Telecoms Infotech Forum

Briefing paper

China and the WTO

April 2000

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'In the entire history of trade agreements, I don't believe there's ever been one this weighted in our favor' President Clinton, speech in San Jose, 4 April 2000.

1. Introduction

At the time of writing, US Congress has still to decide on whether or not to grant China permanent 'normal trading relations' status, the new name for 'most favoured nation' treatment. The quotation above has to be read in that light, but beyond the hyperbole lies a real point. China keenly wants WTO status and the US-China WTO trade agreement is part of the price. Trade liberals of course will assert that no one under free trade can be a looser, because no one will freely choose to trade if it disadvantages them. Strategic trade theorists will argue that the benefits of 'external economies' which may arise nationally from protecting certain 'strategic industries' could be lost forever if the doors to free trade are opened too fast. In the following Briefing Paper we examine the US-China agreement with respect to telecommunications, we examine its meaning both for China and the outside world, and consider some of the implications for foreign direct investment (FDI).

2. China's WTO Commitments under the US-China Agreement – see appendix

3. US and European Interests

To state that foreign telecom companies would gain from the agreement, especially technology-rich and cash-rich US companies, is to state the obvious. It is also worth making the point that one of the barriers to entry has been less the lack of China's WTO status and more the lack of a company law and contract law system. Of course, China's ban on foreign direct investment (FDI) in telecom-related ownership, management, network or service operations is the biggest obstacle, but smaller family-owned Asia businesses have frequently achieved imaginative entry strategies by partnering with China entities on a variety of revenue-sharing bases. This option was just not open to large Western or Japanese companies with corporate lawyers and shareholders breathing down their necks. That could now change, but WTO entry does not in itself fill the legal vacuum, and there are reasons - argued below - why that may take time to change.

How far are the gains of the US-China agreement also the gains of the Europeans and the Japanese? Clearly there is a common denominator in permitting entry into ownership and management of basic telecommunications services, but for the Europeans mobile cellular telephony is a particularly strategic issue. The European GSM standard currently dominates China's fast growing cellular market, and the EU has designated the lifting of the forty nine per cent ceiling of foreign direct investment in cellular as one of their negotiating goals. It is assumed that Alcatel, Ericsson, Nokia and Siemens would stand to gain by this, and widely believed that non-European manufacturers of cellular handsets, such as Motorola and Qualcomm, who have

licensed their next generation CDMA technology to Ericsson, as well as Japanese manufacturers would gain. But why? If these manufacturers wish to move into operational partnerships then the answer is clear, but if they just wish to sell more handsets the question arises: can it be assumed that future operators in China's mobile market will support them? For the foreseeable future the answer is most certainly, yes, but the question raises two important considerations.

4. China's Industrial Policy

First, China's Ministry of Information Industries (MII) is vigorously pursuing a long-established industrial policy which emphasizes (a) the need to develop China's capability and production capacity in micro-electronic components, from chips and wafers on up, and (b) the goal of achieving internationally recognized standards in electronic products with a sufficiently large home market to sustain the economies of scale necessary for R&D and world export. In this China is following the post-Second World War experiences of Japan, South Korea and, to some extent, Taiwan. An interesting but very important parallel issue here is the steady stream of Chinese students to the US and other industrialized countries following Deng Xiaoping's 'Open Door Policy' after 1978. Now the 'brain-drain' is beginning to reverse as skilled Chinese return to China with capital and technical know-how and knowledge of how markets work. In a contradictory sense they represent the future: they bolster China's industrial ambitions, but they are also agents of the free market economy.

Development economists are now more or less agreed that the policies of import-substitution mistakenly followed by many developing economies in the 1950s and 1960s were self-defeating, while economies that went for export-led growth were much more successful.[1] But economies that rely upon trade have to accept the fact – costs as well as benefits, although for pure trade liberals there are presumably no costs – that with exports come imports, and with imports come radical changes in all aspects of life.

The second point is that the role of equipment manufacturers is already beginning to change with the coming of broadband, third-generation and mobile Internet. In the broadband world the economics of narrowband telecommunications works less and less[2] because the demand for network access is derived increasingly from the demand for content and applications and services provided over the Internet. Already manufacturers are moving into alliances with fixed wireline operators, with manufacturers of Internet routing equipment, with Internet platform designers and with content aggregators.[3] This is part of the long awaited 'convergence' that is

[1] For example, see Edward K.Y.Chen 'The Total Factor Productivity Debate: Determinants of Economic Growth in East Asia' *Asia-Pacific Economic Literature*, v.11.1, May 1997, pp18-38; and Vernon W. Rutton 'The New Growth Theory and Development Economics: A Survey' *The Journal of Development Studies*, v.35.2, December 1998, pp.1-26. Of course, not all developing economies have the means to succeed even in export promotion without considerable structural assistance.

[2] See John Ure 'The era of international simple resale: not waving but drowning?' *Telecommunications Policy*, v.23.2, February 2000, pp.9-30; also www.trp.hku.hk

[3] See also TIF *Hong Kong: A Test-bed for Third Generation (3G) Wireless?* December 1999; www.trp.hku.hk/tif

now characteristic of the industry. How will that play out in China? So far the agreement appears to have been negotiated and drafted along traditional narrowband sectoral dividing lines: domestic and international, mobile, value-added services, paging, and video and sound recording and cinema. The Internet is just part of the list, and only a verbal agreement seems to have been reached. Other parts of the 'convergence', notably broadcast and content, are completely left out, for reasons that are well understood, but this raises serious question marks over the penetration into China of alliances which make good strategic sense globally.

Perhaps the biggest problem of all for foreign companies lies not so much in the wording of the agreement as in the 'Western' belief that once the ink is dry the deal is done. That is not the way things customarily happen in China, as anyone with negotiating experience is well aware. Dried ink is rather like the psychologist's (Rorschach test) ink-spots, to be read and interpreted in many different ways. The more so since the Chinese-language version of a contract will take precedence over a foreign-language version, and without a developed legal framework of contract and company law, and with lots of scope for extra-legal pressures to be brought to bear – who wants to risk losing out in the future? – commercial risk and uncertainty remain constantly high. In a free market this would normally imply risk premiums on the return to capital. Not in China.

5. What the WTO means for China

At the risk of over-simplification, we see three forces of opposition in China: (a) those who would oppose the WTO on ideological grounds, (b) entrenched interests who feel threatened, and (c) conservatives, including the official view of the MII, who see the costs as being at least as great as the benefits. [4] The ideologues can be isolated, the entrenched interests can be overcome or accommodated in some fashion, but the conservatives have strength of argument behind them.

We take the view that a primary reason why China's current leadership is determined on WTO membership, apart from matters of national political pride, is the need to undermine domestic opposition to Premier Zhu Rongji's radical reform programme – state enterprise reform, taxation reform, the introduction of a market economy. Ironically, because China already has, in effect, most favoured nation status ('normal trading relations') with its key trading partner, the USA, it can be argued, as the conservatives have argued, that the trade gains arising from WTO membership may be quite limited, while the challenge to China's enterprises from WTO imports will be costly. This argument may well have merit, especially in the short term. The real issue is whether the threat of import competition is likely to generate a much needed industrial and commercial restructuring or whether it endures widespread enterprise collapse and structural unemployment, and how can China fund the social costs of making the transition to the market

[4] For example, 'Professor Yang Peifang, Senior Engineer at the MII's School of Telecom Technology, recently pointed out at a seminar that deregulation of the telecom market is inevitable as a result of globalization of the economy: "China will benefit more from the deregulation of its market as a whole following WTO entry. However, in terms of the domestic telecom industry, the country will suffer if it deregulates its market now," he said.' CTC News, 5 December 1999, p.5.

economy. These are not idle questions. They are desperately crucial issues. China is a huge balancing act, and it cannot afford to get it wrong. We tend to agree with the following assessment:

> 'China has largely achieved one of its goals in seeking WTO membership - the use of outside pressure to accelerate domestic reforms. Even though the final deal has not yet been done, official media refer to WTO membership as an imminent reality, thereby galvanising domestic industry to tackle important reforms. (*Financial Times* 1 April 2000, p1)

6. China's Telecoms Sectors

6.1 The Public Switched Telecoms Network

The original 2000 target for exchange line capacity in China, set in the early 1990s, was 48 million exchange lines. Hardly had the Ninth FiveYear Plan (1996-2000) been published, which raised the target to 114 million lines, when the target was raised again to 170 million lines. Subscriber numbers, which stood below 7 million in 1990, reached 41 million in 1995 and a target of 116 million was set for end-2000. As of January 2000 there were 111 million subscribers.

As the following table demonstrates, revenue has consistently supported investment, and although local call charges have been kept low, fees from installation have until quite recently been kept high. By the mid-1990s installation fees were responsible for over 40 per cent of total revenue. A further one-third came from call charges and other MPT fees, and, crucially, less than 20 per cent came from loans, including foreign loans and investment.

China's Telecommunications Investment & Revenue statistics

Year	Lines (mill.)	Growth	Telecoms (bn yuan)	revenue growth	Telecoms (bn yuan)	Invest. Growth	Investment as % revenue	Investment as % of GDP
1978	1.70		0.73		0.26		35.6%	
1983	2.51		1.6	14.3%	0.34	25.9%	21.3%	
1984	2.91	16%	1.9	18.8%	0.55	61.8%	28.9%	
1985	3.27	12%	2.5	31.6%	0.84	52.7%	33.6%	0.09%
1986	3.65	12%	2.9	16.0%	0.90	7.1%	31.0%	0.09%
1987	4.08	12%	3.9	34.5%	1.1	22.2%	28.2%	0.09%
1988	4.96	22%	5.7	46.2%	2.7	146%	47.4%	0.18%
1989	5.89	19%	7.4	29.8%	5.0	85.2%	67.6%	0.30%
1990	6.85	16%	10.9	47.2%	6.0	20.0%	55.0%	0.30%
1991	8.45	23%	15.1	38.5%	8.6	43.3%	56.9%	0.39%
1992	11.47	36%	22.6	49.6%	16.3	89.5%	72.1%	0.60%
1993	17.33	51%	38.2	69.0%	40.4	148%	105.7%	1.04%
1994	27.28	53%	59.2	54.9%	77.6	92.1%	131.0%	1.38%
1995	40.70	49%	87.33	47.4%	98.5	26.9%	112.8%	1.71%
1996	54.99	35%	120.8	38.3%	103.6	5.1%	85.8%	1.52%
1997	70.31	28%	162.9	34.8%	124.5	20%	76.4%	1.66%

Source: MPT Annual Reports and China Statistical Yearbook (annual). Note: (i) revenue figures refer to total telecoms turnover; in 1996 operating revenues were 95% of turnover; (ii) investment includes postal services, which accounted for 6% in 1997, 5.4% investment in 1996, and shared investments which in 1995 accounted for 9.4% of the total.

This means that China's basic telecommunications network does not *require* foreign direct investment to meet its ambitious targets. It is interesting to note that the 1996-2000 Ninth Five Year Plan forecast of total posts and telecoms service revenue of 240 billion RMB for 2000 (*MPT Annual Report 1995*, p.43) was exceeded by 40 billion RMB end-1999. The new target is 312 billion RMB. This does not imply that China would not benefit from FDI, especially in the high-end broadband technologies (Internet routing, DWDM, photonics, 3G mobile, etc), nor does it mean that revenues alone are sufficient to sustain investment. At present, the debt ratio of many Chinese telecom enterprises is as high as over 60%, or even up to 80%, far higher than the warning line of about 40%. It simply means that the pressure to open the market is not as great as some financial analysts have liked to imply.

Telecommunications, with Chinese Characteristics

The 1990s have witnessed the introduction of something close to network competition, but perhaps the best way to describe this is 'telecommunications, with Chinese characteristics'.[5] Before the MII was formed, turf wars between different interested ministries were fought out through a series of out-flanking maneuvers. The old Ministry of Electronic Industry (MEI) in particular championed the Golden Projects as a way to provide China with modern data communications networks out from under the direct influence of the old Ministry of Posts and Telecommunications (MPT). The JiTong and LiangTong (Unicom) corporations were the result. JiTong operates a medium-speed data communications network of satellites and optical fibre, one of the four Internet international gateways and now has an international Voice/IP licence. Unicom still struggles to exist as an alternative fixed wireline and mobile cellular network, but has recently acquired the right to enter the IDD call market and as been given an international Voice/IP licence (see below).

China Telecom, and its offshoots, notably the China Mobile Communications Group, dominate the public telecommunications market, and through high wholesale tariffs the Internet service providers market. But no sooner was the old MEI swallowed up by the MII when along came the State Radio, Film and Television Bureau of the State Council in conjunction with the Ministry of Railways, Chinese Academy of Social Science and the Shanghai Municipal Government to help start up China Netcom Corporation, which has also been granted a Voice/IP licence. 'Telecommunications, with Chinese characteristics' is setting the stage for home-grown competition on a restricted scale, where the prime moving forces are competing State interests rather than market forces as such. This could have important consequences for

[5] Peter Lovelock's Ph.D thesis (1999) is a definitive study of China's telecommunications policy-making. See also Peter Lovelock and John Ure, 1999, *Telecommunications Policy-Making in China: A Two-Tier Bargaining Model* available with other papers on China at www.trp.hku.hk

how any WTO agreement is operated in practice. Joint venture partnering is only possible if you have someone to partner with.

6.2 Mobile

Equipment

The MII forecast 65-70 million mobile phone subscribers by end-2000, growing to 160 million by 2005 and 200 million by 2010. For the foreseeable future the main national operators will be China Mobile Communications Group, the mobile spin-off from China Telecom, and Unicom. The Radio Regulatory Bureau has allocated 1890-1900 MHz and 1970-1980 MHz, currently used for other purposes, for future 3G use, and also plans to completely reorganize the use of the entire1700-2300 frequencies. The size of the market offers substantial economies of scale for future equipment manufacturers as well as applications and content providers serving mobile Internet. China's success last year in having its UMTS TD-SCDMA standard accepted by the ITU means China will emerge as a major equipment manufacturer.

A central plank to the MII's industrial strategy is to protect this home market for local manufacturers as far as possible – since 1995 five percent of installation fees have been allocated to R&D in mobile phone manufacturing - although after China enters the WTO, it will have to abolish import restrictions on wireless apparatus, including pagers and mobile phones. In 1998 President Jiang Zemin announced China's willingness, upon accession to the WTO, to sign the International Technology Agreement (Taiwan is a signatory because the ITA is officially not a WTO agreement) which commits signatories to the phase out all import duties on computers and their components, telecommunications equipment, semi-conductors, semi-conductor manufacturing equipment, software and scientific instruments.

Currently the wireless communication equipment market is dominated by foreign products though some domestic suppliers, such as Eastcom, are striving to grab a share. After China's entry into WTO, the domestic communication equipment manufacturers, such as Zhongxing Telecom, Datang Telecom and Eastcom, will face fiercer competition from foreign companies. But, on the other hand, if the telecom service and network construction sectors are opened to the outside world after China's entry into WTO, service charges will come down and in turn the demand for telecom products will increase. This will stimulate the demand for the products of these enterprises. As part of the drive to consolidate the local manufacturers in 1999 the MII announced its plans to reduce the number of companies. The survivors would include : Eastcom, Kanka, Haier, Nanfang High-Tech, Fenghua Bodao Company, Kejian, Zhongyuan Electronics Group, Shenzhen Taifeng Electronics Company, TCL, Xiaxin Electronics Company, Beijing No.506 Factory, and Datang.

On 16 December 1998 the *Financial Times* carried a report that unpublished State Council documents aimed to raise the home market share of local firms from below 10 per cent to 40 per cent by 2001 and 70 per cent by 2003. A year later, 3 November 1999, the *Financial*

Times ran the story that quotas were to be introduced on foreign manufacturers of mobile phones in China through a licensing system; this followed the announcement of 'seals of approval' on telephone equipment the purpose of which, it was said, was to cut down on smuggled imports. These moves are clearly contradictory to the WTO and illustrate just how much is at stake. The announcement in February 2000 that no new foreign joint ventures would be formed also seems to throw light (or dark?) on the interpretation and implementation of the WTO agreement.

Unicom

On the network side, the saga of Unicom continues. First it was gifted a national paging network and was apparently permitted to experiment with China-China-Foreign (CCF) – *zhong-zhong-wai* - joint ventures which allowed foreign companies to revenue-share at an arm's length. This was then declared illegal, it seems on the grounds that installation fees, which the MII insists can only be used to finance network build-out, were included in the revenue sharing. Without those revenues the cashflow from CCF was not a commercial proposition. Then Unicom was given the green light to IPO, but only after it had come to agreements to wind-up its CCFs, a process of difficult negotiations almost but not quite completed.[6] Then Unicom was given a Voice/IP licence and an entry into the IDD call market and, finally, it was announced that Unicom would deploy CDMA.

The timing was shortly before the Washington round of US-China WTO negotiations. Despite contracts this has been placed on hold, nominally because negotiations are taking place between Unicom and the MII, and it was also announced by Premier Zhu in March 2000 because the PLA had first to withdraw its interests from China Great Wall which is also deploying CDMA. On this occasion the timing is coincidental with the US Congress considerations of 'normal trading relations.' It seems suspiciously like Unicom is being used as a vehicle of political pressure and concessions rather than being allowed to follow an independent commercial path. This highlights a further problem of WTO implementation. How can foreign companies JV with Chinese entities that are subject to non-commercial pressures?

China Telecom

China Telecom remains the dominant player through the China Mobile Communications Group. While it was still the creature of the old MPT it was allowed to engage in predatory pricing to strangle Unicom at birth. More recently, the MII has tried to limit the degree of price competition, realising that its own investment plans rely heavily upon revenues from mobile cellular wireless. At the same time is has announced the abolition of call charges on incoming calls. Pricing policy is therefore a further area that could prove difficult for foreign entry under the WTO.

[6] At least thirty-five CCFs and twenty-one foreign companies are known to be involved, including eight involving six Hong Kong-based companies.

China Telecom (Hong Kong) has been the MII's vehicle for getting the best of both worlds. Without in any way offering direct equity ownership in any of China's mobile networks, CTHK has attracted huge overseas investor interest on the basis of faith in CTHK's ability to pay future dividends which, in turn, will be reflected in today's stock prices. An apparent reason for MII's determination to bring Unicom's CCFs to an early end is to clear the way for turning Unicom into a second CTHK. Yet another way in which Unicom is more vehicle of state policy than a 'new competitive entrant' in the traditional sense.

6.3 Internet

The China Internet Network Information Center (CNNIC) now estimates China has 8.9 million people accessing the Internet, and that number will likely double by the end of this year. Minister Wu Jichuan has stated that China expects to have 20 million people accessing the Internet by 2003.

China's top 10 portals now include Netease, a domestic portal established by a young Chinese entrepreneur; Sohu.com, a U.S. site; Yahoo Chinese, and Sina.com, also American. Other popular sites include Zhaodaola, backed by televangelist Pat Robertson; ChinaBig, formed by R.R. Donnelley & Sons; and MyWeb, an IDG site. New sites are launching daily, nearly all backed by U.S. capital.

Under China's bilateral WTO accession agreement with the United States, foreign investors will be allowed a 50% stake in most types of Internet ventures immediately upon or shortly after accession. Practice in the market, however, has moved considerably beyond that equity ceiling.

Foreign capital is deeply involved in China's Internet, but in this wave of investment, it is not mature foreign companies coming to the Chinese market but direct investment funds and private groups. This has created a fevered environment in which every Chinese in the major cities who is remotely familiar with internet or computer technology wants to become an Internet entrepreneur and is seeking financing. Rags-to-riches stories abound: there is Tang Haisong, founder of eTang, which was recently financed at $40 million; William Ding, whose Netease portal is being valued at $100 million; Jack Ma, whose Alibaba e-commerce site recently received several million in foreign financing from a consortia led by Japan's Softbank; Peggy Yu, whose dandang.com, financed by IDG, aspires to become China's Amazon; and many, many more home-grown entrepreneurs whose model is being closely watched by other aspirants to the Internet economy. These local entrepreneurs are pushing at the definition of 'Chinese' versus 'foreign,' and the Chinese government would find it extremely difficult to dislodge them, despite their 'foreign' ownership.

The Internet came to China quickly and stealthily, and therefore it came as a pure phenomenon of the free market, unshaped by China's archaic regulations and requirements. China is now waking up to find itself in the middle of a robust free economy on the web that is bringing

uncensored information to the Chinese people and a whole new world of ownership to the economy.

Foreign Investment and the Internet in China

China's telecommunication sector, including its Internet sector, is currently governed largely by regulations promulgated in 1993 and revised in 1995. These regulations don't address the Internet specifically, their drafters having failed to anticipate the Internet's explosion, and so fail to address many issues raised with the advent of the Internet. They do, however, specifically ban foreign entities from providing value-added telecoms services.

Despite the possibility that this ban might apply to Internet ventures – Chinese authorities could readily construe the Internet as a 'value-added telecoms service' – foreign companies have nevertheless invested heavily in all manner of Internet enterprises during the past few years. Most (with a few odd exceptions) have avoided involvement with Internet service providers (ISPs), surmising that ISPs probably would be considered 'telecoms services', but instead invested in Internet content providers (ICPs) such as Chinadotcom, Sohu, Sina and Zhaodaola.

In September 1999, the Ministry of Information Industry Minister, Wu Jichuan, announced (in a *Financial Times* interview) that this ban applied to all Internet ventures – ISPs and ICPs alike – which he said were all technically value-added telecommunications services. Referring to the many foreign-invested Internet companies already operating, Wu said that the MII would clean up such "irregularities." When asked in December (in an *ASWJ* interview) whether the government would 'grandfather' existing Internet operations, as Charlene Barshefsky had suggested after signing the bilateral WTO deal, Wu responded that these operations were "currently in violation of current Chinese policies [but] our starting point in dealing with this issue is practicality."

This "practicality" likely reflects the Chinese government's understanding that its Internet sector badly needs foreign capital, technology and expertise. Clamping down on foreign-invested operations, which include as investors many major companies (Intel, AOL, Sun, Goldman Sachs, etc.), would significantly dampen investor sentiment.

The WTO Deal

The US-China WTO deal ultimately (according to differing timetables) allows 50% foreign ownership in ICPs and 49% in ISPs. A footnote to the agreement calls for the creation of an independent telecoms regulatory agency (USTR negotiators argue that this would preclude MII from taking this role), but this isn't binding.

Recent Developments

In February, China issued regulations prohibiting the dissemination of 'state secrets' via the Internet. These rules essentially extended existing rules on the protection of state secrets to the Internet, making networks, service provides and users all responsible for preventing the release

of state secrets. Not surprisingly, these rules apply as well to Hong Kong and Macau. The new rules do not define 'state secrets', the definition having been left to the original overarching regulations which, not surprisingly, provide a very broad definition. A largely unknown agency, the State Secrets Bureau (Guojia Baomi Ju), the implementing arm of the CCP Central Committees' Committee for the Protection of State Secrets, will govern the implementation and enforcement of these regulations.

Some observers have surmised that a few prominent cases involving leaks of state secrets, in particular the posting of information on one of China's fighter aircraft by an engineer, prompted the issuance of these rules. In practice, most Chinese websites already self-censor news articles, discussion groups and chat rooms.

Last fall, China quietly issued regulations governing the use of encryption. All companies and individuals in China using encryption had until January 31 to register all encryption programs currently in use and all individual users of such programs. The rules also restrict the development and sale of encryption programs, with only entities approved by the National Commission on Encryption Code Regulations allowed to do either. In addition, foreign encryption programs would have to be approved by the NCECR before they could be used in China. Oddly, these rules were first announced in the back pages of the *People's Daily*, with few if any companies noticing until news reports appeared in late January. Most companies, both Chinese and foreign, consequently failed to register in time, putting them in technical violation of the law. Some companies, reportedly including Microsoft, have subsequently registered, but others await further clarification. Seen as largely unenforceable, the regulations were dramatically relaxed in March.

What effect the encryption rules will ultimately have is an open question. Some observers view it as a bureaucratic power grab by the Ministry of State Security, whose related companies would presumably have an inside track on selling 'approved' encryption software. Other bureaucratic powers such as the MII and PSB are reportedly vying for influence on this issue. (All three of these agencies participate in the China Internet Security Management Centre, another shadowy agency whose responsibilities and powers are not well known.)

The rules also may presage the imposition of key escrow, whereby all encryption keys (very complex numerical passwords) would have to be registered with the government, or a 'Chinese Clipper' (similar to the US government's recent ill-fated proposal), whereby all approved encryption software and hardware would include a 'backdoor' allowing ready decoding by government authorities. While undoubtedly wanting to read encrypted information, Chinese officials also apparently do suspect that foreign encryption software contains trapdoors available to foreign governments.

Anticipated Developments

The MII has promised to issue sweeping regulations governing the Internet. These rules will probably reflect commitments made in the WTO deal, but for the most part information on the

final details remain in the province of rumor rather than fact. Regulations governing e-commerce are due out within the next month, while telecommunications regulations have been promised for late-June.

The Chinese government will soon issue rules governing the dissemination of news, which will reportedly prohibit Chinese websites from releasing news and permit them only to quote news reports published in domestic newspapers. This initiative comes from a conglomeration of information agencies – State Council Information Office, Press and Publications Administration, Propaganda Bureau and Ministry of Culture – that will likely participate in a new information agency (another *youguan bumen*) responsible for regulating Internet content.

As with many similar regulations, these last controls will probably be implemented selectively and retroactively. They also may stem less from a desire to keep contraband news from China's current small population of sophisticated urban users, which would be impossible in practice, but rather a perceived need to control the dissemination of news once the *laobaixing* start going on line through set-top boxes (devices that allow users to access the Internet with only a television and cable connection). They may also reflect at the same time yet another attempt by various Chinese agencies to gain control over some aspect of the Internet.

7. Conclusion

Since Seattle the WTO has been floundering to project a clear and coherent set of principles upon which to unite a very divided world. It is an ironic situation, because the effects of information communication technologies (ICTs) are supposed to bring the world ever closer to the 'global village'. The end of the Cold War was likewise supposed to remove obstacles to international cooperation and understanding. But from the 'digital divide' to 'strategic national interests' the antagonisms seem to persist. This picture is a long way from the liberal ideal of free trade, and yet the principles of freedom of movement for people, goods and services, capital, technology and information are without doubt the right ones. If they can be made to work, the social welfare of everyone involved is likely to increase. Can they be made to work?

China's entry into the WTO will not just change China, it will change the WTO. Again, the question remains will it add to the tensions between developed and developing nations, or will it impose a new reality upon both sides? For example, China is committed, on paper at least, to implementing the WTO Basic Agreement on Telecommunications Reference Paper on regulatory principles. If it seriously does so, if the MII sets up an OFTA, an important principle of transparency would be introduced. In such an event could the US and other economies bring themselves to making more serious concessions in terms of opening their own markets? In other words, is the idea that both sides could forgo their short-term strategic interests to achieve a mutually beneficial freeing of trade and investment too far fetched?

These are macro questions to which the cynic has most of the probable answers. When we look in detail at the various local interest groups and their lobbying power, cynicism is bound to

prevail. But interest groups are not the real problem. The real problem is political will from the top, and the year 2000 looks a good chance for China to join the WTO. At the micro level, foreign companies are likely to be disappointed if they naively expect to jump straight in. As the old saying goes, 'there's many a slip between cup and lip.' But what we have seen is that of all the sectors into which foreign investment has made and is likely to make the biggest impact, China's Internet sector is it. It has sprung up outside the traditional State sector in China, it is being pioneered by young Chinese entrepreneurs with exposure to the world of ideas and overseas venture capital. It is, as they say, 'out of the box'. For some in China it may be Pandora's box, for others it is the genie out of the bottle. But whichever it is, it won't be put back.

APPENDIX: China's WTO Commitments under the US-China Agreement

Towards the end of 1999 the Telecoms InfoTechnology Forum (www.trp.hku.hk/tif) posted a version of the US-China agreement with respect to telecommunications facilities and services, which is reproduced below. A recent posting by The US – China Business Council (ww.uschina.org) has substantiated these points.

1. Domestic and International (submarine cable) Fixed Wireline Telecommunications (including voice, data, circuit and packet-switched, public services and closed-user groups)

1.1 Up to *twenty-five per cent equity* in Beijing, Guangzhou and Shanghai **three years** after accession.

1.2 Up to *thirty-five per cent equity* in the Beijing, Guangzhou and Shanghai + 14 other cities[7] **five years** after accession; value added and paging to be included.

1.3 Up to *forty-nine per cent equity* across China after **six years**.

1.4 China merely stated that gateway facilities would be established according to the approval of an independent telecommunications authority in accordance with the principles of the WTO's Basic Agreement on Telecommunications (BAT) Reference Paper.

2. Internet and Satellite Services and Other Services

2.1 China gave *verbal* assurances that Internet service provision and satellite services will be opened according the same schedule as for domestic and fixed wireline services (above).

2.2 China also gave a verbal assurance that Internet content services will be opened according to the same schedule as for value-added and paging services (below).

2.3 China agreed to allow cross-border mail order services.

3. Mobile Services (voice and data)

3.1 Up to *twenty-five per cent equity* in the Beijing, Guangzhou and Shanghai markets **one year** after accession.

1.2 Up to *thirty-five per cent equity* in Beijing, Guangzhou and Shanghai + 14 other cities[8] **three years** after accession.

1.3 Up to *forty-nine per cent equity* across China after **five years**.

4. Value Added and Paging (includes email, information services, EDI, value-added facsimile services, code and protocol conversion, data and online transactions processing, and paging services)

4.1 Up to *thirty per cent equity* in the Beijing, Guangzhou and Shanghai markets **upon accession.**

4.2 Up to *forty-nine per cent equity* in Beijing, Guangzhou and Shanghai + 14 other cities[9] **one year** after accession.

[7] Chengdu, Chongqing, Dalian, Fuzhou, Hangzhou, Nanjing, Ningbo, Qingdao, Shenyang, Shenzhen, Xiamen, Xi'an, Taiyun and Wuhan

[8] See footnote 1.

4.3 Up to *fifty per cent equity* across China after **two years.**

5. Regulation

5.1 China has agreed to the WTO's BAT Reference Paper, including pro-competitive regulatory principles, transparency, independence, national treatment, market access limitations to radio spectrum.

5.2 China agreed to periodic bilateral negotiations with the USA on interconnection fees.

5.3 China agreed topics for the next round of trade negotiations should include future equity ceilings, and further liberalization.

In addition:

6. Video and Sound Recording and Cinema

6.1 Up to *forty-nine per cent equity* in video and sound recording distribution services.

6.2 Majority foreign ownership permitted for the construction, renovation, ownership and operation of cinemas.

[9] See footnote 1.