

MOBILE TELECOM REVOLUTION IN KOREA

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Mobile Subscribers exceed Fixed

There has been a surprising mobile telecommunications boom in Korea. At the end of 1999, the number of mobile telephone subscribers surpassed subscribers of conventional fixed line telephones. More than 23 million people, or 48% of the Korean population, were users of mobile cellular phones or personal communication systems (PCS) in 1999. Sales of mobile telephones reached 9,129 billion won, close to that of fixed line telephones. This year, mobile phone sales are expected to surpass fixed phone sales.

The expansion of the mobile telecommunication market has been revolutionary rather than evolutionary in that the market rapidly expanded within two years. From 1997 to 1999, subscriptions increased 2.7 fold and sales increased 3.4 fold. These increases were due to technology combined with marketing. As it is known, Korea was the first country to commercialize CDMA technology, and recently Korea has become one of the world leaders in mobile telecommunications. Meanwhile, fierce competition among mobile telecommunication companies has stimulated market expansion. Five companies have tried to attract subscribers by terminal subsidies and rate discounts.

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Table 1. Trends in Subscribers and Sales of Telephones

		1997	1998	1999	2000(E)
Subscribers (thousand)	Fixed	20,624	20,480	21,627	23,000
	Mobile	6,828	13,983	23,442	28,500
Sales (billion won)	Fixed	7,816	8,871	9,656	10,361
	Mobile	3,328	6,556	9,129	11,508

Source : Ministry of Information & Communication.

Note : Mobile telecommunication includes mobile cellular and PCS.

Competition and Alliance

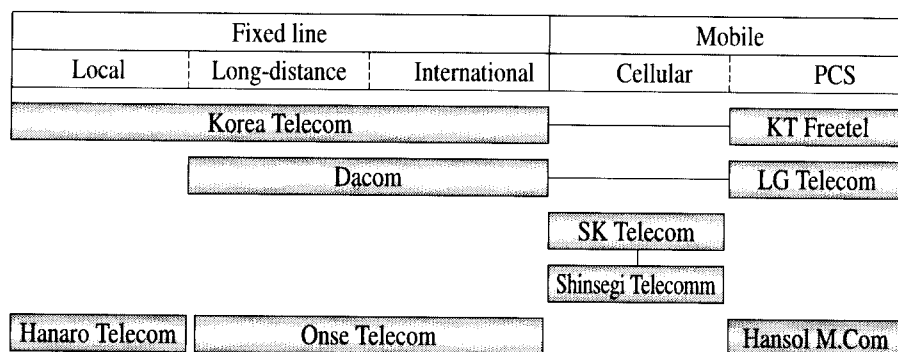
Because of fierce competition, telecommunications firms are discussing strategic alliances and M&As. The aim is to secure a stable subscriber base and utilize the synergy between mobile and fixed telecommunication. Users are demanding one-stop and unified telecommunication services, without distinctions

between mobile and fixed, voice and data, or domestic and international service. To respond to these needs, strategic alliances and M&A's between fixed line firms and mobile phone firms are very useful. Last year, SK Telecom announced a plan for the acquisition of Shinsegi Telecomm. In addition, the strategic alliance between Korea Telecom and KT Freetel, and the alliance between Dacom and LG Telecom are going ahead as planned. This movement will be accelerated this year, because the selection of next generation telecommunication (IMT-2000) operators is scheduled on December 2000 and the number of operators will be restricted to three or four. IMT-2000 is a high quality service which enables us to communicate with anyone on the globe. It can also transmit all forms of data including text, image, voice and pictures. In this sense, if an operator is not selected as an IMT-2000 operator, it will have to try to find another IMT-2000 operator as a partner.

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In addition, mobile telecommunication companies will keep introducing foreign capital and advanced technology. For example, last December KT Freetel announced the introduction of about US\$ 600 million from firms including Microsoft and Qualcomm. And they agreed to work with each other to develop mobile telecommunication technology such as wireless internet.

— **Figure 1. Strategic Alliances among Telecommunications Companies** —



Market Prospects

First, subscriber growth will level off. Considering that 66% of Koreans aged 15 to 59 — the major users of mobile telecommunication — have already subscribed, a rapid increase of subscription is not likely. However, market volume will steadily expand due to the growth of per-user sales and the introduction of new communication services.

Second, the share of data service will exceed that of voice service. Users have recently been demanding lifestyle and business information such as securities quotes, weather, and traffic. The advent of wireless internet service in particular will accelerate the growth of mobile data services.

Third, the growth of data services will encourage alliances and partnerships between telecommunication and contents companies, as in the case of AOL and Time Warner. Contents companies include broadcasting, publishing, PC communication, and information providers.

Prospects for Korea's mobile telecommunication market are bright. The market of 23 million existing subscribers is expected to expand with the development of new telecom services. New services will probably develop continuously because the two trends in mobile telecommunications are globalization, which will make conversation possible anywhere in the world, and multimedia-oriented service that allows transmission of any form of data including text, sound and video.

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There are, however, a few tasks that Korea's mobile telecommunications industry must accomplish before it can reach the next level. First, it must get rid of the boundaries dividing industry areas. Distinctions such as local / regional / international, fixed-line/mobile, or voice/data services are too narrow and make it difficult to provide customers with the comprehensive service they desire. These distinctions also make it hard for communications firms to restructure through acquisitions or M&A's. As a further step, Korea must follow the trend in global communication of merging telecommunications and media, and lower the barriers between these two industries.

Another task is developing communication equipment and technology. Although the telecom market has expanded greatly, Korea still depends on other countries for basic technology and core components. If Korea can become competitive in parts and technology, it can become a telecommunications leader. **VIP**