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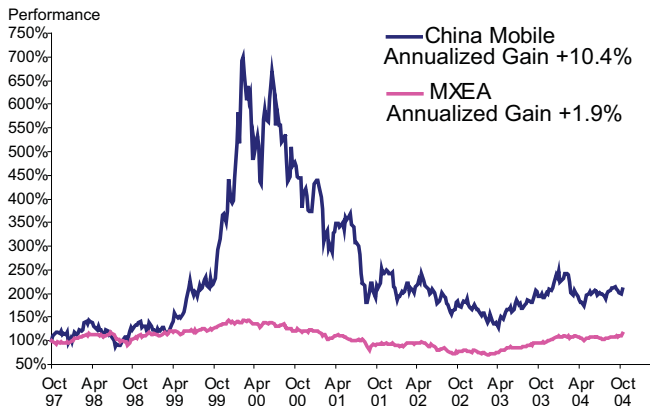
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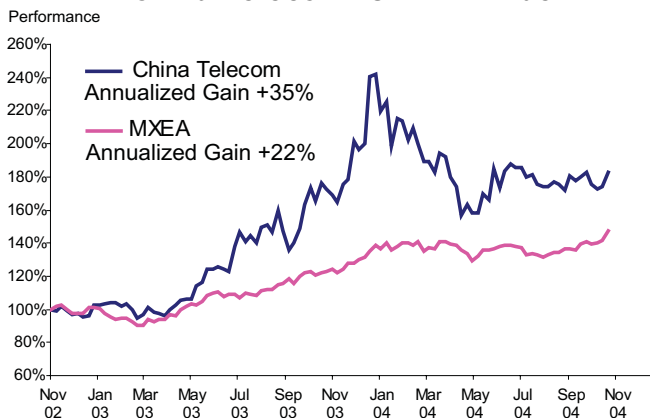
China Desk -- Comment

China Telecom Mgmt Reshuffle 2

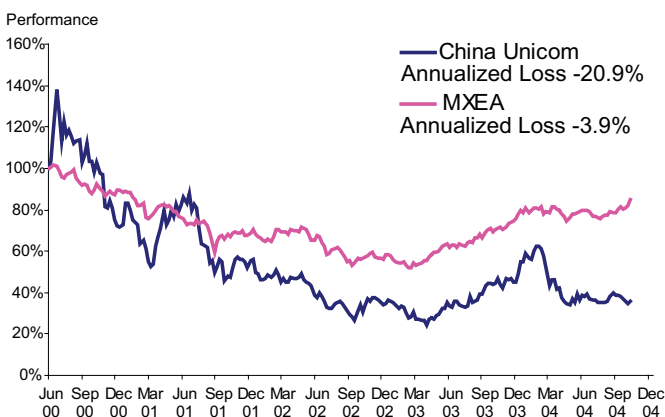
China Mobile vs. MXEA Index



China Telecom vs. MXEA Index



China Unicom vs. MXEA Index



Beijing last week reshuffled top managements at the 3 big state-owned telecoms -- China Mobile (CHL), China Telecom (CHA) and China Unicom (CHU). **The lesson -- investing in SOEs traded as ADRs is a far-from perfect way to play China. We are not interested in these SOEs at this time.**

Here's what happened. The #1 person at China Telecom retired. The #1 at Mobile went to become #1 at Telecom. The #1 at Unicom (the worst performing) went to #1 at Mobile (the best performing). The #2 at Unicom became #1 at Unicom. Consider.

- **No official explanation** is yet available. No such action has ever occurred since China's SOEs have been traded as ADRs. Such bureaucratic shuffles still occur in the government, but the SOE carve-outs are supposed to be different.
- China has introduced more competition to its telecom sector since 1995 by splitting up the state-owned telecom monopoly, but investors still complain about inconsistency and opacity.
- **WTO entry** opens China's telecom market to 49% foreign ownership as of December 11, 2004.
- **In May, the SASAC (regulator)** proposed to the State Council a merger of 4 into 2: Mobile with fixed-line China Netcom; and Telecom with Unicom. Done to pave the way for 3G, this proposal was rejected. That such a combination will occur in the future is **still a reasonable speculation**.
- The Ministry of Information Industry requested all telecom operators to end a month's long price war. Their view -- **SOEs were destructively fighting with themselves**. But the competition remains intense and this management reshuffle is another regulatory attempt to regain control and allow them to regain profitability.