The Regulatory Reform in Telecom Sector in China

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The regulatory reform in telecom sector is becoming a global trend along with the development of the telecom industry in recent years. How does the regulatory reform suit to the changes of the global economy and compel the healthy development of the industry? That is a problem that the regulatory entities should solve. This presentation will introduce some information on practice and experience of telecom regulatory reform from China telecom regulation authority with respects of the progress of the regulatory reform, the results and problems, and some key learning from the reform.

1. The progress of regulatory reform

China's telecom regulatory reform can be seen from three aspects: the government institutional reform, the market structure adjustment and legal system establishment.

1.1. Reform of government institution

Like most of the countries in the world, the telecom regulation and operation functions were performed by a ministry – Ministry of Posts and Telecommunications in China before 1998.

In 1998, Ministry of Information Industry (MII), established based on the former Ministry of Posts and Telecommunications (MPT) and the former Ministry of Electronic Industry, became a telecom regulation authority independent from business operations. Besides telecom regulation, MII is also responsible for radio spectrum management, the software sector, the electronics manufacturing sector and informatisation.

By 2000, all of the provincial administration and regulation bodies were set up based on the separation of regulation and operation functions.

So far, a two-level, direct instruction regulation structure system is taking shape.

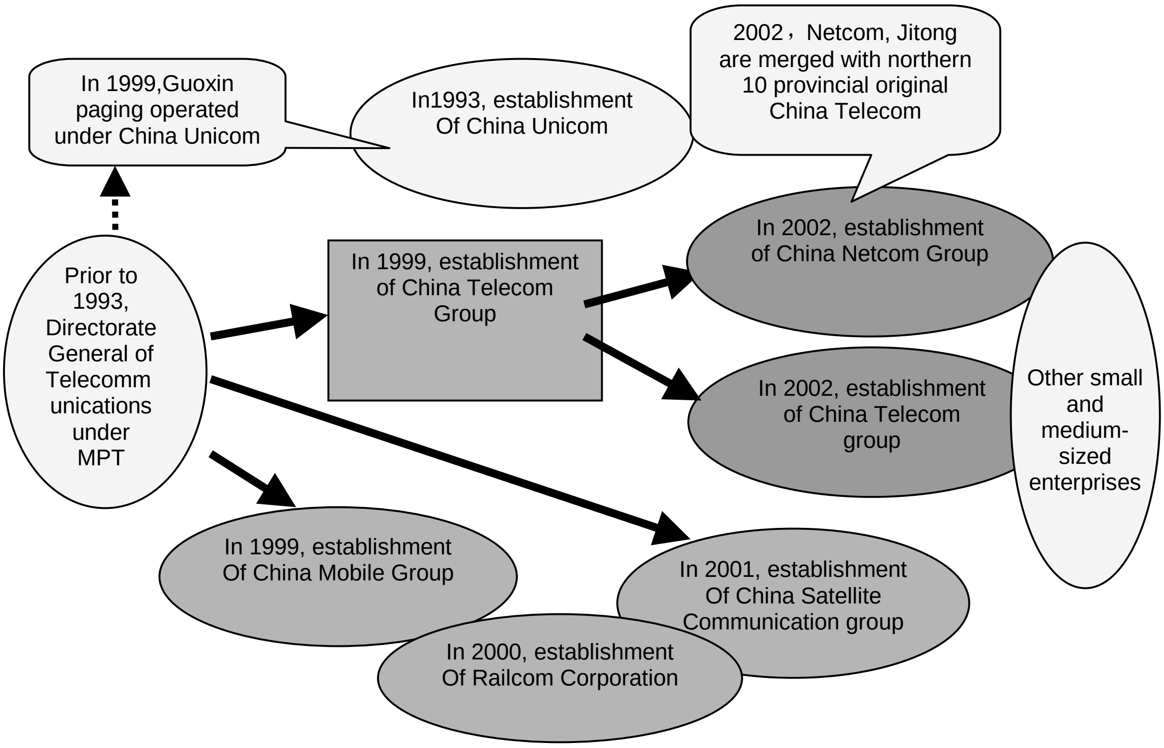
1.2. Market structure adjustment

Telecom market competition appeared in1993. Before that time, China's telecom market was monopolised by the Directorate General of Telecommunications (DGT) under MPT.

From 1993 to 1998, the value-added service market was opened, such as wireless paging, computer information service, domestic VSAT communications etc. In 1994, China Unicom established was permitted to set up mobile network and a few local telephone networks.

From 1998, along with the separation of government from enterprises, the market situation has changed significantly. The former DGT was divided into 4 entities, they are China Telecom, China Mobile, China Sat and Paging Group which joined in China Unicom in 1999.

In 2002, China Telecom experienced another division for the purpose of breaking up the fixed telecommunications monopoly. A new China Netcom Group set up based on the northern 10 provincial original China Telecom companies plus China Netcom Corporation Ltd and Ji Tong Communications Co.



Above is the evolution picture of telecom market structure. Now there are 6 basic telecommunications carriers and thousands of value-added service providers. Next step, we are facing to form an environment to promote effective competition in the telecom market.

1.3. Legal system establishment

With the respect of legal system establishment, we have enacted Telecommunications Regulation which is the first comprehensive statute to regulate the telecom market. In 2001, Regulations for Foreign Investment was issued by State Council to be consistent with the WTO commitments made by Chinese government.

Based on the above regulations, MII has issued a series of rules covering the fields of licensing, interconnection, number resources, spectrum management, Qos supervision etc.

Now Telecommunications Act is on the drafting process.

Generally speaking, telecom industry will go through from full monopoly to full competition or effective competition. China telecom industry is on the period of transition – limited competition period.

2. Outcomes of the regulatory reform

There are four points to show the results of the regulatory reform, namely, competition framework has been formulated initially, the industry keeps sustained, stable and rapid growth, the quality of service improved greatly, and telecom plays a prominent role in national economy and social informatisation. At the same time, we also have encountered some problems in regulatory reform.

2.1. Initial formation of competition pattern

As mentioned above, the China's telecom competition structure has been taken shape yet. Among the 6 basic telecom enterprises, there are 4 fixed local telephone operators: China Telecom, China Netcom, China Unicom and Railcom Corporations. And 3 mobile operators: China Mobile, China Unicom & ChinaSat. ChinaSat is a satellite communications carrier to provide services to other operators as well as to customers. All of these operators except Railcom Corporations have been granted Internet Backbone Data Transmission service licenses and IP telephone licenses. By June this year, none of the above 6 operators has 40% of the whole market shares, that means the situation of only one market giant has changed into several players who are running neck to neck. I believe a few full services providers will be established finally.

Apart from basis telecom carriers, there are still thousands of value-added service providers including more than 1400 wireless paging service providers, around 1000 Internet Service Providers, more than 2000 Internet Content Providers, 43 Domestic VSAT communications operators, 45 Call Centers etc.

On the other hand, the heterogeneous competition becomes evident more and more. The rapid growth of mobile subscribers has prominently competing effects on the fixed communications. The number of mobile subscribers is expected to exceed the fixed telephone subscribers by the end of this year in China.

At the same time, competition in a great sense strengthened the capability and activeness of developing new services for the enterprises in the market.

2.2. Sustained, stable and rapid development

Another result of regulatory reform is that the telecom industry continued to keep a sustained, stable and rapid growth in the last few years.

Now China has become the No. 1 in terms of both fixed telephone subscribers and mobile subscribers in the world as well as the scale of networks.

By July 2002, there are 201million fixed telephone subscribers and 180 million mobile subscribers and 41.7million Internet subscribers. The teledensity increased from 8.11% in 1997 to 30.22% in 2002.

Compared with the higher penetration rate in developed countries, the teledensity in China is still lower. I believe there are still a huge potential market and brilliant prospects in the future.

2.3. *Quality of service improved greatly*

As far as the telecom quality of service is concerned, we believe it is a very important factor we need pay attention to after the introduction of competition. Because on one hand, competition will play a positive role in improving telecom Qos; on the other hand, profit maximisation might impair the rights and interests of the consumer. So, only market competition and government regulation combined can really protect consumer rights and interests. MII has issued the telecom service standards and a series of rules on which the enterprises should provide services to the customers.

For the time being, in China, only a few services price – mainly basic telecom services price is controlled by government. These services include fixed local telephone service, mobile telephone service and long distance telephone service of China Telecom and China Netcom which are lack of plenty competition. It is controlled with consideration of the balance of enterprise benefits and end users interests. This service prices have been going down continuously under control.

Also the advanced technology and enlarged network capability is helpful to improve the service quality.

Competition drives the telecom enterprises to pay more attentions to service quality. Meanwhile, the Telecom Service Standards issued by government also provide guarantees to the Qos.

According to the satisfaction survey to end users operated by MII this year, the satisfaction rate to the telephone service is 76.9, which indicates the telecom service quality by and large meet the requirements of end users.

2.4. *A prominent role in national economy*

As a fundamental and strategic industry, telecom has maintained a rapid development with 3 times GDP growth rate in recent 10 years. Now we regard it as a leading industry in national economy. It is the booster of national economy and social informatilisation.

In the past few years, we strengthened the investment on the infrastructure in the western areas. By setting up the basic networks, telecom industry has established a groundwork to lessen digital gap between eastern and western areas.

2.5. *Problems in regulatory reform*

Even though we have made a significant success in the telecom regulation reform, there are still some problems we are facing.

First, the power and responsibility of regulator are asymmetric. We have no sufficient authority to enforce the law. Sometimes we have no effective measures to keep market order.

Second, unfair & vicious competition occurs frequently, particularly in small cities, price battles happen often.

Third, the synthetic strength of the enterprises remains to be improved so as to become international first-level telecom companies.

Fourth, universal service mechanism has not yet been set up in China.

3. Experience and key learning

3.1. Understand the basic laws and characteristics of telecom development

What are the basic laws of telecom development? It is not a good question, but it concerns with the constitution of the industry policy and regulatory measures. So, we must have a good understanding of the basic laws and characteristics of telecom development.

In our opinions, telecom industry is essentially a traditional service sector which does not change its intrinsic law because of the introduction of new technologies and services.

Telecom networks are infrastructures of the national economy. Its basic attributes such as full coverage, joint operation and service to the entire society have never been changed.

Besides, this industry is a sector featuring gradual and steady growth and low profitability. It should not be considered as a sector which generates sudden huge profits.

So when making policies, we must abide by the laws to push the industry in a stable and healthy way instead of spoiling it by excessive enthusiasm.

3.2. Clarify the purposes and principals of regulation

We should understand and interpret the purpose of regulation correctly.

Like most countries, the first step we do the regulatory reform is to break up monopoly, and we also regard encouraging and protecting competition as one of the regulation principles.

Meanwhile we realise that the purpose of regulation is to maintain the healthy development, and provide supports to national economy by encouraging effective competition.

So, we should encourage competition while preventing from over competition.

3.3. Interconnection focused

Lastly, let’s talk about the problem of interconnection. Interconnection is one of the well-known difficult problems in the telecom regulation. There are at least 3 reasons: one is the interests related to the two parties hard to define; two is the evidence on which to arbitrate is not easy to collect; third is other complicated reasons behind interconnection issue such as competition behaviours. In China, the quality of interconnection is also a problem we have to face. We are preparing to establish interconnection quality supervision system to solve the problem of poor interconnection quality, meanwhile we should regulate the unlawful market competition, ensure market order.