

China's ICTs: Planning & WTO

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Planning the Questions

- Is WTO membership consistent with the 5-year and long-term planning approach?
 - How have traditional planning methods changed?
- What is 'planned' in a 'socialist market economy' with 'state enterprise reform'?
 - Role of regulation
- How has mainland China managed the convergence of a highly regulated telecoms sector and the increasingly Web-based IT sectors?
 - The bargaining 'model'

Planning the Answers

- The Cambridge economist Joan Robinson saw the advantages of planning in developing economies to promote the accumulation of capital - but how to transit to a more open economy?
- Competition always exists for scarce resources - it's a question of form over content: in China the bargaining 'model' between ministries, commissions, central and local government provides a fitting framework

Competing inside the Plan

- MPT vs MEI vs SARFT ...
- MII vs MOFTEC vs SDPC ...
- China Telecom vs China Unicom vs China Netcom vs China Railcom vs JiTong vs cable TV
- State Council - giving new direction to convergence?
 - Commission on Information Industries (Chm: P. Zhu Rongji - cf. 1996 National Committee on the Informatization of the Economy, Chm: V-P. Zou Jiahua)

Planning the competition

- China Telecom North + China Netcom + JiTong = China Netcom Group
- China Telecom South = China Telecom Group
- China Mobile = China Mobile Group
- China Unicom = China Unicom Group
 - + China Railcom
 - + China Satellite/China Express (CITIC)
 - + Electric Power + SARFT + Education Network + China Motion + ... + ... ???

WTO Commitments

	Fixed	Mobile	VAS
Beijing			
Shanghai	3 years	on accession	on accession
Guangzhou			
14 Cities	5 years	1 year	1 year
All China	6 years	3 years	2 years
(FDI ceiling	49%	49%	50%)

WTO Commitments - 2

- **Regulation**
- China has agreed to the WTO 'sBAT Reference Paper, including pro-competitive regulatory principles, transparency, independence, national treatment, market access limitations to radio spectrum.
- China agreed to periodic bilateral negotiations with the USA on interconnection fees.
- China agreed topics for the next round of trade negotiations should include future equity ceilings, and further liberalization.

MII's 2001 Classifications

- Clarification of some grey areas
- Mobile 1G, 2G and 3G = basic
- Resale of basic = basic!
 - MVNOs = basic!!
 - One and two-way paging = basic
- Call centres, Internet services, VPNs = VAS

Appendix: Telecom Services Classification List

Issued by the Ministry of Information Industry as an attachment to the *Telecommunication Regulation of China* on June 11, 2001

Previous definitions	New definitions
Basic Telecom Services	
1. Domestic local telephone and long distance telephone over fixed networks	1. The same
2. Telephone services and data services over mobile networks	2. a. Mobile communication services 2. b. Analogue mobile communication services: wireless mobile communication services and analogue communication services and analogue cellular mobile communication services. 2. c. Digital communication services: 2G digital cellular mobile communication services (TDMA, GSM digital cellular mobile communication services and CDMA digital cellular mobile communication services) 3G digital cellular mobile communication services.
3. Satellite communications and satellite mobile communications service	3. a. Satellite communication services 3. b. Satellite mobile communication services 3. c. Satellite renting and sales services 3. d. Satellite fixed communication services 3. e. VSAT communication services

4. Internet and other public data transmission services	4. a. Internet and other data transmission services 4. b. Data transmission services via Internet backbone 4. c. Other data networks transmission services (X.25 data transmission services, DDN data transmission services, ATM data transmission services, and FR data transmission services) 4. d. Public telegraph and users' telegraph services 4. e. Wireless data transmission services
5. Rent and sale of bandwidth, wave length, fiber optics, cable optics, channel and other network elements	5. a. Renting and sales services of network elements 5. b. Renting and sales services of bandwidth and wavelength of fiber communication 5. c. Renting and sales services of cable, fiber and fiber cable; 5. d. Renting and sales services of telecom channels
6. Network carrying, access and outsourcing services	6. a. Internet access services and network leasing services 6. b. Internet access services including wireless and cable access 6. c. Network leasing services
7. International telecom infrastructure and International telecom services	7. a. International telecom infrastructure and International telecom services 7. b. International communication basic infrastructure services (renting and sales of ground international communication networks' bandwidth, length of fiber communication, cable, fiber, fiber-cable and other network elements) 7. c. Satellite international private line
8. Wireless paging	8. Wireless paging: One-way wireless paging Two-way wireless paging
9. Re-sold basic telecom services	9. Re-sold basic telecom services
Addendum: The management of items 8 and 9 refer to the basic provisions for value-added telecom services	

Value-added Services	
1. E-mail	1. Value-added services on fixed telephone network: <ul style="list-style-type: none"> • Telephone information • Call center • Voice mail • Video teleconferencing
2. Voice mail	2. Value-added services on mobile networks
3. Online information storage and sorting	3. Value-added services on satellite networks
4. Electronic data exchange	4. Value-added services on the Internet: <ul style="list-style-type: none"> • Access • Data center • Information services • Virtual private networks • Internet conference video and image • Internet call center • Other value-added Internet services
5. Online processing of data and transactions	5. Other data transmission network value-added telecom services: <ul style="list-style-type: none"> • Exchange services of electronic data • Voice mail • Email • Fax store and transmit • Virtual private network services
6. Value-added fax	Included in above definitions
7. Internet access service	
8. Internet information service	
9. Visual telephone conference services	

China's Telecoms Law (pre-WTO)

- A. Telecoms Services**
- B. Telecom Services over non-proprietary networks**
- C. Licences: - C.1 Telecom service licenses**
- D. Overseas investment**
- E. Interconnection**
- G. Type Approval for Telecoms Equipment**
- + H. Foreign Investment**

Telecom Services

A. Telecoms Services: are divided into the following categories

- Domestic long distance and local services
- International facilities and services
- Mobile voice and data services
- Satellite and satellite mobile communications services
- Internet and multimedia network services
- Public data transmission services
- Leasing and sales of circuits and other network elements
- Other services stipulated by the State Council's telecom authority

Private Networks

B. Telecom Services over non-proprietary networks: are divided into the following categories:

- Reselling *Class One* telecom services (approval of the nature and scope of *Class One* to be determined and licensed by the State Council)
- Value-added telecom services provided via the telephone networks
- Information services and other relevant services provided via the Internet and multimedia networks
- Wireless paging services
- Innovative telecom and information services
- Other services stipulated by the State Council's telecom authority

Licences

C. Licences:

- *Class One* licences to be issued by the Telecom Authority of the State Council.
- *Class Two* licences for service providers operating within a single province/autonomous region/central government-supervised municipality to be issued by the local telecom authority and registered with the State Council's telecom authority, in more than one then the State Council's telecom authority
- Licences will be issued through approval procedures, through bidding, and/or through other procedures
- Licences must be submitted to the relevant industrial or commercial administration for registry.

Class One and Two Licences

C.1 Telecom service licenses should meet the following criteria:

- *Class One applicants* must be a legally established telecom enterprise in which the state is the controlling shareholder;
- The applicant must possess a complete, reasonable and feasible business development plan; with sufficient capital and professional staff to carry out operations;
- The applicant must possess the venue, equipment and other resources to carry out operations; and must have the capability to offer services over the long term;
- Licence approval should be processed within 180 days of receiving the application. Rejections should be explained in writing.

Foreign Investment

D. Overseas investment, including from Macau, Hong Kong and Taiwan

- Foreign investment in the telecom industry and telecom joint ventures requires prior approval from the State Council's Telecom Regulator.
- Listing on domestic or overseas stock exchanges, and the conduct of equity transfers after a listing, requires prior approval from the State Council's Telecom Regulator.
- Termination of a telecoms business before the expiry of the licence requires 90 prior notification and the submission of a written application.
- Proprietary networks wishing to establish a public service in the localities where they are based must first establish an independent enterprise and apply for a licence.

Interconnection

E. Interconnection:

- Public (and public-private) networks should interconnect based upon the principles of technical feasibility and economic profitability; refusal to interconnect not allowed without state council approval.
- Interconnection billing charges should comply with the regulations of the Telecoms Regulator and unauthorized surcharges are forbidden.
- Interconnection should be negotiated between the parties. In the event of failure to agree, within 60 days either party can apply for mediation by the relevant telecoms regulator, who should openly seek expert advice and within 45 days an administrative order should be issued.
- Interconnect technical breakdowns should be resolved without delay.

Telecoms Regulator

F. Telecom Regulator

- Responsible for planning; resources will be allocated on a 'payment-based development policy' with payment processing and billing rates determined by the Telecom Regulator.
- The Telecom Regulator will take into consideration the service capabilities and proposed use of resources by applicants, including the proposed scale of operations.
- Auctioning will be more widely utilized in allocating commercial telecom resources where there are more than two applicants; transfer of resources requires prior approval.

Type Approval

G. Type Approval for Telecoms Equipment:

- *Note:* China has committed itself to signing the *Information Technology Agreement (ITA)* on accession to the WTO, and under the terms of the *APEC Mutual Recognition Agreement (MRA)* type approval procedures should short-circuit the unnecessary expense and duplication of procedures.
- The State Council's telecom authority should review all type approval and certification applications within 60 days upon the receipt of the relevant inspection report.
- The Telecom Authority should release a catalog of telecom equipment describing which model verification certificates have been granted.

Foreign Investment Regulations

- 1 January 2002: *Administration of Foreign-Invested Telecommunications Enterprises (FITE Provisions)* apply
 - There must be a principal Chinese investor holding more than 30% equity in the Chinese side of the telecoms JV
 - There must be a principal foreign investor holding more than 30% equity in the foreign side of the telecoms JV
- *Telecommunications Regulations (25 Sept 2000)* require more than 50% equity of a "basic" service provider to be held by a state-owned Chinese enterprise
- *Foreign Investment Industrial Guidance Catalogue* classifies industries as 'Encouraged', 'Permitted', 'Restricted' and 'Prohibited' - WTO membership shifts telecoms services from 'Prohibited' to 'Restricted'

Foreign Investment Regulations

- *Interim Provisions on Domestic Investment by Foreign-Related Enterprises (25 July 2000)* states
 - all foreign-invested enterprises (FIE) in 'Encouraged' and 'Permitted' industries need to register with the State Administration of Industry and Commerce (SAIC)
 - FIEs can invest up to 50% of FIE asset value in FIE-Subsidiaries in China if the China partner is (a) wholly foreign-owned, (b) equity joint venture, (c) co-operative joint venture with legal person status, (d) foreign-invested company limited by shares (but not investment companies or holding companies)
 - Investments up to US\$30 million in FIE-Subsidiaries require approval from the provincial Commission on Foreign Trade and Economic Cooperation; over US\$30 requires MOFTEC approval
 - tax holidays and exemptions for investment in Central and Western China

Foreign Investment Regulations

- Minimum capital requirements laid down by *FITE Provisions* in telecoms services joint ventures:

	National/Inter-Provincial	Single Province
• Basic services	RMB 2 billion	RMB 200 million
• Value-added	RMB 10 million	RMB 1 million

- *Note:* Earlier MII statements that foreign investors need to have US\$10 billion annual revenues and a representative office in China for at least three years do not appear in the *FITE Provisions* which simply state 'funds and personnel appropriate to the business activities engaged in.'

China's National Information Infrastructure

- Goals of CNII up to 2000 included
 - developing public databases (including E-Govt)
 - standardization of platforms
 - access via Internet, fixed and mobile
 - digital TV standard
- Goals of CNII to 2010 include
 - focus on applications and enterprise usage
 - ICT capacity to innovate
 - broadband access

China's National Information Infrastructure

- "Chinese walls" deter maximum efficiency of ICT
- Chicken-and-egg: need market economy to spur efficient and effective use of ICTs – but need efficient and effective use of ICTs to build the market economy
- Bottlenecks and systems integration = opportunities for IT companies

Role of Planning

- SDPC is responsible for overall balance resource planning
- Input-output methods were widely used – shadow prices to generate scenario planning (eg. More heavy capital goods vs consumer goods focus)
- Indicative planning
- Telling a story
- Trouble with data?

Planning and Telecoms

- What is to be planned? = the state remains the key provider and user of resources
- Telecoms sector undergoing corporate reform – spurred by prospects of IPOs!
- Telecoms Regulations to conform to WTO –
 - (a) competitive safeguards; (b) cost-based interconnect;
 - (c) USO to be 'reasonable'; (d) transparent licensing criteria; (e) 'independent' regulator
- Convergence – how will this be handled?

Planning and IT

- IT already spread across competitive enterprises
- Role of industrial policy? – eg. restrictions on cellphone manufacture imports vs ITA? WTO?
- Big challenge – adopting ITCs to China's emerging 'socialist market economy'
- Big opportunities do NOT necessarily = big profits for foreign investors –
 - who is paying the bills? (MNCs?)
 - what are they paying for? (software?)