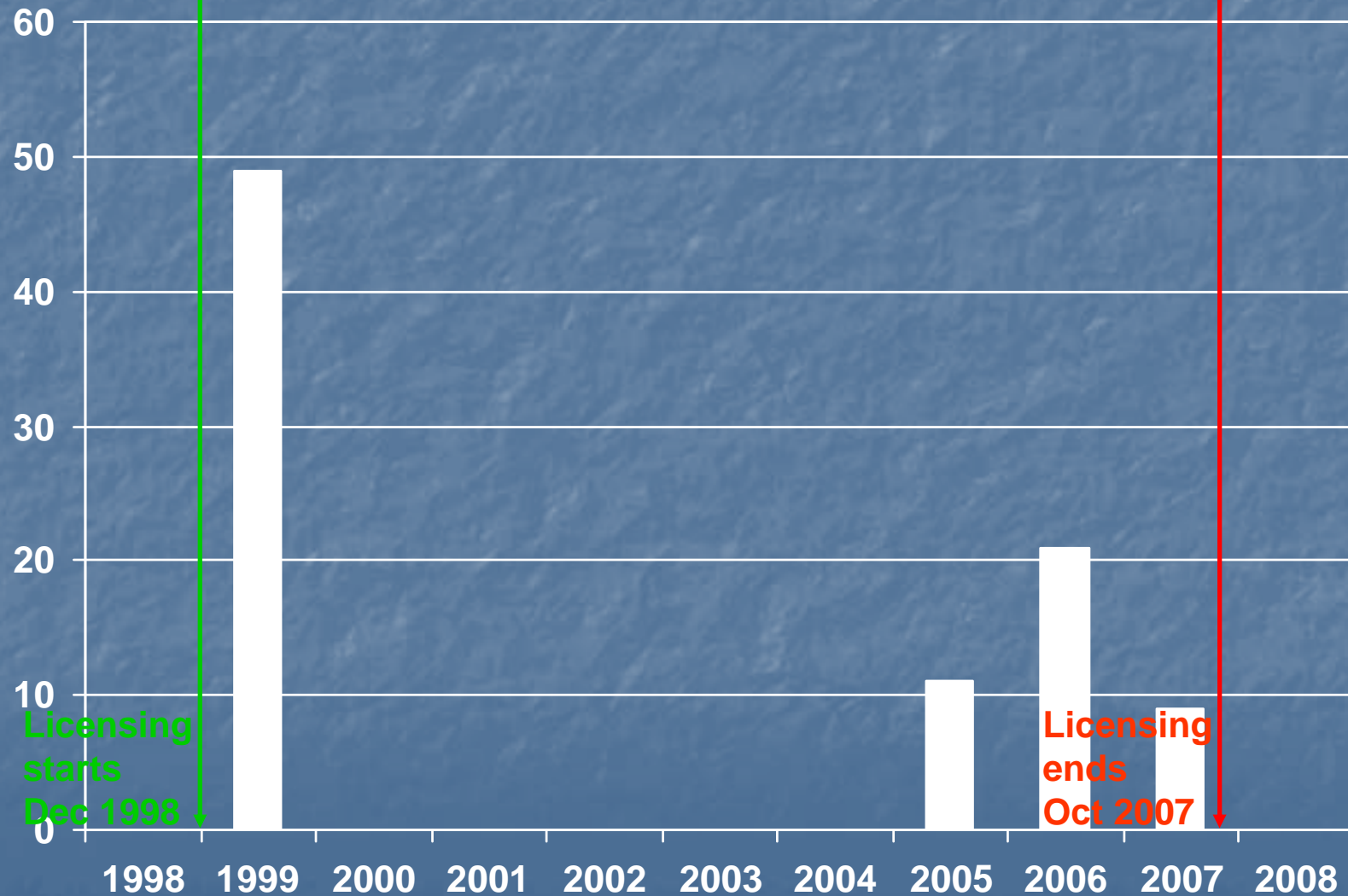
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Outline of talk

1. History of regulation
2. Technological innovation
3. The rise of bandit phones
4. Institutional change

Entry licenses issued each year to mobile phone manufacturers

of
Licenses

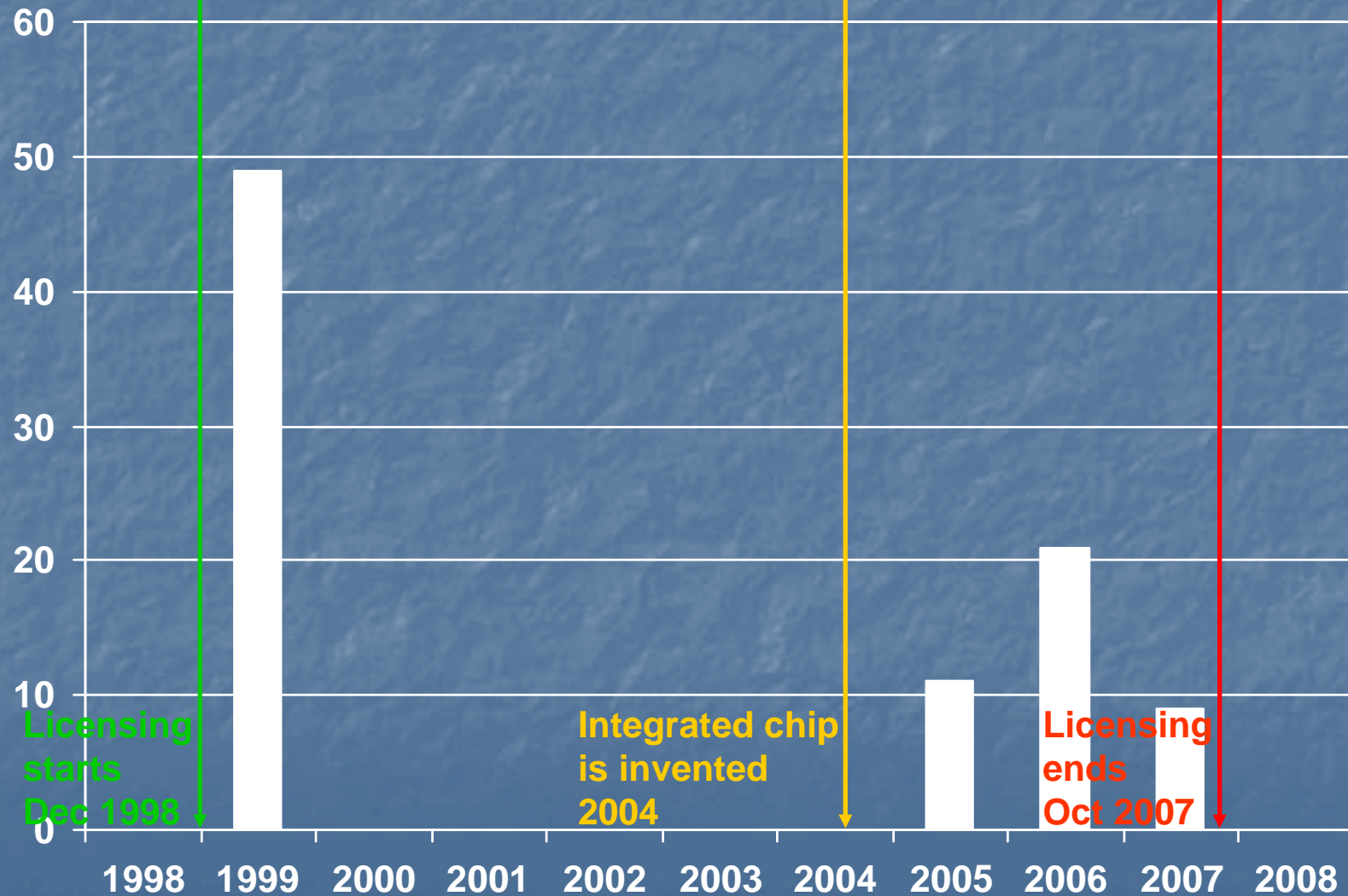


Licensing
starts
Dec 1998

Licensing
ends
Oct 2007

Entry licenses issued each year to mobile phone manufacturers

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Licenses



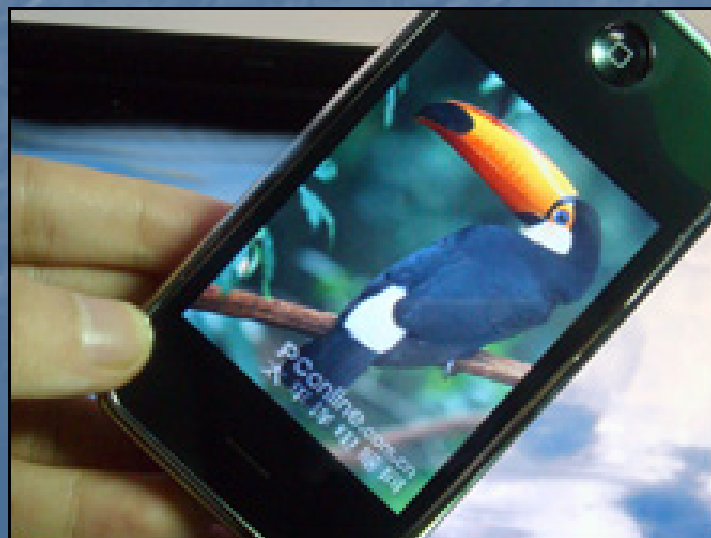
Technological innovation in 2004

- MediaTek invented a “total solution” **chip**
into which all software are integrated
- Production costs of mobile phones fell
Before: 100 engineers + 9 months
After: 3 workers + 1 month
- Mobile phone price to consumers fell **80%**

Car? Cigarette? Watch? No - bandit phones.



Illegal copies of famous brands

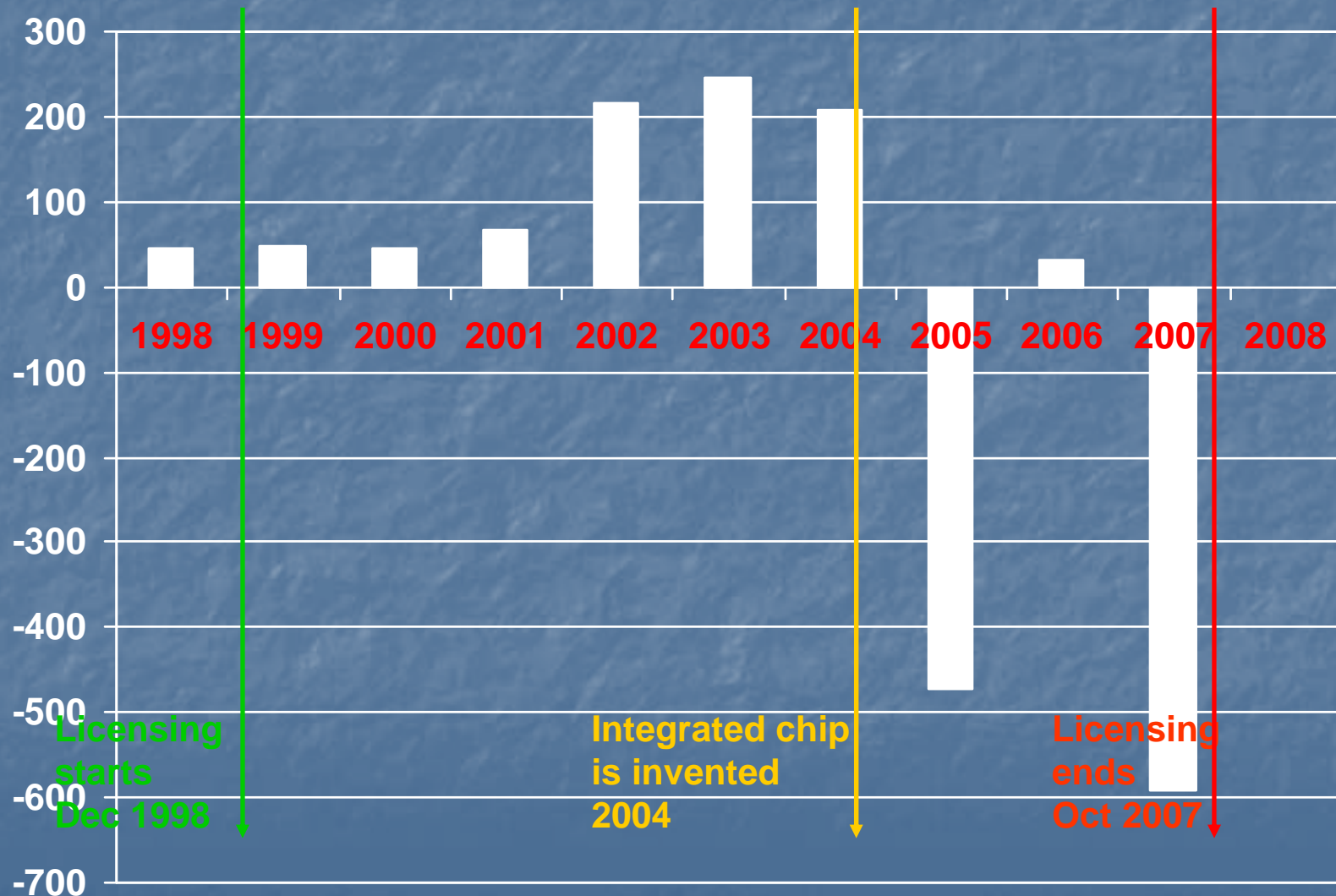




Large-scale failure of SOEs started in 2004

Example 1: Net profit of Bird Company Ltd.

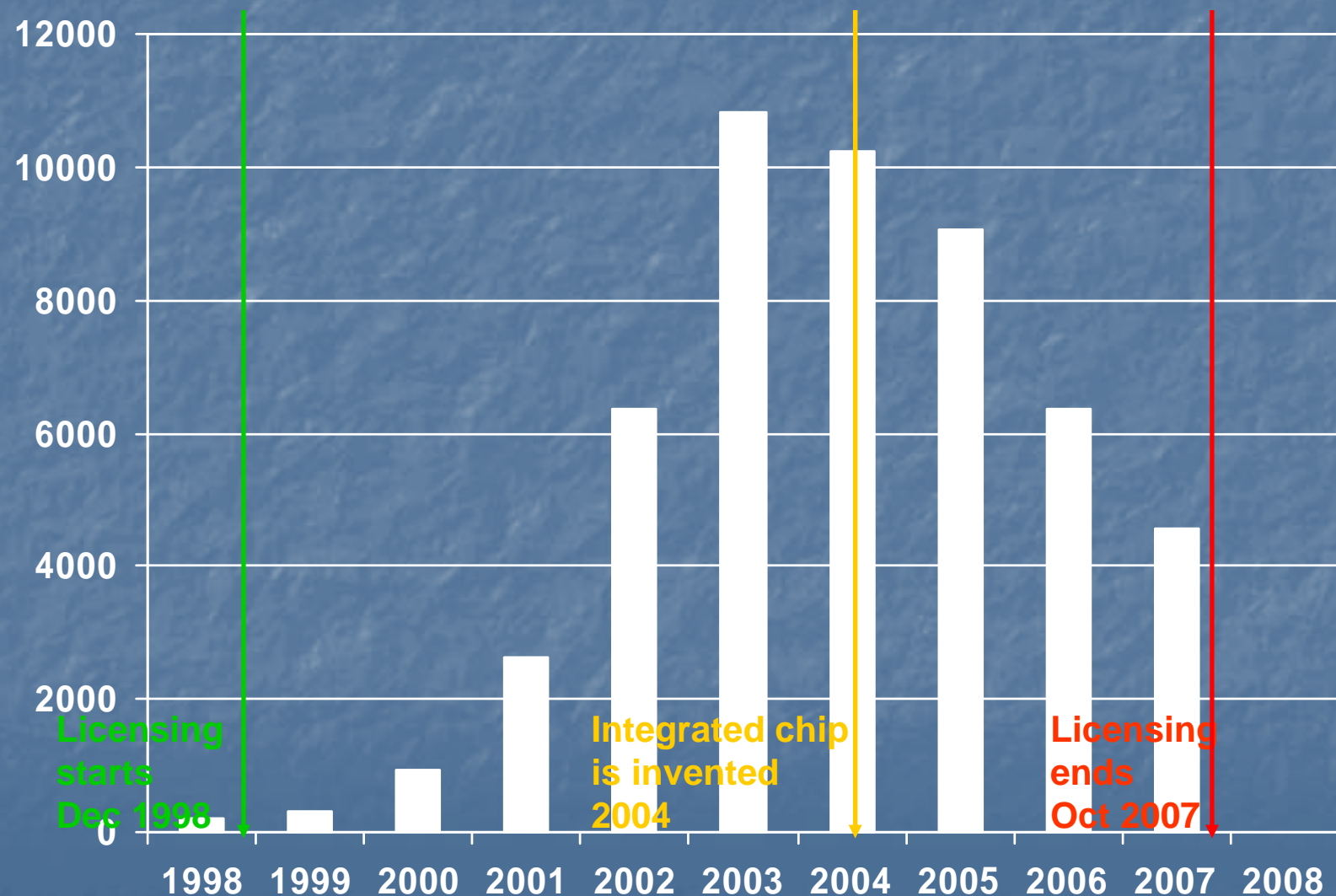
(unit: million RMB)



Large-scale failure of SOEs started in 2004

Example 1: Primary business income of Bird Company Ltd.

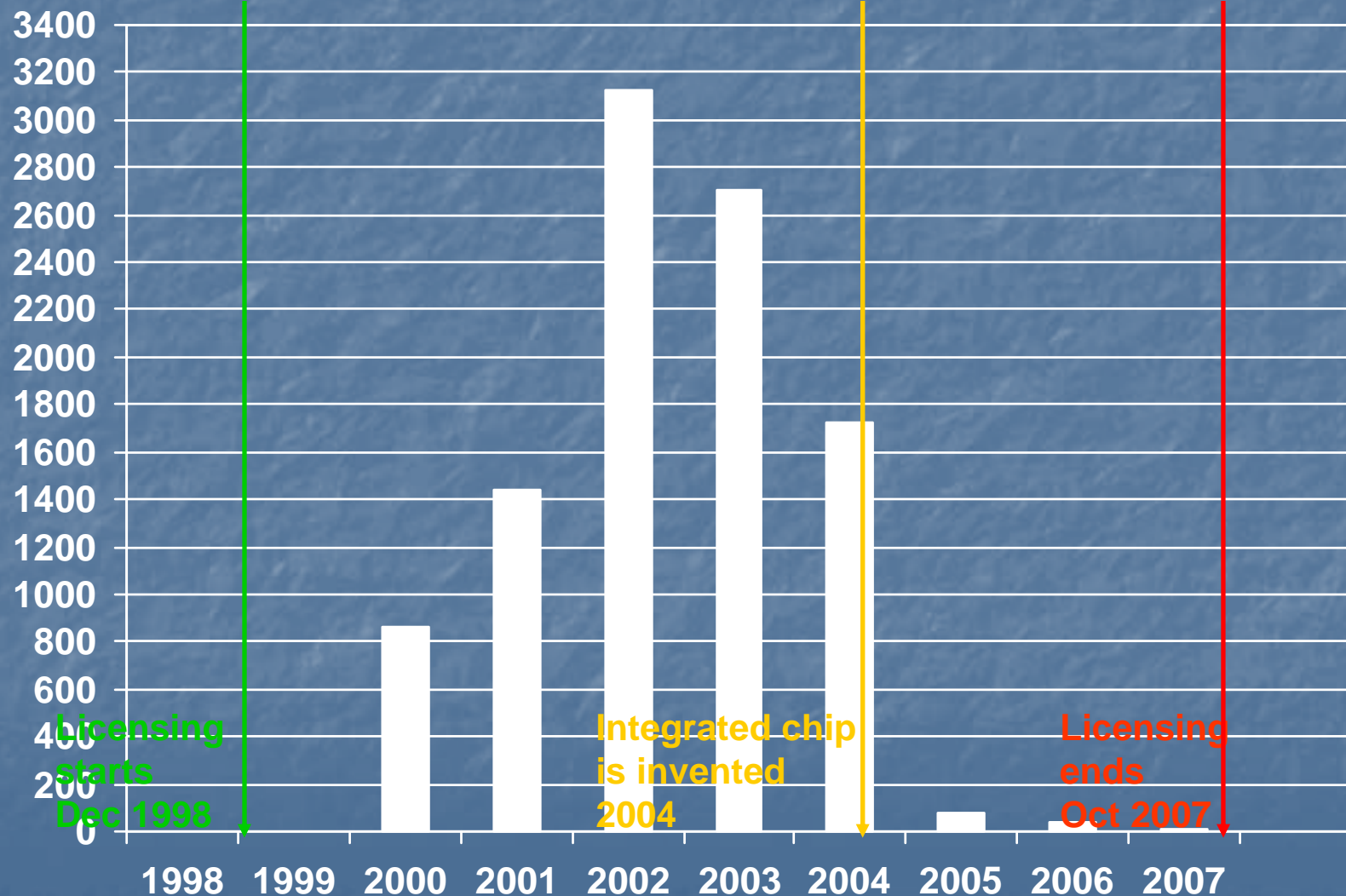
(unit: million RMB)



Large-scale failure of SOEs started in 2004

Example 2: Primary business income of Kejian Company Ltd.

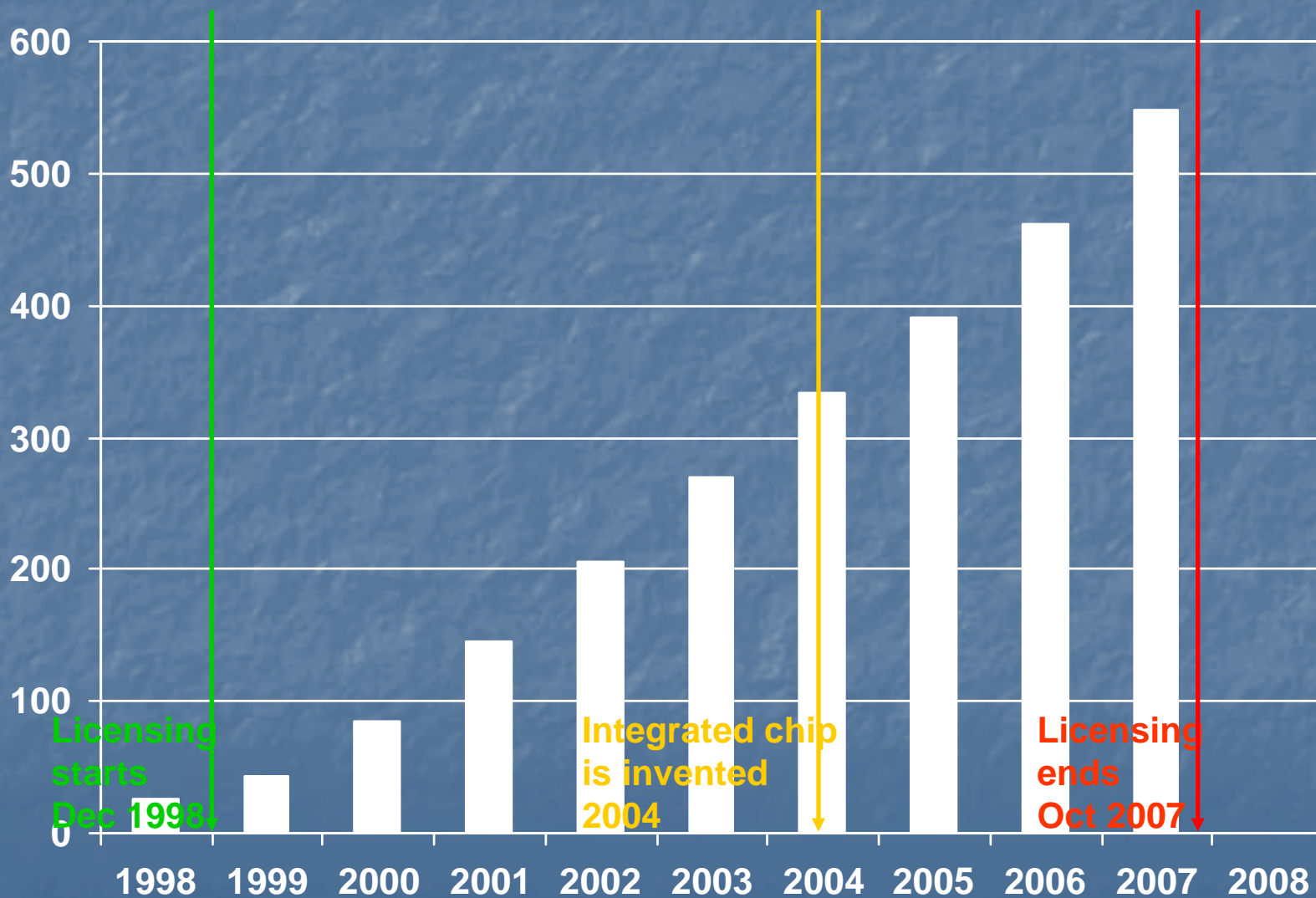
(unit: million RMB)



Possible reasons for SOEs' failure:

1. bad market situation? No.

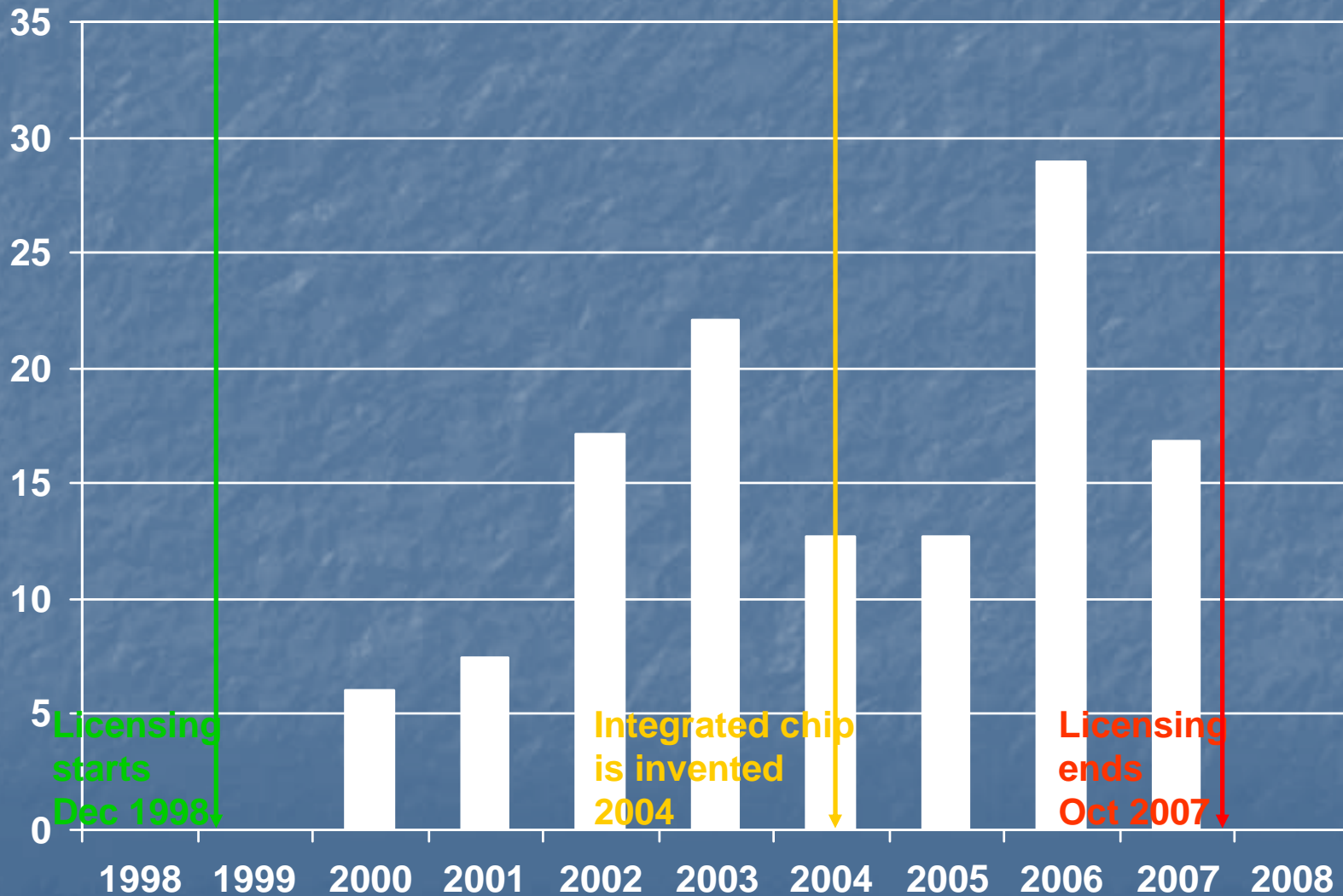
Customers of
mobile telecom
services in China
(unit: million people)



Possible reasons for SOEs' failure:

2. Competition from abroad ? No.

Mobile Phones
Imported
(unit: million)

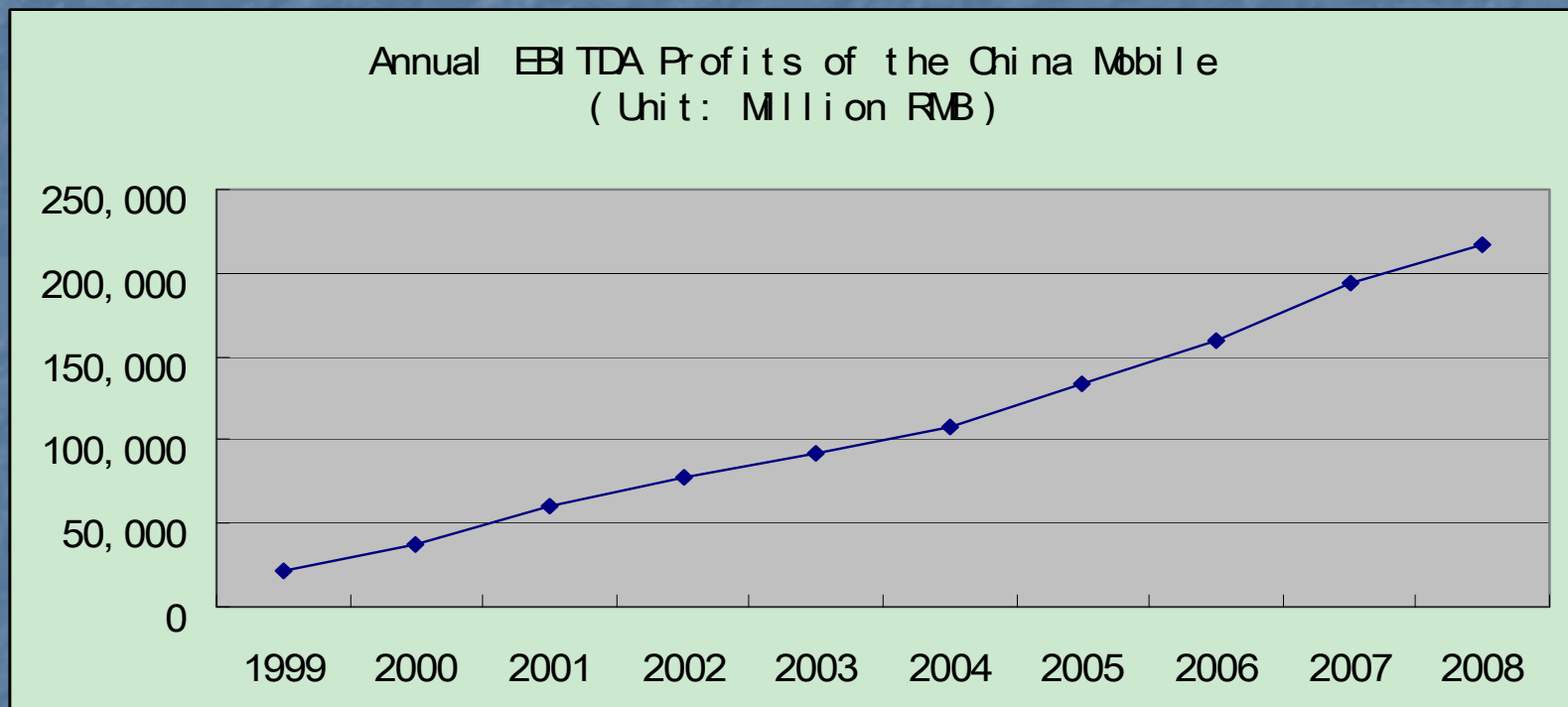


Why couldn't bandit phones be eliminated?

- MTK chip lowered the cost of entry
- Flood of illegal producers raised the cost of enforcement
- Regulator relied on local government enforcement, but bandit phones
 - increased local employment
 - made constituents happy

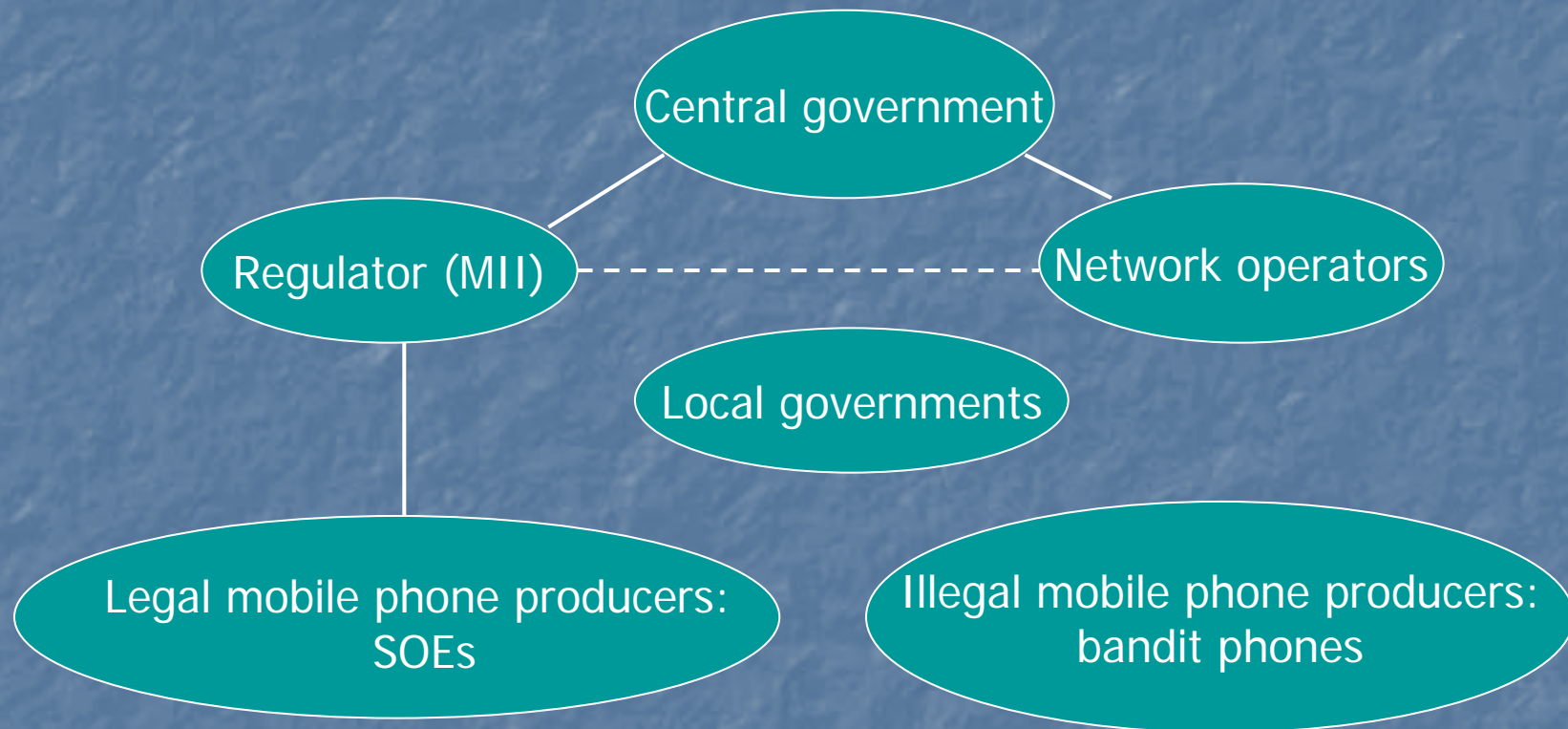
Why didn't the network operators reject bandit phones?

Annual revenue of *China Mobile*



Data source: China Mobile's website.

The actors



Conclusion

Technological innovation

+

Conflicts of interest within government

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Collapse of regulation