Dagoucun feels like the kind of place that progress missed entirely in its sweep through China. Nestled at 10,000 feet in the pine-studded foothills of the Tibetan plateau, the village is little more than a few dozen stone houses and a Buddhist shrine. Getting there from the nearest big city, Chengdu, takes five hours by car, much of it on a muddy, rutted road.

But given the electronic trills emanating from the fields of barley, potatoes, and corn, it's clear that the 21st century has finally made it to Dagoucun. Last year, the village got cell-phone service, dramatically transforming the way its residents live and work. With better information about crop prices delivered to their phones, farmers have started planting more marketable crops such as Chinese cabbage and herbs for traditional medicines. And they no longer have to truck their produce to distant cities in hopes of finding buyers. "Before, we had to travel 20 kilometers to make a phone call," says village chief Xie Sufang, a 65-year-old mother of seven. "Now we contact the buyers, and they come to us."

The company responsible for bringing change to this rural outpost: China Mobile Ltd. (**CHL** ) Since it was spun off from fixed-line operator China Telecom Corp. (**CHA** ) in 2000; China Mobile has grown into the world's biggest cellular carrier. The company is signing up nearly 5 million new customers a month and recently topped the 300 million mark—more than the entire population of the U.S. In 2006, revenues grew 21%, to $37.8 billion, and net income 23%, to $8.7 billion, estimates Deutsche Bank (**DB** ). And its Hong Kong-traded shares more than doubled in the past year, giving China Mobile a market capitalization of $198 billion and making it the most valuable cellular carrier on earth. The company also has global ambitions: On Jan. 22, it announced it was buying 89% of Paktel Ltd., Pakistan's fifth-largest cellular carrier.

China Mobile built its early success on urban China. Problem is, just about everyone in mainland cities who can afford cellular service already has it. Mobile-phone penetration in Beijing, Shanghai, and Shenzhen is approaching 100%. So to keep growing, China Mobile is plunging ever deeper into the interior, building cell towers from the deserts of Inner Mongolia to the mountains of Tibet. In rural China, home to 700 million, just over 1 in 10 people has a cell phone. "It is a market with huge potential," says China Mobile Chairman Wang Jianzhou.

China Mobile's torrid growth hasn't escaped the attention of Western companies seeking to tap the potential of China, both urban and rural. The carrier has inked agreements with Vodafone Group (**VOD** ), News Corp. (**NWS** ), Viacom's (**VIA** ) MTV Networks, and the National Basketball Assn., among others. Last summer, China Mobile launched a music-download service called M.Music in partnership with Sony bmg, Universal Music Group, emi (**EMIPY** ), and Warner Music (**WMG** ). And on Jan. 4, Google Inc. (**GOOG** ) announced that its search engine would be featured on China Mobile's Monternet mobile phone portal.

What's behind the flurry of deals? "We want to make the cell phone into a new medium," says Wang. The company is aggressively pushing extras such as ringtones and music downloads. Demand for such services is expected to surge with the launch of third-generation (3G) mobile technology in time for the Beijing Olympics in 2008. Beijing telecom consultancy BDA China estimates revenues from such services will jump from $10.4 billion last year to $28.6 billion by 2010. Wang believes his company's continued dominance of China's cell-phone market will depend on the news, entertainment, and music it can beam to subscribers. So in June, China Mobile plunked down $166 million for a 19.9% stake in Phoenix Satellite Television Holdings, the mainland's most popular cable news and entertainment channel.

China Mobile is also turning its sights overseas. Its $284 million purchase of Paktel, likely to conclude in late February, will be the company's first overseas acquisition, though early last year it bought Hong Kong's No. 4 mobile company, People's Telephone, with 1.1 million subscribers. Last summer, China Mobile made a $5 billion-plus play for Luxembourg's Millicom International Cellular (**MICC** )—Paktel's parent—which has mobile networks in Africa and Latin America as well as Asia. But negotiations broke down due to concerns about the big price tag, analysts say. While Wang declined to comment on the collapse of the Millicom talks, he says China Mobile is interested in acquisitions in other developing countries: "We are familiar with emerging markets. Their experiences may be very similar to ours."

Wang has plenty to keep him busy at home as the government turns up the competitive heat on the cell-phone industry. Until now, China Mobile has had to contend with just one rival: China Unicom Ltd. (**CHU** ) Like China Mobile, Unicom is listed in Hong Kong and is state-controlled. With 143 million subscribers, though, Unicom is a distant No. 2, which some attribute to the complications it faces in maintaining a network that uses two mobile standards. China Mobile, by contrast, can operate more efficiently using a single technology, the gsm standard developed in Europe. Sometime this year, Beijing is expected to award 3G licenses to both current carriers and also possibly to two new rivals, most likely China's state-owned fixed-line operators, China Netcom Group (**CN** ) and China Telecom.

**PROFIT PUSH**
China's leadership could complicate life for Wang & Co. in other ways, too. In an effort to boost its international prestige, Beijing is pushing the development of a homegrown 3G standard not used elsewhere. China Mobile, China Netcom, and China Telecom are all currently running trials of the new technology. But analysts expect China Mobile to win the dubious honor of leading the rollout, which could be a costly distraction that will almost certainly be more complex than introducing one of the 3G standards already deployed in other countries. Being forced to build a network using China's technology "definitely is a liability," says Zhang Dongming, director of research at consultancy BDA.

Even with a smooth rollout of 3G, China Mobile could have a tough time keeping revenue and earnings growing at double-digit rates. As it pushes ever deeper into the interior, the company faces the same dilemma as the likes of Procter & Gamble Co. (**PG** ) and General Motors Corp. (**GM** ): how to win new customers without sacrificing profit margins. Incomes in rural China average just over $400 per year, or less than one-third what city dwellers earn. To drum up business in places such as Dagoucun, China Mobile is cutting prices, and the amount of money it gets from each subscriber has declined modestly in the past year, to about $11. "The key is to maintain profitability even while penetrating rural areas," says Steve Zhang, CEO of Beijing's AsiaInfo Holdings Inc., a telecom software and services company that works with China Mobile and other mainland carriers.

Wang insists he's not jeopardizing earnings. One reason, he says, is that China Mobile runs a much leaner operation in the countryside. It has largely dispensed with stores and is instead relying on village chiefs such as Xie to persuade neighbors to buy handsets and prepaid cards. China Mobile offers cell-phone plans tailored for farmers that include information such as crop prices and tips on duck breeding delivered via text message, the Internet, and a call-in phone service. The plan costs a nominal 25 cents a month, but users must pay extra to place calls and send text messages. Since its launch in October, the service has been rolled out to 12 provinces in western China and is expected to go nationwide later this year. "Our main purpose now is to provide farmers with information that benefits them," says Qin Dabin, vice-general manager of China Mobile's operations in the western city of Chongqing. Although it will take some time before the initiative turns a profit, Qin says it's helping to attract subscribers.

China Mobile isn't abandoning cities, either. Far from it. The company has an upscale service called Go-Tone for businesspeople. The $6.40 basic monthly fee (phone and message charges are extra) includes reduced membership rates at golf courses and access to VIP waiting rooms at many Chinese airports. And a $2-a-month plan called M-Zone is aimed at music-mad teenagers and twenty something’s. China Mobile puts on special events for M-Zone members, such as appearances by the likes of Chinese-American pop star Pan Weibo.

Meanwhile, back in the mountains of Sichuan, villagers are figuring out more ways to wring money from their new phones. Cabbages from Dagoucun now travel all the way to the southern cities of Guangzhou and Shenzhen as it's easier to reach buyers across the country. Villagers have sold a rare caterpillar fungus—prized in Asia for its antiviral attributes—to customers in Singapore that were contacted via cell phone. And residents are building a three-story lodge for mountain climbers and anglers in a bid to transform their remote village into a flourishing center for ecotourism. "With our mobile phones, potential tourists can contact us and learn more about our village," says village chief Xie. "We can increase our incomes in many ways."

Discussion Questions

1. How do you believe that the mobile phone industry in China differs from the one in the United States?
2. Do you think that the investment opportunity in China’s mobile phone industry is attractive?
3. What difficulties do you expect China’s mobile phone industry to encounter as it tries to expand?
4. Can you detect any patterns or rules of development from the China mobile phone industry that could be applied to the development of the mobile phone industry in other countries?
5. Do you agree that “globalization is the strategy of approaching worldwide markets with standardized products?” Are mobile phones an example?