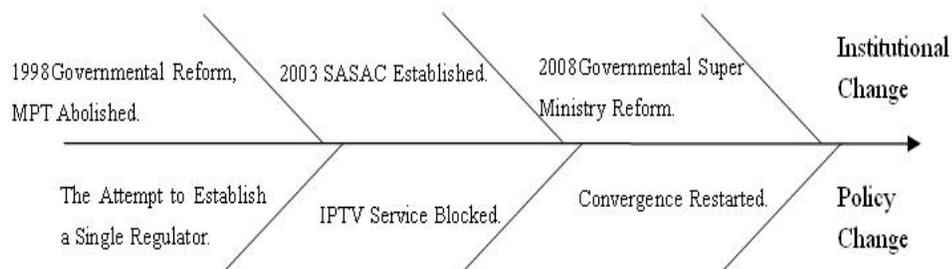


## Policy Brief: Mapping the future of China's telecommunications regulatory regime: a layered perspective

The convergence of telecom, broadcast TV and internet has turned into a national strategy when China's State Council announced the ambitious, but ambiguous, plan on January 13, 2010. The Chinese government aims to achieve a reasonably competitive information industry and an accompanying clear, scientific and efficient regulatory regime by 2015. Technological convergence has challenged the wisdom of regulators around the world for not a short time, particularly since the commercialization of the Internet in the early 1990s. Different approaches have been proposed to replace the legacy "silo" regulatory model. However, unlike the technological advancement that is often progressing in a revolutionary manner, regulatory regime seems to react conservatively and passively, leaving most of the pioneering ideas confined within academia. Unsurprisingly, the layer model, which triggered a drastic debate in the policy circle in early 2000s, has not tested its validity in the real world. This paper argues that, given the special Chinese characteristics of China's telecommunications industry, the layered approach provides an adequate guideline and an analytical framework for the designing of the future of China's telecommunications regulatory regime.

There are two observations that we find from the review of the evolution of China's convergence policy. First, the policy change is often resulted from the macro institutional change. Second, although the emphasis and preference might shift at different stages, key policy objectives seem to be consistent overtime.

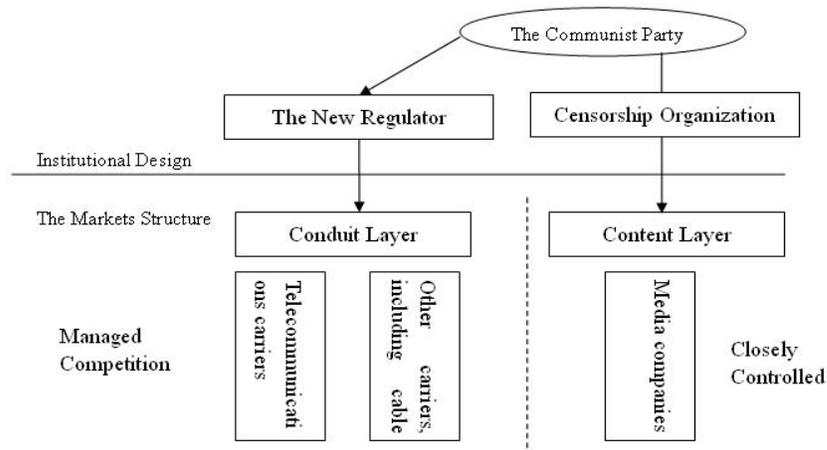


As shown in the figure above, at every point of the institutional change, policy change always follows. The 1998 governmental reform, which abolished the MPT and delinked the telecommunications carriers from government ministries, resulted in the attempt to establish a single regulator for the whole information industry. Sequentially, the 2003 establishment of the SASAC, which became the new supervisory body of telecommunications carriers and supposedly strengthened their negotiating positions, to some extent forced the SARFT to block the market-driven growth of IPTV. The 2008 super-ministry reform, which strove to streamline government functions and strengthened macro-economic regulation, restarted the nearly stagnant convergence process from the top leadership.

We also find that the primary policy objectives have been consistent overtime despite of the institutional change. Economic growth is always the top priority. Economically, the Chinese government has long been pushing the process of corporatization in both telephone and cable industry. Politically, every institutional change appeared to be one effort to remove the bureaucratic obstacle for convergence. Overall speaking, as stated by the State Council, the new

convergence plan was to create new economic growth area and was regarded as one of China's strategic policies in response to the global financial crisis (State Council, 2010). While the main driving force for convergence stays the same, so do the disturbing factors. Concerns for the national security and ideological control are probably the most powerful arguments often made particularly by the SARFT side. In telecommunications, national security is also a strong position the government hold. The sector is declared to be one of the key industries that should be under absolute control of the state ownership. Thus, privatization has never been on the menu of reform.

Government decisions and activities were shaped collectively by organizations that "bear tracks of their own history" (North, 1990, p. 114). Built on the review of China's uneven path to convergence, this paper proposes a potential framework of China's future convergence policy.



There are two key policy recommendations:

First, a new around of institutional change is necessary to furthering convergence. Comparing to the previous two, the 2008 convergence plan lacks the essential institutional rearrangement. As discussed before, while it has acknowledged the problems of the traditional "silo" model in regulating converging services, the Chinese government continues to leave telecommunications and cables to different regulators mainly due to the ideological concern. However, without a major institutional change, the convergence plan is unlikely to succeed because those problems that have hindered the previous two convergence trials still remain unsolved. A likely conducive institutional change is to found a new independent regulator to supervise both the telecommunications and cable.

Second, since economic growth has been the top priority of the Chinese government along the path to convergence and the theme is expected to remain in the future to come. Bearing in mind that the Chinese government considers information networks ideologically sensitive, this industry will continue to be tightly controlled by the government. Thus, in terms of competition policy, it is likely the Chinese government will continue to promote facility-based and manageable competition in the convergence era. A double-asymmetric competition policy shall be taken in order to facilitate the convergence. At the conduit level, preferential measures should be given to the cable operators to strengthen their capability to compete with telecommunications carriers. At the content level, on the other hand, the openness of the interface should be emphasized and cable operators shall be further delinked from the television stations. Figure 5 illustrates the regulatory regime discussed in this section.