China telecom industry: Reform, development and regulation

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Outlines

I. Reform of China telecommunication industry
   - Targets and measures
   - Industry restructuring
   - Open the market

II. Development of China telecommunication industry
   - Rapid growth of market scale (amount of subscribers)
   - Market competition is playing its role
   - Service quality is being improved
   - Service prices are going down

III. Reform of regulation and supervision
   - Regulator
   - Regulatory rules
   - Contents of regulation
1.1 Reform

Targets:
- Separation of government from enterprises to ensure the governmental organs to implement independent industrial regulation
- Do away with monopoly and eliminate low efficiency due to monopoly
- Protect competition and promote telecommunication enterprise service
- Keep Abreast of market economic system development and establish clear right and responsibility modern enterprise system

Measures:
- Introduction of competition: Restructuring China Telecom and other telecom enterprises
- Support newly enterprises such as China Unicom etc.
- Open the market: China Netcom and China Railcom etc. have been approved to enter the telecom operation market
- Fulfil its WTO commitment, foreign investors will enter China’s telecommunication operation service market
- Optimize market competition structure and facilitate effective competition mechanism establishment
1.2 Reform

New layout of China telecom market:

- In 1993, establishment of China Unicom
- In 1999, establishment of China Telecom Group
- In 2001, establishment of China Satellite communications Group
- In 2002, establishment of China Mobile communications Group
- In 1999, Guoxin paging operated under China Unicom
- In 2002, Netcom, Jitong are merged with Northern 10 provincial original China Telecom
- Prior to 1993, Directorate General of Telecommunications, under Ministry of Posts & Telecommunications
- In 2000, establishment of Railcom Corporation
- In 2002, establishment of China Telecom Group (Southern 21 provinces)
- In 2002, establishment of China Netcom Group

Other small and medium-sized enterprises
1.3 Reform

- Industry restructuring:
  - Government shares out and re-configures state-owned assets
  - Introduction of new telecommunication operators such as China Netcom and Railcom Corporation etc.
  - Support China Unicom, China Netcom such new corporations for faster development
  - Telecommunication tariff presents down-turn trends due to government adjustment of prices and market competition
  - Simultaneously thousands of value-added telecommunication service operators rush into telecommunication market to launch their service operation activities
1.4 Reform

Basic features of China telecommunication market

- It is in its initial stage of market competition
- Multi-operator competition environment has been formed
- Legal system will gradually be perfect
- Main investors will further be pluralized
- Rapid development
- Faster improvement of telecommunication service level
- Maintain advanced technologies
- Enormous market potential and bright prospects
1.5 Reform

China telecommunication industry is in the transition period

Past: monopoly period

Current transition period: limited competition period

Future: effective competition period
1.6 Reform

Prior to reform, single operator

- Network interconnection disputes are prominent
- Telecommunication service price war is more acute
- Rational resources configuration is the condition for competition
- Enterprises pay attention to service improvement
- Universal service faces new difficulties

After reform, multi-operators
1.7 Reform

- Pluralized main investors

- Overseas capital
- State-owned capital
- Private Capital

China telecommunication industry
1.8 Reform

- **Results:**
  - Initial formation of market competition patterns
  - Continuously maintain sustained, stable and rapid development momentum
  - Public satisfaction level for telecommunication service is being improved
  - Telecommunication industry plays a prominent role in national economy and social informationization

- **Deficiency:**
  - Unfair competition and vicious competition occurs frequently
  - The power and responsibility of regulator and asymmetric and the regulator lacks the capability of enforcing the law
  - The synthetic competitiveness of the enterprises remains to be improved
  - Universal service mechanism has not yet been set up
2.1 Development

Fixed telephone subscriber amount (unit: 10 thousands)

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2.2 Development

[pic: Line graph showing the penetration rate of telephone and main line from 1980 to 2003. The x-axis represents the years, and the y-axis represents the penetration rate. Two lines are plotted: red for telephone and black for main line. The graph shows a steady increase in penetration rate for both types of lines over the years.]
2.3 Development

- Growth of mobile phone subscriber amount (unit: 10 thousands)
2.4 Development

- Growth of Internet subscriber amount

![Graph showing the growth of Internet subscriber amount from 1994 to 2000. The x-axis represents the years (1994, 1996, 1998, 2000) and the y-axis represents the number of subscribers in 10 thousands. The units used are 10 thousands.](image-url)
2.5 Development

- Demonstration of intensified competition:
  - So far there have been 6 basic telecom service enterprises. There have been thousands of value-added service enterprises.
  - Rapid mobile communication development and prominent competition effects from substitution for fixed communication
  - Service prices are continuously going down in a reasonable or unreasonable mode
  - Prominently strengthen capability and activeness of developing new services so that enterprises can obtain competitive predominance

- Result of intensified competition:
  - Consciousness of enterprise opening up the market and subscriber growth at high rate
  - Enterprises pay attention to service quality improvement and try to reduce the complaints from users
  - Unfair competition acts occur frequently. Network interconnection disputes are increasing, and more difficult regulation and supervision by the government
  - Service development plan has great impact on market competition with prominent importance
2.6 Development

Result:
- Amount of both fixed telephone subscribers and mobile phone subscribers ranks the No.1 in the world with high growth rate
- Network technical performance reaches the world’s leading level
- Service revenue growth rate exceeds GDP growth rate with fine situation
- Telecom market sustains stable growth trend
- More active investment, domestic and foreign investors are keen on investment

Deficiency:
- Effective market competition pattern has not yet come into being, and the government has limited ability of regulating the market with low efficiency
- Enterprises have no strong competitiveness, and state-owned enterprise system remains to be further structured
- Imbalance of development among regions. Rather low telecom service level exists in western region and rural areas, and the pressure of universal service is increasing
- Specific enterprises adopt unjust means to contain their competitors
- Regional oversupply pressure is growing
3.1 Regulation

- **Regulator:**
  - In 1998, telecom industry has accomplished the separation of government from enterprises with the founding of MII which takes charge of telecom market regulation work.
  - Around 2000, all the provincial P&T Administration were dismissed and communication administration were established for taking charge of local communication regulation.

- **The principle of regulation:**
  - Formulation and implementation of rules maintain open and transparent.
  - Fair and equitable attitude towards market main body, and uphold the principle of non-discrimination.
  - Break up monopoly and promote competition.
  - Make telecom undertaking progress and bring about balance of social public benefits.
    - State council “Break up monopoly, fair competition, optimized configuration and enhanced regulation.”
3.2 Regulation

- Main laws & regulations for telecom regulation:
  - Standing Committee of National People’s Congress: *Provisions for maintain the safety of information over Internet*
  - State Council: Telecommunication Regulation
  - State Council: Provision for Radio Regulation
  - State Council: Regulation for Internet Information Service
  - State Council: Regulations for Foreign Investment
  - Ministry of Information Industry: Public issue of regulations and specified documents etc.
3.3 Regulation

- **Effective regulation:**
  - Ensure competition
  - Ensure interconnections
  - Effective configuration
  - Promote its development
  - Universal service

- **Targets of regulation**
  - Provide the customers with advanced and good service at reasonable prices
  - Create fine competition development environment
  - Play a greater role in national economic value chains
  - Enhance the comprehensive competitiveness of China telecom industry
3.4 Regulation

Main contents of regulation:

- Market access
- Telecom construction
- Telecom resources
- Equipment authentication
- Telecom regulations, Radio regulation provisions
- Inter-network Interconnection
- Service quality
- Telecom security
- Tariff regulation
3.5 Regulation

- Market access (content):
  - Service classification for basic service and value-added
  - Annual check of operation licenses, and alteration or log-down of licenses etc.
  - ......

- Market access (basis):
  - Corporation law
  - Telecom regulation
  - Provision management of foreign investment into telecom enterprises
  - Provision of telecom service licenses
  - Catalogue of telecom services by category
  - ......
3.6 Regulation

Telecom resources management (content):
- Resources: Radio frequencies, satellite orbital positions, telecom network numbers and Internet domain names and addresses
- Uniform planning, centralized management reasonable allocation and paying services
- Establish such systems as examination & approval, register, publication, supervision and customer rights and interests guarantee

Telecom resources management (basis):
- Telecom regulation
- Radio regulation provisions
- Provision of telecom network numbers management
- Relevant regulations and documents issued by Ministry of Information Industry
3.7 Regulation

- Telecom construction (content):
  - Overall planning of telecom infrastructure
  - Trans-provincial telecom network and component parts, management of submarine cable project or telecom construction projects with expenditures above the state-fixed limits
  - Supervision of telecom construction project quality and coordination of telecom construction
  - ......

- Telecom construction (basis):
  - Telecom Regulations
  - Provisional Regulation of Telecom Construction Management
  - Regulations of International communication Installation Construction Management
  - Regulations of Communication construction Project Tendering
  - Provisions of Communication project Quality Supervision
  - Regulations of Assets Quality Management of Communication & Information Network
  - Regulations for Assets Quality Management of Communication Subscribers Lines & Tubes construction Enterprises
  - ......
3.8 Regulation

- Inter-network interconnection (content):
  - Interconnection between various types of telephone networks
  - Interconnection between Internet and fixed local telephone network and mobile communication network
  - Interconnection between Internets
  - Based on enterprises’ consultations, government coordinates and makes decisions on interconnection disputes
  - Supervise the interconnection process and network interconnection process and network interconnection communication quality

- Inter-network interconnection (basis):
  - Telecom Regulations
  - Regulations for management of interconnection between public telecom networks
  - Provisions of dealing with telecom network interconnection disputes
  - Provisions of settlement of telecom network interconnection charges
  - Provisions of Inter-network Interconnection Technologies
  - ......
3.9 Regulation

- Market regulation (content):
  - Put market competition in good order
  - Oppose unjust competition
  - …..

- Market regulation (basis):
  - Telecom Regulations
  - Contract Law
  - Anti-unjust competition Law
  - Provisions for Management of Telecom Service Market Order
  - …..
3.10 Regulation

- Service quality (content):
  - Lay down service standards
  - Supervise enterprise service quality
  - Deal with subscribers’ complaints
  - ......

- Service quality (basis):
  - Consumers’ Rights and Interests Protection Law
  - Contract Law
  - Product Quality Law
  - Telecom Service Standards
  - Provisions for Telecom Service Quality Supervision
  - Provisions for Telecom Subscribers Complaints Treatment
  - Telecom Service Quality Announcement System
  - Telecom Service Quality Report System
  - System for Telecom Service Quality Satisfaction Index
  - ......
3.11 Regulation

- Tariff regulation (content):
  - Formulate telecom tariff policy
  - Estimation of telecom tariff cost and cost investigation
  - Supervise the implementation of telecom tariff policy
  - ......

- Tariff regulation (basis):
  - Price Law
  - Telecom Regulation
  - ......
3.12 Regulation

- Telecom security (content):
  - Network and information security
  - Private communication
  - Combat readiness emergency communication
  - International communication gateway
  - ......

- Telecom security (basis):
  - Decision on Internet Information Security Maintenance Issued by Standing Committee of National People’s congress
  - Penal code
  - Telecom Regulations
  - Provisions for Management of Internet Information Services
  - Regulations of National Defense Communication
  - Provisions for Management of International Communication Gateway
  - ......
3.13 Regulation

- Equipment authentication (content):
  - Authentication of telecom terminal equipment
  - Authentication of radio communication equipment
  - Authentication of equipment involved in inter-network interconnection
  - Above-mentioned network access license system

- Basis:
  - Telecom Regulations
  - Provisions for Management of Telecom Equipment Access to Networks
  - ……
4. China telecom industry after its accession to WTO

- The impact on China telecom industry after its accession to WTO:
  - China will gradually open up telecom market according to its timetable
  - China will enhance its regulation of its telecom market in line with WTO rules:
    - Enhance rules’ transparency
    - Treat its investors and operators in a non-discriminatory way
  - Intensified competition in China’s telecom market

- The change in China's telecom industry after its accession to WTO:
  - Foreign capital has begun to invest in China’s telecom industry and to provide telecom service in China
  - Unprecedentedly fierce competition in domestic market
  - Foreign operators invest in China’s telecom industry in high spirits
  - China telecom enterprises need to “go abroad” to accomplish something in globalized telecom market
Thank you!

Any question for me?