

In China, knockoff cellphones are a hit

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Ryan Pyle for *The New York Times*

A man tested out a fake phone at a mobile phone market in Shenzhen, China.

The phone's sleek lines and touch-screen keyboard are unmistakably familiar. So is the logo on the back. But a sales clerk at a sprawling electronic goods market in this Chinese coastal city admits what is clear upon closer inspection: this is not the Apple iPhone; this is the Hi-Phone.

"But it's just as good," the clerk says.

Nearby, dozens of other vendors are selling counterfeit Nokia, Motorola and Samsung phones — as well as cheap look-alikes that make no bones about being knockoffs.

"Five years ago, there were no counterfeit phones," says Xiong Ting, a sales manager at Triquint Semiconductor, a maker of mobile phone parts, while visiting Shenzhen. "You needed a design house. You needed software guys. You needed hardware design. But now, a company with five guys can do it. Within 100 miles of here, you can find all your suppliers."

Technological advances have allowed hundreds of small Chinese companies, some with as few as 10 employees, to churn out what are known here as shanzhai, or black market, cellphones, often for as little as \$20 apiece.

And just as Chinese companies are trying to move up the value chain of manufacturing, from producing toys and garments to making computers and electric cars, so too are counterfeiters. After years of making fake luxury bags and cheap DVDs, they are capturing market share from the world's biggest mobile phone makers.

Although shanzhai phones have only been around a few years, they already account for more than 20 percent of sales in China, which is the world's biggest mobile phone market, according to the research firm Gartner.

They are also being illegally exported to Russia, India, the Middle East, Europe, even the United States. "The shanzhai phone market is expanding crazily," says Wang Jiping, a senior analyst at IDC, which tracks technology trends. "They copy Apple, Nokia, whatever they like, and they respond to the market swiftly."

Alarmed by the rapid growth of counterfeits and no-name knockoffs, global brands are pressing the Chinese government to crack down on their proliferation, and are warning consumers about potential health hazards, like cheap batteries that can explode.

Nokia, the world's biggest cellphone maker, says it is working with Beijing to fight counterfeiting. Motorola says much the same. Apple Inc. declined to comment.

Even Chinese mobile phone producers are losing market share to underground companies, which have a built-in cost advantage because they evade taxes, regulatory fees and safety checks.

"We're being severely hurt by shanzhai phones," says Chen Zhao, a sales director at Konka, a Chinese cellphone maker. "Legal cellphone makers should pay 17 percent of their revenue as value-added tax, but shanzhai makers, of course, won't pay it."

So far, however, China has done little to stop the proliferation of fake mobile phones, which are even advertised on late-night television infomercials with pitches like "one-fifth the price, but the same function and look," or patriotic appeals like "Buy shanzhai to show your love of our country."

Last month, the Ministry of Industry and Information Technology did warn consumers about the hazards of shanzhai phones, saying "their radiation usually exceeds the limit." China's consumer protection agency says faulty mobile phones were the No. 1 consumer complaint last year.

A few weeks ago, a 45-year-old man in south China was severely burned after his cellphone exploded in his shirt pocket, according to state-run news media.

But that hasn't seemed to affect sales of black market phones, which typically sell at retail for \$100 to \$150. In the spirit of what is called "shanzhai" — which suggests rebels or bandits and which applies to counterfeit products of all kinds — many consumers are willing to take a risk on a cheap item that looks stylish.

"I saw iPhone pictures on the Web; it's so cool. But it costs over \$500 — too expensive," says Yang Guibin, 30, an office worker from Chongqing. "So I decided to buy a shanzhai iPhone. I bought it in a digital market here; it looked exactly like the iPhone."

Some experts say they believe the shanzhai phenomena is about being creative, Chinese style.

"Chinese grass-roots companies are actually very innovative," says Yu Zhou, a professor at Vassar College. "It's not so much technology as how they form supply chains and how rapidly they react to new trends."

While the phones may look like famous brands, companies actually add special features like bigger screens, dual-mode SIM cards (which allow two phone numbers) and even a telescopic lens attachment for the phone's camera.

Since it is the SIM card that makes a phone run in China, as in most places other than the United States, all you have to do is insert a valid SIM card into a shanzhai phone and it works.

All this innovation comes from an industry that only took off in 2005, after Mediatek, a semiconductor design company from Taiwan, helped significantly reduce the cost and complexity of producing a mobile phone.

Using what experts call a turnkey solution, Mediatek developed a circuit board that could inexpensively integrate the functions of multiple chips, offering start-ups a platform to produce a low-cost mobile phone.

The industry got another boost in 2007, when regulators said companies no longer needed a license to manufacture a cellphone.

That set off a scramble by entrepreneurs in this electronics manufacturing center. Counterfeiting and off-brand knockoffs flourished. Tiny companies would buy a Mediatek chip loaded with software, source other components and ask a factory to assemble them.

Marketing strategies were simple: steal. Designs and brand names were copied identically or simply mimicked. (Sumsung for Samsung or Nckia for Nokia.)

Tapping into the supply chains of big brands is easy, producers say. "It's really common for factories to do a night shift for other companies," says Zhang Haizhen, who recently ran a shanzhai company here. "No one will refuse an order if it is over 5,000 mobile phones."

The people who make fake iPhones admit it's a shady business.

"We are a kind of illegal producer," says Zhang Feiyang, whose company, Yuanyang, makes an iPhone clone. "In Shenzhen there are many small mills, hidden. Basically, we can make any type of cellphone."

The competition is already forcing global brands to lower prices, analysts say. And new Chinese brands are emerging, like Meizu, a would-be Apple that has opened stylish stores here.

"Our phone is even better than the iPhone," says Liu Zeyu, a Meizu salesman in Shenzhen. "Our goal is to create a phone that makes Chinese proud."

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