

# China's Information Policy

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## I. Introduction

In recent years China's most spectacular growth rate occurs in the telecommunications sector. In 1978, China only has 3.69 million telephones, with a teledensity of 0.3%, lower than one tenth of the world average. The number of telephones in 1980 is the same as the 1905 level of United States, 1947 of Britain and 1958 of Japan. Domestic and international lines are so scarce that many foreigners called China as "a country without telephone". But with huge government investment in networks of optical cables, digital microwave, satellites, mobile & data telecommunications, the development of information industry has outpaced the GDP and become the largest industrial sector in China's national economy. By 1999, the output of color TV sets, sound equipment and telephones had leaped to first place in the world. In May 2001, the total number of telephone users in China reached 270 million, accounting for 21 percent of the nation's population. Although at present the teledensity is still comparatively low, China ranks the second in the world in terms of both the capacity of fixed telephony network and the size of the mobile network. Minister Wu Jichuan of Ministry of Information Industry has estimated that China will become the biggest telecommunication market in both number of telecommunication users and network capacity within 5 years.

In early 1980s, China began to develop satellite broadcasting and cable TV. Over 20,000 ground receiving stations of satellite education channels, 2,000 cable TV stations and

2.49 million miles of cable TV transmission networks have been constructed. The number of cable TV subscribers has been increasing by an average rate of 5 million per year and already surpassed 90 million, ranking the biggest market in the world. The home penetration rate of cable TV is over 50% all over the country, higher than that of telephone and is still increasing by 30% each year. At present the cable TV network covers all towns and 93% of administrative villages.

## **II. China's Satellite TV Policy**

As people could bypass official propaganda and watch international news and entertainments produced offshore through satellite TV, the ruling Communist Party became concerned. In the past the government had total control of the media. For instance, when in 1969 US astronauts landed on the moon for the first time in the history of mankind, the event was reported extensively throughout the world. Live TV coverage alone reached more than 800 million people. In China, however, open-circulation media did not carry a single story about the landing.<sup>1</sup> Through such deliberate information bias, the government had managed to keep the people in the dark and manipulate public minds. During the thirty years under Chairman Mao Zedong's rule, Mao was worshiped as a cult and the public blindly followed him from one fanatic movement to another. Fortunately, when Mao Zedong died in 1976, the new leader Deng Xiaoping turned the country from a total chaos back onto the right track of development with such policies as reform and opening to the outside world. These policies renovated the people's initiatives and the

economy experienced rapid growth in the following decade. But Deng Xiaoping has been especially cautious about permitting a freer information flow.

As it is believed that MTV and western soap operas played a significant role in disintegrating the Communist block in East Europe and the collapse of the Soviet Union, the Chinese authority had restricted foreign channels that local residents could receive. In 1993, the State Council issued “Provisions on the Control of Ground Receiving Installations for Satellite Television Broadcasting”, banning private ownership of satellite dishes, in the name of securing socialist ethical and cultural stability<sup>2</sup>. The provisions stipulated that only the following units are entitled to apply for satellite ground receiving installations to receive TV programs produced outside the Chinese territory transmitted via satellite: relatively high and large units such as institutions of education, scientific research, mass media, finance, economy and trade with a real need for their business and work; three-star or above hotels open to foreigners; and mansions for offices or accommodations provided specially to foreigners and personages from Hong Kong, Macao or Taiwan. Furthermore, these places could only transmit such TV programs to the designated rooms through closed-circuit television. The range of viewers should be restricted in accordance with the need of work, and to install terminals in places beyond the stipulated receiving range is illegal. No broadcast or relay of these programs in public places such as bus or railway stations, wharves, airports, shops, cinemas, etc., is allowed.

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<sup>1</sup> Sun Xupei. *An Orchestra Of Voices, Making the Argument for Greater Speech and Press Freedom in the People's Republic of China*. Edited by Elizabeth Michel. Westport, Connecticut: Praeger, 2001. 22.

<sup>2</sup> State Council. Provisions on the Control of Ground Receiving Installations for Satellite Television Broadcasting. Decree No. 129. Oct. 5, 1993.

Basically no individual is allowed to install or use satellite ground receiving installations, but in the areas where TV programs cannot be received from the local television station, an individual may apply for installing satellite ground receiving installations to receive TV programs produced only on the Chinese territory. He or she must first obtain the permission from the unit that he or she belongs to. With the testimonial supplied by the unit, he or she can begin the application with the county-level radio & TV department who reports to its supervisor and the state security department at the prefecture level. At last it's the Bureau of Radio, TV and Film at the provincial level who handle the examination and issue the approval & final license<sup>3</sup>. Such procedures could take months or even years.

Besides, to ensure that the official ideology to be effectively disseminated, the central government ordered all local cable TV stations to assign specific spectrum for the direct and complete transmission of CCTV (China Central Television) programs such as the 7:00 PM news. The 7:00 PM news program is produced under the direct supervision of the Communist Party's central committee and mainly contains boring reports on the latest Party decrees. It is forbidden to dispatch any program taken down from Internet or foreign TV. All the video products must be approved and certified by provincial Radio and TV administration before being broadcasted. Cable TV stations in the mainland are prohibited from broadcasting foreign programs transmitted by satellites, not even those from Hong Kong or Macao. Besides, no individual is allowed to apply for the establishment of cable TV station; no entity is allowed to set up cable TV station or

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<sup>3</sup> Ministry of Radio, Film and Television. *Detailed Rules For Implementation of Provisions on the Control*

build/operate cable TV network joint venture together with foreign institutions or individuals; and no cable TV station is allowed to lease frequency or time period to any entity, foreign institution or individual.

With these strict regulations, offensive programs are barred from eroding social life or harming national interests. Nevertheless, the technological nature of the Internet and the ease with which computers can retrieve information have made it harder for the state to exert total command over activities conducted via the Internet, which poses a challenge to the traditional media's "one dimensional transmission" model.

### **III. China's Internet Policy**

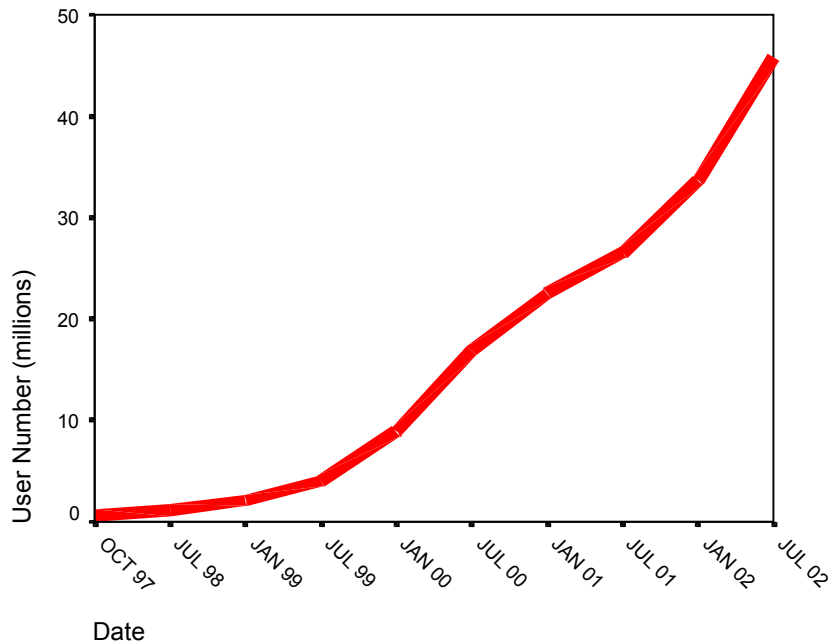
After the first Chinese Internet facility was established in 1993, by July 2002 the number of Internet users in China had reached 45.8 millions<sup>4</sup>. The following chart shows the rapid growth of Chinese Internet users:

Chart 8 - Trend of Chinese Internet User Numbers

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*of Ground Receiving Installations for Satellite Television Broadcasting*. 1993.

<sup>4</sup> China Internet Network Center Ninth Internet Report. <http://www.cnnic.net.cn/develst/>



(Data source: CNNIC<sup>5</sup>)

The Chinese government has been trying to control the new media by specifying Internet content. For instance, Commercial portal sites must obtain permission from the Central Government Information Office to carry news. Even with permission, they can only publish news provided by official government information organs such as the *People's Daily* and the Xinhua News Agency, and are banned from carrying any news items based on their own interviews or from other sources. Besides, no China-based websites, without separate approval by the State Council Information Office, is allowed to link to overseas news websites or carry news from overseas news media or websites.<sup>6</sup> The Chinese government argued that these rules would help to strengthen the monitoring process of online news sources and stop the spread of rumors online, as there had been some

<sup>5</sup> China Internet Network Information Center Reports. <http://www.cnnic.net.cn>

<sup>6</sup> "China Issues Rules Governing Internet-based News Providers". Xinhua News agency. Nov 6, 2000.

websites that never bothered to check the authenticity and reliability of the “news” they are carrying.

In addition to web content, the Chinese government also monitors the access to the Internet by the users. It requested all Internet service providers to maintain for 60 days records of all of the information that has been posted on the websites and all the users who have connected with their servers<sup>7</sup>. Any suspicious behavior must be reported to relevant government departments immediately. To further filter out foreign influences, renting dedicated international telecommunications lines or linking switching equipment as well as engaging in business operations of international telecommunication services without proper approval are regarded as activities that could disturb the order of the telecommunication market and will be punished accordingly<sup>8</sup>.

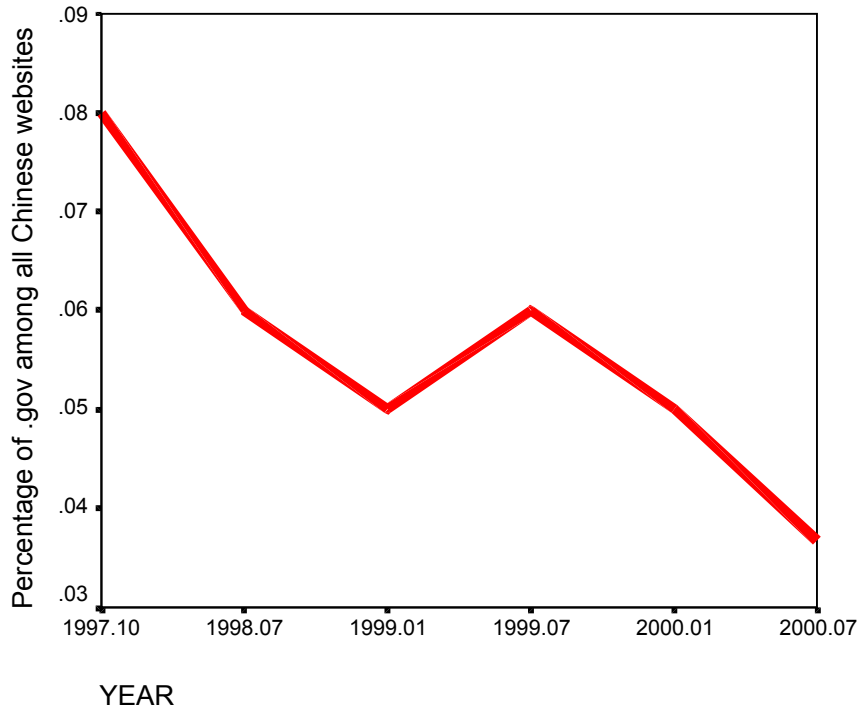
Despite these efforts, since the technological nature of Internet is a network of dispersed nodes across the globe, which maintains itself and grows through collective actions of netizens, it is still not easy for the Chinese government to censor what the people see and think online. The following chart shows that the percentage of Chinese government websites among all websites has been generally diminishing during the late 1990s and 2000, indicating less governmental presence online and more participation from other sectors of the society:

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<sup>7</sup> Ronald J. Deibert. *Dark Guests and Great Firewalls: The Internet and Chinese Security Policy*. Journal of Social Issues. Vol. 58. No.1. 2002. 143-159.

<sup>8</sup> State Council of P.R.C. Measures for Managing Internet Information Services. Sep 25, 2000.

Chart 9- Percentage of .gov among all websites in China



(Data source: CNNIC)

Along with the flourishing of virtual communities, newsgroups, and mailing lists online, non-governmental organizations and individuals who did not have much voice in the mass media could now effectively build a mutual community with others who have shared interests. Originally, it is the fear that the individual would find himself alone that set the spiral of silence in motion, but as a critical number of members are reached and a sense of community achieved through the Internet forum, individuals of all kinds of viewpoints are more eager to learn about and participate in public and civic affairs on the Internet. Instead of solely serving the authority and supporting the society's dominant ideology, those who post publications on the Internet are self-determined and there is no gatekeeper to prevent publication prior to the publication. As people could contemplate

new information previously unavailable to them and discuss issues of common concern, the Internet has the potential to foster a higher order of democracy and freedom of speech than has been achieved elsewhere.

In *Politics As Usual*, Michael Margolis and David Resnick asserted, “far from revolutionizing the conduct of politics and civic affairs in the real world, we found that the Internet tends to reflect and reinforce the patterns of behavior of that world. Politics on the Internet is politics as usual conducted mostly by familiar parties, candidates, interest groups, and news media.”<sup>9</sup> This may be the case in a democratic society like US. However, in an authoritarian regime such as China, the Internet has been serving as an alternative conduit for the people to give vent to their feelings and enables them to wage campaign in new ways, without which more destructive forms of protests such as strikes and insurrection might have been resorted to. The agenda-setting model through the Internet is very different from that of the traditional media. Chinese citizens are able to hear and think about views from their peers instead of merely authorized reports.

Moreover, public opinion formed on the Internet has begun to exert pressure on the power-holders. One of the most influential Chinese Internet forums is the Qiangguo Forum (<http://www.qglt.com.cn>), which has over 80,000 registered users. Every day there are about 10,000 new messages posted on this forum and simultaneous online users of it could reach 20,000. Many of the topics discussed there are what the traditional Chinese media try to avoid or otherwise pose a unified standing. The Internet forum has

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<sup>9</sup> Michael Margolis and David Resnick. *Politics as Usual*. Thousand Oaks: Sage Publications, 2000.

broken this media uniformity and more critical voices from the grassroots are heard. For example, in August 2002 the Police Department of Lanzhou City made out “a black list” of 16 courageous journalists who had reported the misconduct of some law enforcement officers. Thinking that these journalists have damaged its image, the Lanzhou police department decided to take away their journalist certificates and relieve them of the right of interviewing. Such an action caused a large number of angry comments on the Qiangguo Forum. Calling it “administrative hegemony”, many netizens accused the Lanzhou police department of infringing the journalists’ legal rights. One of them warned that trying to suppress the press’s voice is not difficult in China, but it is very dangerous, because if the real problems are not solved and lead to growing public wrath, the police department may not be able to hold its power for long<sup>10</sup>.

A survey among the users of this forum shows that most of them are upper-level citizens, as 80.6% of them have college education (the rate of people with college degree among the whole Chinese population is less than 2%), 35.2% of these forum users are technical and 18.9% are managerial personnel. It shows that the participants are mostly the elite stratum or opinion leaders. According to the communication theory of “two-step flow”, that is, new information usually first reaches the opinion leaders of a society and through them disseminate to the masses, the Internet has become an important tool to influence public opinion. Besides, numerous special interest groups have taken shape on the Internet that discuss significant issues and offer insider information. In a country with strict official censorship, the power of rumors becomes even more significant. Moreover,

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<sup>10</sup> <http://bbs.people.com.cn/cgi-bbs/ReadFile?typeid=14&whichfile=4725&filetype=Elite>

since 59.8% of the Internet users are under 30 years old, the new generation of China has become more and more accustomed to the democratic spirit brought in by the Internet.

During the ongoing struggle between those who aspire after free information flow and those who tries to continue the totalitarian brainwash, in October 2002, right before the Communist Party's 16<sup>th</sup> National Representatives' Plenary Meeting to be in session to discuss the leadership transition, the fear of possible social disturbances stimulated via the new communication means - Internet spurred the government to shut off the search engine Google in China mainland. However, Chinese netizens found alternative ways to access the information online, such as through Proxy servers and Email forwarding systems. Finally because the ban had become virtually ineffective, the Chinese government dropped the blocking of Google after only 11 days.

In 1952 Solomon Asch conducted an experiment, in it the subject was placed in a group of seven others, who- unknown to him- were collaborating with the experimenter. When all the others agree on a wrong answer, even though the error is very large and obvious, a significant percent of the subjects tend to agree with the unanimous majority. This is believed to be a reason for the communication effectiveness in the totalitarian states: the media monopolization. That is, when there is no counterpropaganda or overt show of resistance, chances for the success of a propaganda effort based even on a manifest lie are very good. However, by introducing a slight variation to the experiment, the whole picture changes. When the naïve subject is confronted with a majority of all but one, the

number of errors of the experimental subjects drops dramatically.<sup>11</sup> This explains the change of mentality of Chinese audience over the years – in many cases it only takes a small voice for people to realize and stick to the truth. Once the door of China’s absolute media control was opened, even just by a small crack, the people will not be as easily misled any longer.

#### **IV. China’s Telecommunication Policy**

Along with the globalization and reform, the Chinese government has also changed its way of conducting business. From 1949 to 1976 the Communist Party possessed absolute power over the economy: land and factories were state-owned; there was no free market as the government determined the flow of commodities. Every year the government made plans for the factories on how many products to be manufactured, how many supplies to purchase and from where. It also controlled the financial system and determined how much and to whom the bank loans would be made. Since Marxism regarded the use values instead of the exchange values as the source of real wealth and the real measure of wealth in a socialist society would be ‘disposable of time’, the Chinese government had established an economic system that prioritized social values than the monetary exchange values as used in the Western Capitalist countries. With the transformation of production relationships resulted in the determination of priorities being based on socio-political evaluation instead of what is more profitable in a western-style market, the Chinese government’s approach to development and planning disregarded monetary terms such as

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<sup>11</sup> Elihu Katz and Paul F. Lazarsfeld. *Personal Influence. The Part Played by People in the Flow of Mass*

GNP as a measure of growth and development. GNP, the Chinese government argued, would underestimate the performance of a socio-economic system that had improved the quality of human environment by increasing the volume of collective goods and services offered free of charge to all<sup>12</sup>.

As development was measured by the satisfaction of collective needs, which is a basic principle of Marxism, individual interests and motives for them to excel had been suppressed. Commune system had fostered many freeloaders, resulting in extremely low efficiency and productivity. Meanwhile, ideological extremism also ignored economic rationality. By the end of the Cultural Revolution (1966-1976), which engaged the whole nation in class struggles and smashing cultural relics, the country had sunk into dire poverty. To sustain China's survival and the Communist Party's reign, Deng Xiaoping promoted modernization and gave back the people the opportunities to express entrepreneurial spirits. Planning economy is gradually changed into market economy. State-owned companies are privatized one by one. Competitions are encouraged. In 1999 Deng Xiaoping's successor Jiang Zemin even declared that capitalists could also join the ruling Communist Party, as "they are the representatives of the advanced productive forces", an obvious distortion of the original Marxism doctrines.

Reforms spread to all sectors of China, including the telecommunication industry, which is the fastest growing sector of the country. For more than forty years, China Telecom

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*Communications*. Glencoe, Illinois: The Free Press, 1955. 70.

<sup>12</sup> K. William Kapp. *Environmental Policies and Development Planning in Contemporary China and Other Essays*. Paris: Maison des Sciences de l'Homme and Mouton & Co., 1974. 46.

had been the monopoly in the industry. As the only telecommunication carrier, China Telecom has developed into an extremely inefficient bureaucracy, and its monopoly has also entailed tremendous social cost, such as unmet demand for services and quality improvements, and failure to provide advanced infrastructure, etc. To establish a healthier environment with more competitions, in July 1994 a second telecommunication carrier, China Unicom, was formed.

The competition immediately became fierce. The launching of cellular services by China Unicom prompted China Telecom to slash its cellular service rates by 30 percent. Before the price war got uglier, as China Unicom was in short of groundbase network resources and had to rent from China Telecom, China Telecom refused to provide adequate network interconnection to this new rival. On the surface it allowed China Unicom to operate mobile and stationary phone businesses in certain cities and agreed on the interconnection between networks. In reality, it placed many restrictions on the connection of mobile and city phones and the interconnection between networks, causing China Unicom serious delays in its development. Instead of becoming a major contender in the telecommunication market, two years after its launch, China Unicom faced severe hardships in establishing market presence and raising financial support.

Moreover, China Telecom accused China Unicom of cream skimming by only focusing on the most profitable urban markets and thus exacerbating the rural-urban disparity and imbalances in geographical development; whereas China Telecom had to cross-subsidize the postal services in billions. It also pointed out to the authority that the conduct of

China Unicom in gathering foreign investments from partners like Bell Canada, France Telecom and Sprint, etc., had violated the central government's ban on foreign investment and operation in basic and value-added telecommunication services. As a result, the joint venture contracts between China Unicom and a number of foreign companies had to be terminated, arousing tremendous resentment among the foreign partners who threatened to sue China Unicom.

In light of the situation, the government finally decided to imitate the practice of United States that broke up the monopoly of AT&T, in May 2000 China Telecom was split into four parts by segments of the market: the fixed line, the radio paging, mobile communications (inherited mainly by China Mobile) and satellite communications (inherited by ChinaSat).<sup>13</sup> The new China Telecom inherited the fixed telecommunication networks, 500,000 working staff and a capital of 222 billion yuan (US\$ 26.7 billion), with the commitment of offering specialized services to the Party and governmental organizations and uniform quality for all other customers, providing large amount of subsidy to the postal sector and emergency communications for the whole country. Guoxin Paging Company, with an asset of RMB12.6 billion Yuan (US\$1.5 billion), was spun off from China Telecom and incorporated into China Unicom.<sup>14</sup> Besides, a number of small and medium-sized telecommunication companies were allowed to set up. As a result, in the basic telecom service area, including international, domestic long-distance, local and mobile services, there are now at least two operators competing with each

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<sup>13</sup> "MII Gives Go-ahead to ChinaSat to Become Country's Third International Long-distance Carrier". *Hong Kong Ming Bao*. July 13, 2000.

<sup>14</sup> "Telecom Modernization Faces Challenges in China", *The People's Daily*, Oct 10, 2000.

other, leading to marked changes in the mind-sets and operating mechanisms of the major carriers.

To ensure fair interconnection arrangements, the Telecommunications Regulations of 2000 stipulated that a major telecommunication carrier with control over necessary telecom infrastructure, a large market share and the ability to give substantial influence to other carriers' entrance into the market, should not refuse the request of other carriers and dedicated network operators for interconnection.<sup>15</sup> The major telecommunications carrier shall draft out a transparent and non-discriminatory interconnection rule that includes the procedure of network interconnection, a time limit, a list of unbundled network elements and reasonable rates. The two parties of the network interconnection agreement must implement the interconnection scheme within the agreed time limit. No party is allowed to terminate interconnection without the approval of the Ministry of Information Industry (MII). As the rules require China Telecom to allow interconnection at any point of the network and in ways that are compatible with the new carriers' operations, China Telecom argues that this demand unfairly takes its property away. Nevertheless, MII reasoned that China Telecom has already obtained monopoly profits for years and a fair interconnection rates could pay an appropriate share of its network connection cost.

The interconnection agreement between China Telecom and China Railcom, a new fixed-line telecom carrier, was reached in June 2001 to connect the networks of the two carriers together. Although China Telecom owned entirely the assets of its provincial enterprises,

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<sup>15</sup> State Council. Telecommunications Regulation of the People's Republic of China. Sep 25, 2000.

the agreement with China Telecom headquarter somehow did not carry weight with its 31 local branches, which were unwilling to connect their networks with the new competitor. China Railcom had to delay its operations as the negotiations of network interconnection with each branch of China Telecom for operating in that province and municipalities drag on. Currently China Railcom has to make do with operations in only 14 provinces and municipalities, including Guangdong, Tianjin, Chongqin and Hunan, while the two biggest telecommunication markets Beijing and Shanghai are not included.

Since China Telecom charges exceptionally high prices, the other telecom carriers have been constructing their own networks. China Netcom launched its nationwide backbone network, which leads to the drop of leasing prices for network resources by as much as 20 times. China Railcom is also constructing its four nation-wide 400G optic fiber circuits. With a target customer base of 12 million this year, China Railcom is no match yet to China Telecom, which boasts 160 million users and 80 percent of the country's backbone telecom network capacity. Hence China Railcom plans to focus its business on the less-developed western areas and county-level regions, where China Telecom's operations are limited and Railcom's fixed lines, developed from the railway sector, are more influential.

Recently, mobile services have grown much faster than expected. China has already surpassed the United States to become the biggest mobile telecom market with over 120.6 million mobile service subscribers. For the first half of 2001, the number of China's mobile phone users has been growing at around 5 million per month, and the

output of mobile communication equipment has increased by 602.2% over the same period of 2000.<sup>16</sup> Although the penetration of mobile population in China is only 10 percent whereas users rates in US and western European markets amount to about 40 percent and 50 percent respectively, the potential of Chinese market cannot be overlooked. The remarkable performance of mobile market has cast a shadow over fixed-line phone, for instance, China Telecom, which used to control more than 80 percent of the industry revenue, has seen its share significantly reduced during the first half of 2001 to less than 53 percent.

Currently the mobile market is shared by China Mobile and China Unicom. To prevent predatory pricing, MII adopted an unparalleled charging standard, the charging of China Mobile was kept at 10 to 20 percent higher than China Unicom so that the latter could compete with China Mobile, the main heir to China Telecom's mobile systems. The growth of major telecom providers during the first half of 2001 is as follows:

Name	Revenue up	User number	Average per month charge
China Telecom	5.8%	160 million	73.3 yuan
China Mobile	20%	86 million	134.69 yuan
China Unicom	58%	30 million	104.68 yuan

(Source: MII)

As China Telecom had monopolized the long-distance services for years, tariffs of long distance were kept notoriously high. To squeeze into this lucrative market, other

<sup>16</sup> "China Unicom Cellophane Users Surpass 10 Million". *People's Post and Telecom*. Oct 20, 2000.

operators began to carry voice over the Internet. Soon it became the fastest growing service in China's entire telecom industry. Underground carriers mushroomed throughout the country, snatching more and more traffic and revenue from China Telecom. Infuriated, China Telecom took a number of them into courts. For instance, it charged two brothers who provided Internet Telephony out of their homemade computer in a village of Fujian province at the rate of 70 cents per minute (China Telecom's rate was \$2.20/minute) with operating an illegal business. China Telecom first won the case and had the homemade computer confiscated. However, later on an appeals court ruled that the two brothers hadn't committed a crime by offering Internet telephony service at rates cheaper than China Telecom and that the police had violated the brothers' rights in shutting down their operation.

Under such circumstances, MII decided to include VoIP as a new service under ministry regulation and allow it to be operated on an experimental basis. Consumers and competitors welcomed this decision, but China Telecom tried to limit the growth of VoIP by publishing advertisements denouncing the quality of this service. Nonetheless, the huge price gap lured most of Chinese long-distance users to VoIP. In less than a year, China Netcom, China Unicom, Jitong Communications, and China Mobile had been involved in this business and made tremendous profits. A year after the VoIP experiment started, MII designated it as a normal service and adopted a more open and market-oriented policy on it – MII decided to let go the charge standard of VoIP business, hence charges are subsequently set by the individual telecom operators. The resulting price war soon led to cuts of up to 50%. China Telecom, confronted by the competition, asked for

preferential policies on the basis of universal service, but the State Council held that liberalization would not harm universal services, instead, it would actually boost network penetration and teledensity of the population. As a result, China Telecom finally had to lower the pricing of its traditional long-distance services.

In most developed countries, as long-distance services have already been under severe competitions and revenue margin is slim, VoIP has to count on the rapid increase of data services. However, since there has been a long-term tariff imbalance generated by monopoly in a developing country like China, even though VoIP price is only one third of the traditional telephony, at a rate of 0.03 Renminbi (US\$0.004) per six seconds for domestic long-distance calls, it is still extremely profitable. This paved the way for many Chinese new telecom carriers to build their entire networks based on IP instead of circuit-switching technology, for instance, China Unicom has begun to construct a VoIP network covering 319 cities across 30 provinces, the world's largest national dedicated VoIP network.<sup>17</sup> As VoIP is able to converge voice, video and data, a developing country like China that adopts this technology in a broad scale is positioned to leapfrog the stage of crossbar switching and microwave transmission and directly enter into digital and fiber of the revolutionary 21<sup>st</sup> century information highway.

## **VIII. Globalization Policy**

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<sup>17</sup> "Seven Telecom Firms to Build Fiber-optic Cable Across Pacific". *Science and Technology Daily*. Oct 27, 2000.

As China's Information Industry booms, it has become an important cushion for the losses of equipment vendors sustained from the overseas market. For example, in 2000 alone, China generated a demand for 4.35 million miles of fiber optic, taking up 10% of the world's total demand. Jan Malm, president of Ericsson (China) Co. expressed: "The Chinese market is a shining star in the cloud of global economic downturn". In the past, western countries such as United States had been reluctant to deal with China in this field. In the early 1980s U.S.-led Coordinating Committee on Technology Transfer (COCOM) prohibited most telecommunications technology transfers to China. But since mid 1980s, there has been a reverse in the demand-supply relationship for direct investment as it gradually favors the demand side of the market. Producers are more than ever willing to seek international opportunities to overcome the saturation of their domestic markets.

With the end of cold war, the political and business pattern of the world also changed. It's no longer the two giants: the socialist and the capitalist camps sizing up and demonstrating strengths to each other. Instead, in today's globalization, ideology is not as important as before, all nations and businesses are involved in intense competitions, each racing ahead with the quickest speed. Just a small hesitation or mistake may cause one lagging behind for many life cycles. Therefore, western enterprises have been greatly attracted by China's large market, competition between foreign vendors has increased, too. For instance, in 1995 China entered into a deal with AT&T to lay a fiber optic cable trunk line from Beijing to Kowloon in Hong Kong; in 1999, Ericsson won a contract for \$290 million to sell equipment to China Telecom to expand its cellular network in

Guangdong province<sup>18</sup>; besides, contracts were also awarded to Alcatel, who supplied SDH (Stored Digital Hierarchy) switches and DWDM (Deep Wavelength Division Multiplexing) equipment for three projects connecting major cities; and Lucent, who provided the equipment for the project of Asia's first optical MPEG 2 Digital Television System in Zhejiang province of China. In the satellite area, China also made contracts with Hughes, Space Systems Loral and Daimler Benz, but the negative 1999 Cox Report to the US Congress put an end to new contracts with Hughes, Lockheed Martin and Lora, a heavy blow to the satellite industry in the United States.

It is believed in the international playground every country seeks its own national interest.

Although still trying to maintain tight control of the country, the Communist Party of China decided that joining WTO would help China's growth, as it strengthens the confidence of both domestic and foreign investors in the Chinese market. In the meantime, the orthodoxy also raised concerns about the WTO entry. They argue that as China is a developing country with a huge population and much imbalance from region to region, investments by multinational corporations would easily penetrate the vulnerable domestic market. Of course United States and other western countries want open market, their telecom firms are well positioned to offer end-to-end service around the world, with highly competitive capital, technologies, brands and the ability of exploiting China's cheap labor. On the other hand, as China has been protecting its state-owned enterprises for decades, the domestic telecommunication companies cannot compete against the

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<sup>18</sup> "China Telecom Building New Fiber-optic Network". *The People's Post & Telecommunications*. June

international giants. Even the large enterprises in China will lose the battle of market. Once they succeed in squeezing the local enterprises into bankruptcy, the transnational corporations will take advantage of China's system and transfer profits to their mother corporations, eventually China will lose control over the long-term national interests. Hence open market might lead to massive losses of jobs and severe economic & financial crises, a lesson learned from the Asian Financial Crisis in the late 1990s.

However, in the age of increasingly fast transformation in technology, closed doors and anti-competitive regulatory environment will only lead to an obsolete system. After prolonged bargains in entering WTO, China finally agreed to permit foreigners to own 49% stake in enterprises of telecommunication services (50% for paging) and committed to pose no prejudice against foreign businesses in terms of market access.<sup>19</sup> The proposed timetable for the opening of China's telecommunications services is as follows:

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20, 2000.

<sup>19</sup> "After WTO, China will Partially Open Telecom Sector to Foreign Investment". *Securities Times*. July 26, 2000.

Time	Region	Foreign shareholding
<i>Paging service</i>		
Immediately after entry to WTO	Beijing, Shanghai, Guangzhou	No more than 30%
From Jan 1 of the second year after WTO entry	14 more cities	49%
From Jan 1 of the third year after WTO entry	No regional restrictions	50%
<i>Mobile voice and data service</i>		
From Jan 1 of the second year after WTO entry	Beijing, Shanghai, Guangzhou	No more than 25%
From the fourth year after WTO entry	14 more cities	No more than 35%
From the fifth year after WTO entry	No regional restrictions	No more than 49%
<i>Fixed-line and International phones services</i>		
From the third year after WTO entry	Beijing, Shanghai, Guangzhou	No more than 25%
From the fourth year after WTO entry	14 more cities	No more than 35%
From the fifth year after WTO entry	No regional restrictions	No more than 49%

In addition, non-tariff measures such as import quotas and restrictions on import-export licenses as well as import subsidies will be eliminated, and Chinese government pledges to increase transparency in trade policies. With the WTO entry, western enthusiasm increased vigorously. By 2000, China received more than 20% of the total FDI in developing countries and over 5% of total FDI in the world.

On the other hand, traditional media had been under more rigorous protection so that the Communist Party would not lose control of the public mind. Foreign and domestic private capital was not allowed to enter the TV broadcasting companies even after joining WTO.<sup>20</sup> Recently efforts have been made to break the ice in program dissemination. In order to boost its image, China has allowed AOL and News Corp. to broadcast to households in part of Guangdong province. In exchange, the two companies promise to ensure wide access to the United States for CCTV-9, which is part of China's main state television network. This deal marks a significant breakthrough of China's strict control on the media content since China has barred foreign broadcasters from reaching Chinese audiences directly for decades. Nevertheless, there is still a long way to go to reach a genuinely free market for information in China, because the Chinese, who had suffered for more than a century of half-colonial subjugation before the Communist took power in 1949, has a national trauma and fear of being taken advantage again by others. Especially since in today's world the information flow is generally one-sided from North to South, not even from South to South, China is naturally wary of cultural imperialism and the erosion of western agenda.

## **IX. Conclusion**

According to Fred Siebert et al., there are three stages of the relationship between the media and the nation in today's world: the authoritarian stage, in which the media was subject to overt state control and functioned to support the state; a middle stage, in which the media became less partisan and more socially responsible with commitment to professional values of objectivity and balance; and the libertarian stage, in which the media became politically and financially independent from the state and accountable to the public through the market mechanism<sup>21</sup>. Although China was in the authoritarian stage under Mao Zedong's reign. The current China's information system is in between the authoritarian stage and the middle stage. The media has been more commercialized, especially local ones, which are more outspoken over sensitive political issues. The Internet has also showed its power. Even on the issues that the official media pose a unified front, the people could find and voice different opinions on the Internet. With the Internet, the ability of the government to censor has become considerably weaker. For example, for hours after the September 11<sup>th</sup> event, Chinese TV stations are not allowed to broadcast the images to the Chinese audience. The information has to be delayed for the government to inspect and determine whether to let the Chinese people know or not. Eventually millions of Chinese resorted to the Internet to read about the news of 911.

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<sup>20</sup> State Council. *Directive on Reinforcing the Management and Construction of Radio and Cable TV Networks*. Nov 12, 2000.

As the nature of Internet as a decentralized network has been propelling China's de-regulation process of information flow, telecommunication infrastructures have also been opened to domestic and foreign competition along with China's entry into WTO. However, with a set of deep-rooted cultural, social and psychological barriers still in place, it is more important to establish a national mindset that collaborate, tolerate different approaches, experiment, make mistakes and readjust. At the core of the challenges is a natural human resistance to change and uncertainty, and that has been true of cultures and organizations for hundreds, if not thousands of years, around the globe.

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<sup>21</sup> Fred Siebert, Theodore Peterson and Wilbur Schramm. *Four Theories Of The Press: the Authoritarian, Libertarian, Social responsibility, and Soviet Communist Concepts of What the Press Should Be and Do.* Urbana: University of Illinois Press, 1956.

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