China Information Technology Report Q2 2009 (www.companiesandmarkets.com)

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IT spending is expected to increase from US$73.1bn in 2008 to US$127.6bn by 2013. Analysts see growth easing further in 2009 before making a recovery in 2010. There were signs in early 2009 of growth in some market sectors.

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In 2008 the global economic environment had some impact on domestic demand for IT from both business and consumer segments, with PC sales growth dipping significantly. The falling stock market and high inflation affected consumer sentiment, while declining external demand has influenced business investment plans. Ultimately these were likely to be temporary setbacks, however, as China has some strong growth fundamentals in its favour.

A number of factors, including China’s vast potential rural market, government spending and demand from key verticals such as telecoms, will help to prevent market stagnation. Spending will receive a boost from investments related to government stimulus packages and the Shanghai World Expo in 2010. The vast and relatively under-penetrated rural and small and medium-sized enterprise (SME) market segments offer great growth potential.

Industry Developments In February 2009 the government launched a tender for a computer subsidy programme designed to increase usage of computers by residents of rural China. The programme guidelines state that the price of desktops should not exceed CNY3,500 (US$511), and that of notebooks should not exceed CNY4,500 (US$658). The government’s ‘home electronics to the countryside’ programme is intended in part as a stimulus package to benefit China’s domestic electronics industry.

According to the Ministry of Industry and Information Technology (MIIT), the growth rate of China’s IT industry slowed in the first three quarters of 2008, to 15.3%, which was 6.5% down on the previous year.

However, MIIT projected 20% growth for the year as a whole. Between January and September 2008, the combined business revenues of major IT companies reached US$600.3bn, up 20.5% in yuan terms yearon-year (y-o-y).

Informatisation among SME is a government priority, given that smaller companies are the most vulnerable to the current decline in demand in many of China’s export markets, and tighter credit conditions. MIIT has already pledged US$743.73mn in 2008 for SMEs and proposed to allocate even more to inject capital into these smaller firms. MIIT also said that it would add credit loans and guarantee credit.

Competitive Landscape Acer, Dell and Lenovo were among the 14 vendors selected by the Chinese government as designated suppliers for its subsidised computers programme that was launched in February. Eleven of the selected vendors were Chinese companies. The slowdown in the PC market towards the end of 2008 has enhanced vendor focus on rural areas and lower tier cities.

PC market leader Lenovo reported a series of disappointing quarterly results last year, culminating in a fourth-quarter loss of US$97mn. In response, Lenovo announced a restructuring programme and said that it would cut 2,500 jobs, including 450 in China. Lenovo will also increase its focus on the rural market, aiming to cover 320,000 villages across the country through 7,800 sales networks in the next three years.

Demand for Linux software is expected to receive a boost as a result of the global economic crisis.

Leading vendor Red Hat is active in the mainland market. Meanwhile, Software as a Service (SaaS) is gaining popularity on the mainland, with a number of local players emerging with their own internetbased product offerings. Global SaaS leader Salesforce.com is already present on the market and has around a 10% share of the SaaS market.

Computer Sales China’s computer hardware sales were estimated at US$49.7bn in 2008 and are projected to reach around US$82.7bn in 2013. Around 25mn computers were sold China in 2008, despite a marked slowdown in the second half of the year. 2009 is likely to be a challenging year because of the impact of the global financial crisis; however, demand from the vast, under-penetrated rural areas of China, boosted by government subsidy programmes, will help to prevent stagnation.

Early data suggested that laptop sales had rebounded somewhat in the early months of 2009. BMI forecasts that computer hardware CAGR for the 2008-2013 period will be around 11%, with SMEs, smaller towns and rural areas driving growth, along with replacement of desktops with notebooks. This trend should be bolstered by a government affordable computer subsidy programme targeted at rural China, which was tendered by the government in February 2009.

Software BMI projects that the Chinese software market will grow at a CAGR of 14% over the 2008-2013 period.

The total value of the Chinese software market reached US$8.8bn in 2008, up from US$7.5bn the previous year. Chinese enterprises tend not to pay enough attention to software. Despite the economic downturn, there are still expected to be opportunities for software vendors in several segments of the China market.

The sheer scale of the market will mute the impact of cuts in IT budgets. The economic situation is also likely to lead to further consideration of open source solutions in some sectors and to encourage vendors to promote software-on-demand solutions. There is a growing trend for companies to seek greater efficiency by using IT to improve productivity and lower costs, including labour costs. The mid-market business has become a key market driver for most vendors.

IT Services The IT services market has been the fastest growing segment of the IT market in recent years and is projected to achieve expected sector CAGR of 18% between 2008 and 2013. The market value rose to around US$14.6bn in 2008, as banks, telecoms operators and manufacturers invested to meet the challenges by growing demand for their services, and the more competitive environment generated by WTO membership.

The economic situation, and credit tightening, is likely to have an impact on projects in some key verticals that have driven IT spending, particularly construction and real estate. However, demand from other sectors such as telecoms and retail will help to prevent stagnation. Government spending is expected to increase as a percentage of GDP, thanks to stimulus packages, helping to drive IT-related investments in areas ranging from education to transport and healthcare.

E-Readiness The number of internet subscribers is expected to pass the 200mn mark in 2009, from around 186mn in 2008. However, the penetration rate is low, at just 13.8% last year. The number of broadband subscribers will reach a projected 267mn by 2013, overtaking those using a narrowband access service.

PCpenetration is forecast to reach around 22% by 2010, although it is much higher already in some areas.

The MIIT has said that, over the next five years, its goal is to make the internet available in every administrative village in central and eastern China, and every township in the west. To this end, foreign company support is expected to be important. E-government developments have been in the spotlight recently, with several landmark developments. The long-awaited restructuring of the telecoms sector took place in 2008 and should result in more competition, which will drive demand for IT. The government has also awarded China's first 3G mobile licence, to China Mobile, which will roll out a service using China's 'home-grown' 3G technology TD-SCDMA.

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