

# No ban, but China phone makers face stiff riders

Export volumes, broad-basing of distributor network & domestic supply chain main components of action plan

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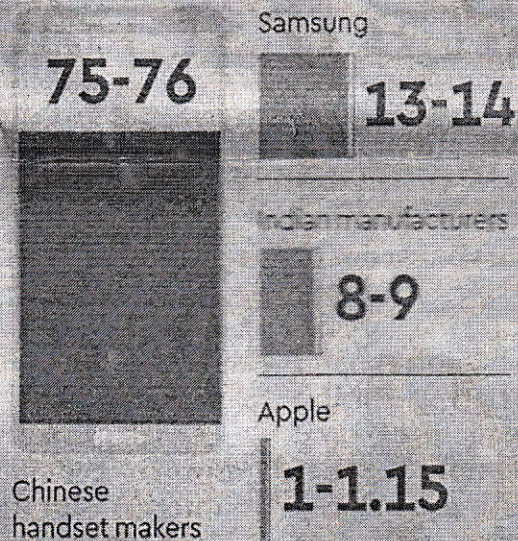
THE GOVERNMENT HAS drawn up a three-pronged strategy to create entry barriers for Chinese manufacturers in the below ₹12,000 mobile phone segment to create room for Indian manufacturers. If the Chinese handset makers do not agree with the set of conditions the government wants them to comply with, handsets priced below ₹12,000 will be subjected to various Bureau of Indian Standards checks in addition to security and safety verification. This will be quite similar to Trusted Telecom Portal, which the government launched last year under the National Security Council Secretariat (NSCS) where telecom operators have to submit details about their equipment vendors.

The first condition the government wants to lay down for Chinese manufacturers like Oppo, Vivo, Realme or Xiaomi is to export handsets from India in similar volumes as they sell in the domestic market. Currently, while Chinese handset makers have a share of around 75-76% in the domestic market, they do not export from India. None of the Chinese manufacturers are part of the smartphone production-linked incentive scheme.

The second condition the Chinese firms would have to agree to is broad-basing their distributor network, which is currently fully-owned by their own entities. Further, government sources said that these distributors are also shareholders of the handset

## Growing Chinese influence

### Market share (%)



### Below ₹12,000-market



firms. As a result of this arrangement, these firms are able to undercut the Indian manufacturers as distributors work on zero margins and are able to earn as shareholders with growing market share.

The third condition, which the government plans to lay down for these firms is to create an Indian supply chain, which they haven't built in all these years. "The Chinese handset players simply import components from China and assemble the phones here.

Continued on Page 2

## Govt plans entry barriers for Chinese mobile companies

They have not built a supply chain network for component manufacturing in the country. Manufacturers like Apple and Samsung have built and are further enhancing their supply chain network in the country, so the Chinese firms should also do the same," government sources said.

The decision to come out with stiff conditions for Chinese handset makers – to begin with in the sub-₹12,000 market in the country – is being discussed in the government, as post-2016, domestic players have completely lost out their market share, being only 8-9% currently. Prior to 2016, a set of Indian manufacturers – Micromax, Intex, Lava, and Karbonn, popularly known as MILK – were growing but the Chinese strategy of undercutting completely edged them out from the market in which they were operating.

After the Chinese handset manufacturers' high 75-76% market share, next comes the

South Korean phone maker Samsung, which has a share of around 13-14%. Apple's share is a little over 1% as it operates only the premium and super-premium category.

The sub-₹12,000 phone category has a share of 31% in the overall smartphone market as per the April-June data released by Counterpoint Research. Of this, the Chinese manufacturers have a share 75-80%. Just two manufacturers, Realme and Xiaomi have a 50% market share in this segment. Among the Indian manufacturers, Jio (which makes JioPhones) and Lava are the major players. Jio has ramped up its capacity in the last few quarters while Lava has good design element, so it is able to compete in the market to an extent.