

China's Internet Services Industry: A Strategy for Legal Reform



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Scenario:

For the purpose of this project, I assume the fictitious role of a representative for the American Chamber of Commerce—People's Republic of China (AmCham—China). After receiving numerous complaints from member companies about investing in China's Internet services market, I have been asked to develop a plan to persuade the Chinese government to amend current laws and procedures to decrease regulatory risk.

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Executive Summary



Memorandum

To: Michael Furst, Executive Director, American Chamber of Commerce- PRC
From: Tiffany Tompkins, Chief Consultant, AmCham Internet Services Lobbying Team
Re: Strategy to decrease regulatory risk in China's Internet services sector
Date: April 30, 2002

Issue:

The American Chamber of Commerce–China celebrated China's accession to the WTO in December 2001. US businesses may, for the first time, legally invest in the highly anticipated Internet services sector. This sector has enormous market potential, including:

- 33 million Internet users
- The largest Internet user base by 2006
- Fastest growing PC market
- 100 million broadband connections by 2004

The conditions and schedules arduously negotiated with China's WTO Working Group were breakthroughs in the liberalization of China's Internet services market. China now allows up to 30 percent foreign investment in Beijing, Shanghai and Guangzhou. By December 2002, foreign investment will increase to 49 percent with an additional fourteen cities added to the geographic scope. By December 2003, foreign investment will be allowed up to 50 percent with no geographic limitations. However, while this schedule of concessions seems impressive, many barriers still need to be addressed in China's telecommunications sector.

China's Internet services industry is dominated by high regulatory risk, which is impeding the American investor's willingness to invest in the industry. This high regulatory risk is a direct result of the following problems:

- Complex licensing procedures for Internet content providers, resulting in discretionary interpretations by various ministries
- Nontransparent drafting procedures for all Internet-related regulations. Thirteen ministries are allowed to draft their own regulations without consulting other government entities or affected businesses. The current nontransparent legislative

system directly violates China's WTO commitments specifically addressed in the Accession Protocol under Transparency, section 1.

- The promulgation of Internet regulations inconsistent with China's economic goals. This causes investment risk when Internet service providers depend on economic growth to increase telecommunications infrastructure and its subscriber base.

Background:

The Chinese government has been developing the Internet services sector and the related supply-chain industries. Both central and provincial governments believe the Internet will diversify the economy, and aid in the development of a modern telecommunications system, necessary for attracting businesses. Provincial governments, however, have received little investment in Internet services.

As part of China's WTO accession package, China has promised to create a concrete, comprehensible and more transparent telecommunications legal framework that increases competition and improves the investment environment. The government aims to complete these new regulations by the end of 2002. However, this timetable seems unrealistic since consensus has been reached on none of the ten plus drafts circulating in the State Council.

Recommendations:

As Chief Consultant for the American Chamber of Commerce-PRC, I propose that AmCham lobby the Chinese government to accept the following recommendations:

- Consolidate all ministerial regulatory powers to the Ministry of Information Industry
- Create more transparency in the drafting procedures for Internet regulations by opening the drafting process to industry professionals and all affected parties. They need the opportunity to comment at a meaningful stage prior to promulgation
- Establish an appeals process to hear public opposition to draft laws and regulations
- Establish a body within the State Council to pass all Internet-related regulations
- Reduce the complexity of licensing procedures for ICPs by amending current articles under the Telecom Regulation of PRC. Create a less confusing, one-stop shopping system for those seeking approval.
- Reduce discretionary interpretation from the ministries by clearly defining national guidelines for content and licensing approval.
- Give advance public notice before a regulation or law goes into effect
- Implement and enforce prompt publication of new regulations

Outlook:

Now is the appropriate time to forward new ideas for improving China's Internet regulations. These proposed reforms aim at increasing American investor confidence in this potentially highly profitable sector. AmCham, a coalition of companies who have

invested or anticipate investing in China's Internet services market, wants to ensure that China's new Internet laws create a competitive business environment.

The Chinese government lobbying campaign will concentrate on how these reforms will help China reach its economic goals, benefit the sector's industries and the economy as a whole. The key is improving the investment environment for Internet services.

Background

I. Industry Development

During the late 1980s, the Chinese government built seamless Internet networks to connect academic institutions. Two public data networks were developed, connecting the capitals of 30 provinces. However it was not until 1994 when China officially logged on to the World Wide Web through an international gateway developed by SprintLink. This first Internet connection transmitted data from Stockton, California.

By this time three networks had been established with 2,200 dial-up users and ten leased line subscribers through China Telecom, the only state-owned telecommunications company providing Internet services. China Telecom was a part of the Ministry of Posts and Telecommunications until China Telecom separated from its regulator in 1998. At this time, the government created the Ministry of Information Industry to merge the Ministry of Post and Telecommunications and the Ministry of Electronics and Information. The MII now oversees telecommunications, multimedia, broadcasting, satellites, and the Internet and approves investors seeking telecom services licenses. As required by law, licenses are issued on the basis of the company's investment strength, their ability to provide long-term services, their management expertise, and their technical strength. The Ministry functions as a policy and standards coordinator for the entire industry. Since 1998, the MII has overseen all basic and value-added telecom development, in addition to China's six state-owned telecom enterprises.

1. State-owned Telecom Enterprises

1a. China Telecom

China Telecom (CT) is a de facto monopoly. Until the recent announcement of China Telecom's north-south break-up, the company controlled the country's largest fixed line infrastructure with a 120,000-kilometer network of trunk and branch lines. As the country's dominant fixed-line operator, with over ninety-nine percent of the local service market and almost all international direct dial and domestic direct dial long-distance calls (144 million subscribers out of 144.4 million total subscribers)¹, China Telecom has retained an unassailable lead over its smaller and younger competitors and respectively stands as one of the worlds largest telecom companies². Revenue for the first seven months of 2001 equaled \$10.5 billion (87.3 billion Yuan).¹

CT is the largest network operator in China with extensive voice and data networks, including switching centers and transmission lines. CT controls 85 percent of China's PSTN switching capacity and 80 percent of backbones and is one of two gatekeepers for all international voice and data transmissions.ⁱⁱ All access networks must use CT's

¹ These are 2000 figures; as of July 2001 the total number of fixed-line subscribers was 166.8 million. The 2000 numbers are given to show the extent to which CT monopolizes the industry.

² Ranked by consolidated financial statements. "International Telecom Statistics," Siemens, December 31, 2000, p. 8.

bandwidth to access the World Wide Web, and therefore CT (with the MII behind it) has been able to maintain majority control over Internet access and content. CT collects revenue by leasing its lines to ISPs and providing Internet services directly to consumers. On average, the leased-line charges account for almost 80 percent of a Chinese ISP's costs—compared with just 6 percent in the US—indicating that CT has been able to maintain high prices.

1b. China Unicom

In 1994, the government created China Unicom (CU) to initiate competition for China Telecom. China Unicom was the first company established to absorb the paging business but has since moved to become a prominent mobile service provider. China Unicom is the only state operator that offers a full range of services and has therefore benefited from annual revenue of nearly \$3 billion.ⁱⁱⁱ CU does provide some local and domestic long distance services but the service is considered inferior to China Telecom's telephone service. Its telephone services are limited to a few large cities and total subscribers are .32 million.^{iv}

In the Internet industry, most of Unicom's services revolve around wireless Internet services and VoIP technologies. In August, China Unicom completed the second of three phases in its network build out, giving it the world's largest VoIP network.^v The company's existing leased-line Internet service consists of a 55Mbps international Internet connectivity and has completed 20,000 km of a nationwide fiber optic backbone, providing cable Internet access for 25 cities. CU is the second largest ISP in number of cities covered, but its market share is low and operations are lacking in its Internet access and Internet data center services. Content delivery is also poor in the sense that Websites are unattractive in both content and presentation.

The government has continued to restructure telecom services by creating four additional state-owned enterprises to introduce competition to the industry. Each of these companies, Jitong Network Communications (est.1994), China Mobile (est.2000), China Netcom (est.1999), and China Railway Telecom (est.2001) specializes in a variety of telecom services.

1c. Jitong Communications

Jitong Communications provides data and voice communications services with its broadband Internet protocol-based network, serving approximately 700 customers, including government agencies, Chinese and foreign corporations, small and medium-sized businesses, and other Internet access providers. The company operates the national public Golden Bridge Network backbone infrastructure for Internet access and data communications and is the second company controlling the international gateways. Since 1997, Jitong has established branches in the following ten cities: Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Dalian, Qingdao, Shenyang, Chongqing and Changchun.

1d. China Mobile

China Mobile is the single largest provider of all mobile services, including mobile Internet services and VoIP to subscribers in China. It separated from China Telecom in

2000 as part of the government's breakup of China Telecom's monopoly. The company has twenty-five subsidiary companies, covering all cities and ninety-six percent of rural towns.^{vi}

1e. China Netcom

China Netcom was initially an Internet service company developed as a subsidiary to China Telecom. In 1999, however, China Netcom became an independent company comprised of four members. The China Academy of Sciences, State Administration of Radio, Film, & TV, Ministry of Railways and the Government of Shanghai created China Netcom to become an Internet services wholesaler, selling high-speed network capacity (broadband) and connection to other ISPs. The network provides service to 17 cities in eastern China. AT&T is one of its clients.

1f. China Railway Telecom

The latest telecom company, China Railway Telecom, was established in March 2001 to diversify services and create additional competition for the entire industry. The state-owned company provides basic long-distance, local services, data transportation and Internet-related business but does not have the ability to provide mobile or international long distance services. Most of the Railway Telecom's network is outdated. The company is in dire need of technology, specialists and capital.

2. Internet Access

As more state-owned telecommunication companies developed and the Internet grew, the government initiated several laws to regulate the industry.

In 1996, the Ministry of Public Security issued the Circular Concerning the Recordal of Computer Information Systems Linked to Foreign Networks. The Circular^{vii} states that all Internet users are required to register with a local public security bureau within 30 days of establishing a link. It empowers public security authorities to warn and/or shut down computer networks that jeopardize the safety of computer information networks. Public registration forms are now included in applications for Internet service subscriptions.

In addition, two laws were initiated to regulate the actual Internet access process. These laws legally set forth the Internet services system by regulating international gateways and creating a four-tier system for domestic networks' international access.^{viii}

1. The Provisional Regulations of the People's Republic of China Concerning Administration of International Connections of Computer Information Networks (Provisional Networks) — developed by State Council 1996, revised in 1997. "This regulation lays out the basic organizational and administrative structure of China's information services network. The revisions of 1997 specifically addressed the issues relating to the establishment of interfacing networks and their connection to the international computer networks. Under the system, subscribers, whether individuals or legal persons, must connect their computer systems to connected networks operated by properly approved and registered domestic ISPs, which, in turn, are linked up with the so-

called ‘interconnected networks’. At present, there are six authorized interconnected networks.”^{ix}

2. The Implementation Measures — issued in 1998, states that “all connections to overseas computer networks must go through the international gateways operated by the Ministry of Information Industries that can be connected to China’s domestic network for the purposes of commercial services. In this regard, no one can set up or use other channels for international access. Only interconnected networks or computer information networks that directly carry out international connections, and are actually China’s backbone Internet operators, are allowed to connect directly to the Internet by going through the MII controlled gateways. The establishment of new interconnected networks is subject to the approval of the State Council.”^x

The four-tier level consists of 1) Internet subscribers, 2) local/private ISPs, 3) national state-owned ISPs and 4) the international gateways^{xi}.

- 1) The first level consists of the Internet subscribers.
- 2) The second level consists of local/private ISPs, often referred to as Internet access networks. These service providers are not directly linked to China’s Internet backbone but consist of local area networks. LANs are defined as “data communications networks which are geographically limited (typically to a 1 km radius) allowing easy interconnection of terminals, microprocessors and computers within adjacent buildings.”^{xii} More developed ISPs also possess wide area networks extending over distances greater than one kilometer. However, all of these ISPs must subscribe to one of four commercial interconnected networks to access the Internet because private companies are not allowed to install their own phone lines or networks. The cost of leasing such lines usually accounts for 80 percent of an ISP’s total cost. Currently there are approximately 620 localized ISPs.
- 3) The Implementation Measures identifies six network organizations³ operating international network facilities that connect to the gateways. These are divided into educational and commercial ISPs.

ISPs for Educational Purposes:

- a. China Education Network (CERNET) — a private network only used for academic and educational institutions in China and is administered by State Ministry of Education
- b. China Science and Technology Network (CSTNET) — the primary network for research institutions and scientists

ISPs for Commercial Services:

³ As of June 2001, there was another company, China Great Wall Internet Network (CGWNET) that was granted approval for backbone networking but it is still under construction.

- c. China Public Computer Network (CHINANET)
- d. China Golden Bridge Network (CHINA GBNET)
- e. China Unicom Public Computer Interconnection Network (UNINET)
- f. China Network Communication Network (CNCNET)

2a. State-owned Commercial ISPs

2a-1. China Public Computer Network

Chinanet, the largest commercial ISP in China, offers services to all major cities. The service provider is operated by China Telecom. Therefore, China Telecom is the dominant ISP for Chinanet, which then leases lines to local/private ISPs. CT controls over 80 percent of the Chinese connection to the international gateways. CT's high leasing fees have prevented smaller ISPs from becoming significant players.

2a-2. China Golden Bridge Network

China GBNet was launched in 1996. Jitong Communications is the main ISP behind it. The GB project was developed in March 1993 to establish a computer information service system for government agencies and enterprises. The project connects 24 provinces and cities in central and eastern China, concentrating in coastal cities. Major subscribers are the State Information Center, the Ministry of Foreign Trade & Economic Cooperation, and the State Customs General Bureau. Through GBNet, Jitong provides commercial Internet services and controls thirteen international gateways.

2a-3. China Unicom Public Computer Interconnection Network

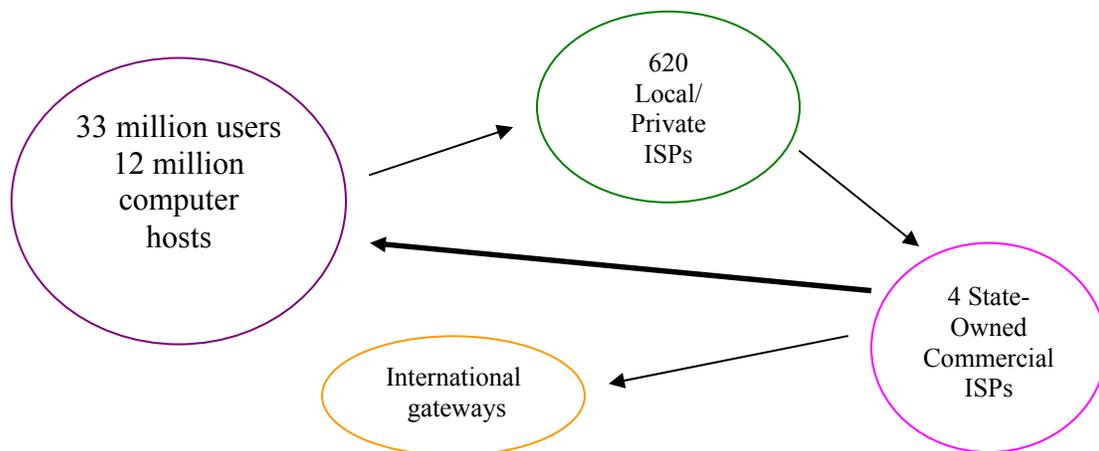
China Unicom's Internet services operate through Uninet. Its primary network is located in southern China and provides Internet protocol applications like VoIP and fax over IP. In 2000 China Unicom implemented access services to over 100 cities on a 20,000 km nationwide fiber optic backbone.

2a-4. China Network Communication Network

China Netcom is the parent company of CNCNET, which had existing connections to broadcasting and railway networks before becoming a China Netcom company in 2000. CNCNET reduced its networking capacity when Railcom was developed in 2001. Many original CNCNET railway networks controlled by Netcom were given over to China Railcom.

These four Internet backbones were interconnected on a broadband basis in April 2000 and have a significant advantage in providing users with services. As of July 2001, China's total bandwidth is 3013.

At the apex of the system are the international gateways controlled by China Telecom and Jitong Communications. All networking traffic is funneled through the international gateways. This funneling system has caused congestion problems since there are few international gateways relative to the total number of Internet users.



The limited number of local/private ISPs results from state control of the international gateways and national backbones, and a general lack of investment. Higher rates have resulted from the lack of competition between the four national carriers and two gatekeepers. The Chinese government finds it very important to control the international gateways to censor Websites containing “objectionable material”. The government can block certain general sites, like foreign news organizations, that might contain unwanted information. CNN and BBC are just a few of the Web sites that have been blocked from entering the country. This censorship has become known as the “Great Firewall”.

These regulations were some of the earliest government controls over Internet services. In September 1998, a Notice outlined detailed qualifications and procedural requirements for the establishment and operation of ISPs. The Notice on Relevant Issues Concerning Implementation of a Business Permit System for Operating International Connections of Computer Information Networks^{xiii} requires that special business permits be applied under the auspice of MII. Applications can be filed at local MII branches for companies planning to engage in the ISP business. These local branches are authorized to approve and issue permits, and file and record the permits with the MII. Multi-province ISPs must apply directly to the MII for permits. This system established control over second and third level ISPs in the industry.

Collectively, these four laws help demonstrate how Internet access works in China. Registered Internet users dial up access from their computers to local area networks. These networks then connect to a regional network, which in turn connects to one or more backbones. Most backbone and regional network traffic run over leased phone lines. Connecting to an international gateway finishes the process. At the moment, China is interconnected to the US, Canada, Australia, Britain, Germany, France, Japan, and South Korea.

To give an example, a local ISP in Beijing that possesses local area networks (LANs) must lease lines from China Telecom’s Chinanet’s networking backbone to gain access to

and from international gateways. China Telecom then makes money from Chinanet's network because they own the lines and the data centers that make up the backbone.

2b. Bandwidth

Over the years these networks' bandwidth has increased with the increasing volume of processed information. The following is a chart of these increases.^{xiv}

	7/1999	7/2000	7/2001
CHINANET	195	711	2387
CHINA GBNET	18	69	171
UNINET	12	55	100
CNCNET	-	377	<u>355</u>
Total - - - -	-	-	3013 Mbps

These increases in bandwidth illustrate several points. First, the demand for bandwidth is increasing rapidly; as a result, more international gateways are being developed. Secondly, China Telecom has a clear monopoly over the Internet industry. Thirdly, all ISPs have been developing new infrastructure. (Although this graph does not show an increase for CNCNET, there has been an increase in infrastructure. A decrease in bandwidth is the result of China Railcom — see above.)

More than 85 percent of Internet access is through dial-up at a connection rate of 56 Kbps.^{xv} The most recent China Internet Network Information Center (CNNIC) survey concluded that out of 12 million host computers, most connected to the Internet using a dial-up method. Dial-up is a temporary, as opposed to dedicated, connection between machines established over a telephone line using modems. Dial-up functions like a long-distance phone call; the call goes through once the receiving end picks up. If the long-distance line is overloaded with calls, the call cannot be completed. Although the nation's overall bandwidth has rapidly increased, China's narrow bandwidth in international gateways limits the capacity for data transmission. During heavy traffic, slow connectivity results, causing much consumer frustration. This has been a major complaint from Internet users, particularly since prices for services remain relatively high.

II. Policy Background

Over the years the government has taken a minimalist approach to foreign investment in its telecom sector. The State invested heavily in telecom operators and national infrastructure while essentially closing the door to direct foreign investment, unless the investment was used for technological development. Few foreign companies have been directly involved in providing telecom services. Keeping the door closed to foreigners enabled the government to reinvest state telecom revenues. The monopoly power has allowed the government to protect its domestic industries, national security, and maintain the stability and reliability of the national public network.

Although national networks were in place as the Internet exploded in the 1990s, new policy issues arose. Basic telecom policies applied to the Internet. The Internet's growth, however, heightened national security aspects of communication and media, and promoted a new realm of economic development and way of life.

The government's quest to understand the Internet's social and political ramifications accelerated in response to the April 25, 1999 rally of 10,000 Falun Gong members in front of the central government's compound in Beijing. The government was caught by surprise, and an investigation revealed that the Internet was the means by which the demonstration had been organized. As a result, the Internet was received with even more caution. Seen as a serious threat to national security, the government decided to direct the Internet industry under the auspice of telecommunications, rather than the information technology (IT) sector. This strategic move to telecommunications restricted foreign investment. Control was given to the Ministry of Information Industry, and other government bodies participated in the industry's legal development.

A key to China's Internet policy is the role of the Communist Party. China's political structure contains both government and party responsibilities. State politics are kept in-line with party policies since almost every government official is a Party member. This is vital to the Internet industry because the Communist Party is concerned with maintaining its authority over the nation. Although China has reformed its economy towards market-socialism, the government's strategy is to control the direction, speed and application of each reforming endeavor. The government is fully aware of problems from changing the political and economic landscapes too quickly, as seen through the example of the Soviet Union. Nor does the government want to lose domestic industries to foreign competitors, as has been exemplified through scheduling commitments in the WTO.

On a broad scale, recent policy initiatives have focused on national economic development. Providing a strong economy legitimizes the regime in power; thus, since 1978 the Chinese have focused on transitioning to a more open market system.

During the opening ceremony of the Fifth Session of the Ninth National People's Congress, Premier Zhu Rongji addressed delegates on the government's priorities in the coming year. He expressed that the government's main goals were economic

development, social progress, adjusting to WTO entry and implementing market reform.^{xvi} Government policy objectives include:

1. Increasing domestic demand
2. Economic restructuring and reform
3. Adapting to WTO entry and increasing openness to the outside world
4. Transforming government functions

Measures to achieve these goals include:

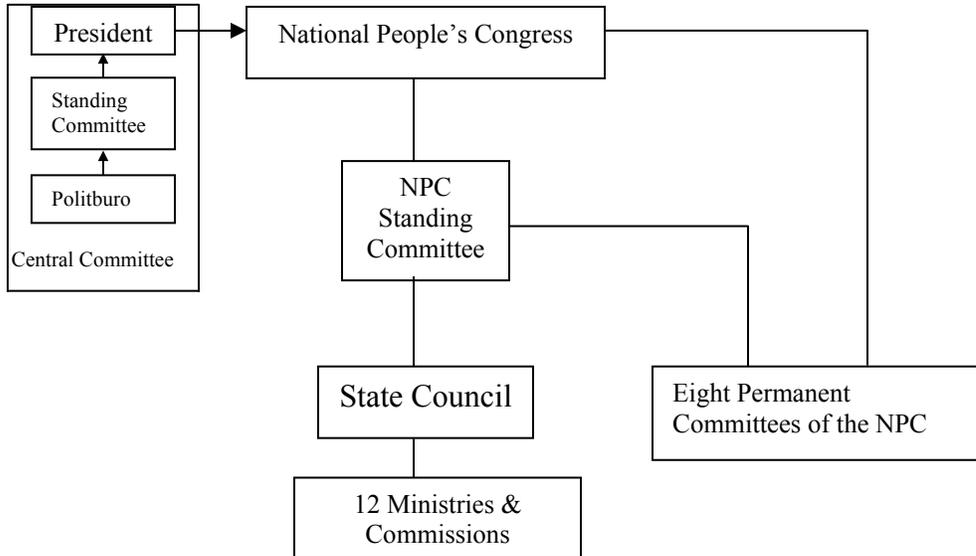
1. Increasing the income and purchasing power of urban and rural residents; increasing the development of service trades, labor-intensive industries, and small and medium sized businesses; and encouraging people to spend more on housing, tourism, telecommunications, cultural activities, sports and other services
2. Accelerating the development of information, biology, new materials and other high and new technology industries; using high and new technologies for information network projects, new electronic components, integrated circuits, and software; information development in the national economy and society; and developing the modern services trades
3. Quickly improve the uniformity of law, nondiscrimination, and transparency to align foreign-related economic laws and statutes with WTO rules, guaranteeing fair and efficient law enforcement; continue to optimize foreign investment
4. Transform government functions of economic regulation, market supervision, social management, and public service; reduce the scope of administrative examination and approval, simplify and standardize necessary procedures, stress openness and transparency, and clearly define responsibilities; accelerate and utilize information technology in government administration, and promote electronic administration for working and supervising efficiency

The government clearly promotes economic development via the services sector, information technology, and administrative reform. However, the politics of the Internet are complicated and expansive. The development of the Internet is shaped by a number of individual actors.

III. Political Background

1. Central Government

The central government organizations involved in the Internet industry’s policy making can be illustrated as follows:



1a. Central Committee

At the apex of the political and party structure is the Central Committee. President Jiang Zemin is the supreme representative of China and the leader of the Central Committee. He has the power to disseminate statutes adopted by the NPC, appoint and remove members of the State Council, declare war, and ratify treaties. He is, however, still subordinate to the National People’s Congress (NPC).

As a collective body, the Central Committee (CC) has supreme power over government party affairs. The body enacts party policies, accepts and reviews political reports from party leaders, and approves major changes in party membership. The CC holds annual plenary sessions through which party and state policies and programs are discussed and ratified. However, the large size of the CC (approximately 350 people) makes reaching consensus on pressing issues difficult. The Politburo and its Standing Committee have the authority to carry out the party’s day-to-day supervisory work and are responsible for selecting top personnel to direct the party, government and military. Consisting of a small group of leaders elected by the CC, these men occupy positions at the top of the power structure. Currently the Politburo has fourteen members:

Ding Guangen	Wu Bangguo	Luo Gan	Huang Ju
Tian Jiyun	Wu Guanzheng	Jiang Chunyun	Wen Jiabao
Li Changchun	Chi Haotian	Jia Qinglin	
Li Tieying	Zhang Wannian	Qian Qichen	

The Politburo's Standing Committee is the major decision-making power within the party. Currently there are seven members of the Standing Committee:

President Jiang Zemin	Li Ruihuan
Premier Zhu Rongji	Wei Jianxing
Li Peng	Li Langqing
Hu Jintao	

Together, these two bodies possess ultimate control over party policies. Regarding the State's Internet policies, the Central Committee is responsible for ensuring that Party principles are upheld. Controlling the dissemination of State secrets via the Internet, a national security concern, has become a priority for this elite group. The State Secrets Bureau is directly responsible for protecting state secrets and implementing and monitoring organization for the Committee for the Protection of State Secrets under the Central Committee. The Bureau has helped develop laws and regulations for the protection of state secrets on the Internet.

Other powers held by the Central Committee include the power to elect individuals within the State Council to carry out Party principles. Generally, the majority within the Central Committee can vote against reelecting any individual deemed either too liberal or conservative at the end of the five-year term. Since the Committee's drive for economic development is a primary concern for the nation as a whole, conservatives and liberals are generally judged by the speed with which they want to open the economy to foreign participation and domestic restructuring. As a result, the State Council and its ministries direct the liberal or conservative reforms. The Central Committee, including the President, looks to these bodies to carry out Party and government policies.

Each member of these two bodies possesses a great deal of influence within China's political system. These officials have reached high level positions by contributing to the State and the Party for the majority of their lives; their average age is 65.

1b. National People's Congress

The National People's Congress, as the chief organ of collective state power, formulates laws, selects and removes leaders of the highest state organs, formulates policies and supervises other government departments. The number of regional delegates is determined by population ratios in rural and urban areas, with each delegate serving five-year terms. Every year the NPC holds a working session after the year's first quarter to bring delegates from around the country together to discuss national matters. Delegates are divided into groups according to regions where they meet with the central government's ministers. The meetings provide the delegates with an exchange of

information about the government’s performance. It is within these sessions that delegates present their region’s policy objectives or problems to the body for discussion.

1c. National People’s Congress Standing Committee

When the NPC is not in session, its Standing Committee functions as the executive body. The one hundred fifty-three members of the Standing Committee are elected by the NPC. The NPC Standing Committee has the right to enact, interpret and amend laws, with the exception of laws relating to fields reserved for the NPC as a whole. Eight permanent special committees that represent the NPC operate under the direction of the NPC Standing Committee. These committees are: Ethnic Groups Committee, the Legal Committee, the Finance and Economics Committee, the Education, Science, Culture and Public Health Committee, the Committee for Internal and Judicial Affairs, and the Committee on the Environmental and Resources Protection. Both within and outside the NPC yearly sessions, these committees study, examine and draw up related motions.

1d. State Council

Next in line on the hierarchical scale is the State Council. The executive organ of the State administration, the State Council manages legislation and submits proposals to the NPC and the Central Committee. The State Council also handles economic management, diplomatic and social administration, and other powers granted by the NPC and its Standing Committee. The Constitution gives the State Council the right to develop administrative laws and regulations. It administers the government through forty-eight ministries and commissions, eight offices and ten institutions. Ministries and commissions under the State Council deliver orders, instructions and regulations. Within the State Council, the most powerful decision-making roles are granted to the premier and his four vice-premiers. The President appoints these positions. The organization also consists of five State Councilors and a Secretary General.

Premier: Zhu Rongji	Qian Qichen	Wen Jiabao	Luo Gan	Ismail Amat
Vice Premiers: Li Lanqing	Wu Bangguo	State Councilors: Chi Haotian	Wu Yi	Secretary General: Wang Zhongyu

1e. Ministries

The ministries and commissions are responsible to the State Council. They maintain a great deal of autonomy, however, in developing policies and regulations. Each ministry acts within its jurisdiction as a regulatory and enforcement body of government policies. This level of the central government is the most involved in creating national laws and regulations. Currently twelve ministries are active participants in Internet regulations and/or development. These stakeholders are:

Ministry of Information Industry	Ministry of Public Security	Ministry of Culture	State Press and Publication Administration
Ministry of	Ministry of State	Ministry of Health	State Council

Foreign Trade and Economic Cooperation	Security		Information Office
State Administration of Radio, Film, and Television	Ministry of Education	State Drug Administration	

1e-1 Ministry of Information Industry

The Ministry of Information Industry (MII) is the telecommunications industry regulator. It oversees national electronics and information products manufacturing, telecommunications and software industries, information promotion of the national economy, and social services.^{xvii} The MII broadly:

- Plans the State public telecommunications networks, and special division networks for the government, military and educational departments
- Formulates the State’s information industry development strategies
- Supervises all aspects of the telecom markets according to law, examines and approves licenses, supervises quality, ensures fair competition, regulates on interconnection and supervises its implementation
- Propels the research and development of electronics and information products manufacturing, organizes research of major scientific and technological development projects
- Participates with international organizations, signs inter-governmental agreements, and organizes economic and technical cooperation with foreign countries

See Appendix 2 for specific details about MII’s thirteen departments.

Over the years, pressure has built on Minister Wu Jichuan and the MII to increase competition, reduce services fees, and produce detailed rules for the Internet. The MII has begun to address these goals. The MII’s efforts concerning the Internet are currently concentrated in regulating industry growth in information technology, building additional networking capabilities, and approving licenses for service providers, which now include foreign participants.

1e-2 Ministry of Foreign Trade and Economic Cooperation

Though not specifically involved in telecommunications, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) is responsible for regulating foreign trade and investment. All foreign investment in China’s communications industry must receive MOFTEC approval⁴, including joint ventures and technological transfers. These responsibilities are allocated to the Department of Foreign Investment, which also drafts guidelines and enforces implementation mechanisms for mid- and long-term

⁴ Foreign investors can complete the investment requirements through investment consultancy services for a fee.

projections.^{xviii} Deputy Director, Wang Shichun, believes that the Ministry has the facility to receive a flow of information from all over the world, and use it for China's benefit. He also believes MOFTEC has taken a leading role in the industry's development by reviewing technology that is imported to China, in order to "properly apply it to suit local conditions".^{xix}

1e-3 State Administration of Radio, Film, and Television

The State Administration of Radio, Film, and Television (SARFT) approves the content of radio, films and TV programs in accordance with requirements established by the Communist Party's Propaganda Department. It also oversees the operation of national TV networks and controls access to cable and satellite networks. Only recently have cable and Internet networks integrated to produce high-speed two-way broadband. Cable companies that provide or hope to provide Internet access and data services must apply for licenses at the Ministry of Information Industry. Internet video programming falls under the jurisdiction of SARFT. Currently there are over 80 million cable subscribers in China.^{xx}

1e-4 Ministry of Public Security

The Ministry of Public Security is responsible for securing national computer systems. As a result, all Internet users must register with the MPS. In addition, the Ministry's China Internet Products Testing, Evaluation and Authentication Center works with the People's Liberation Army (PLA)-affiliated Secrecy Bureau and other organizations involved with State security to certify hardware, software and data security products. The eleven items it is accredited to certify are^{xxi}:

- Access Control Products: firewalls, routers, proxy servers/gateways
- Authentication Products
- Security Auditing Products
- Security Management Products
- Data Integrity Products
- Digital Signature Products
- Non-repudiation Products
- Commercial Encryption Products
- Tempest Products
- Information System Security
- Information Security Services

The Ministry has prohibited Internet service providers from allowing the online distribution of information that harms public security. Cyberpolice monitor the online activity of those suspected of violating content regulations. The Ministry is responsible for closing many Internet cafes engaged in "illegal activities". The Ministry of Public Security has the authority to approve information technology and to develop Internet regulations regarding to State security without consulting with the MII or any technology importing companies.

1e-5 Ministry of State Security

The Ministry of State Security has the authority through its State Security Law of the People's Republic of China (1993) to take legal action against an individual whose conduct harms the PRC state security. This law has been repeated in specific Internet laws.

Article 4 states^{xxii}: Acts of harming the PRC's state security referred to in this law are those carried out by organizations, groups and individuals outside the territory, or instigated and financed by them but carried out by others; as well as those carried out by organizations and individuals inside the territory in collusion with organizations, groups and individuals outside the territory:

1. Of plotting to subvert the government, dismember the state and overthrow the socialist system
2. Of stealing, secretly gathering, buying and illegally providing state secrets for an enemy
3. Of engaging in other sabotage activities against state security

The Ministry, like other ministries, has the right to develop Internet regulations within their jurisdiction.

1e-6 Ministry of Education

The Ministry of Education has engaged in interactive distance education systems through cable TV and the Internet. The Ministry is responsible for approving education-related content. The Ministry of Information Industry and the State Administration of Radio, Film and Television are responsible for administering the transmission of the state education programs via satellite and Internet networks.

1e-7 Ministry of Health

This Ministry requires that all health-related content on Websites be inspected and approved by public health authorities before application for ICP business licenses. The sites must only provide information on disease prevention, fitness and health education—strictly banned are online diagnoses and treatment prescriptions.

1e-8 State Press and Publication Administration^{xxiii}

In November 1999 the SPPA developed the Interim Regulations on Managing the Distribution of Publications, which states that all companies need SPPA permission to sell publications online and that non-publication distributors may not open online bookstores or sell publications on the Internet. The SPPA claimed that this ruling was necessary to standardize the market for publication distribution and strengthen the management of online bookstores. Some Web sites were selling superstitious, reactionary or pornographic books.

The Ministry has also regulated to ensure that the reprinting of unverified information, especially from uncensored Internet sources, be stopped. In doing so, they issued the Circular on Further Strengthening the Management of Reprints by Newspapers and

Periodicals in March 2000. The Circular requires that publications guarantee the political correctness of the reprinted content. Particular care is required for material involving state policies, foreign affairs and confidential documents. Publications may not reprint obscene, violent or superstitious content, materials from internal or illegal publications, or unverified news from the Internet.

In addition, the Ministry is responsible for approving news content not already published by official news organizations. Original news content must be approved by the SPPA before being posted on-line.

1e-9 State Drug Administration

The State Drug Administration is responsible for approving Internet content on medicine. The administration has developed the Provisional Measures for the Administration of Internet Pharmaceutical Product Information Services to control pharmaceutical sales over the Internet. The Ministry also conducts clinical drug research, updates and enforces national standards, and promotes the sale of drugs by state-owned enterprises.

1e-10 Ministry of Culture

The Ministry of Culture created a Notice prohibiting wholly foreign-owned, Sino-foreign equity joint ventures and Sino-foreign cooperative joint ventures from any on-line business activities relating to audio-visual products. In addition, domestic audio-visual on-line dealers are required to obtain a permit from the audio-visual market administration department of the province in which the dealer's business resides. The MOC bans all business activities involving audio-visual products with content that is harmful to the reunification of the nation and integrity of the country's sovereignty and territory; undermines national unity; discloses state secrets; advertises obscene, superstition or exaggerated violence; and is defaming or insults people.^{xxiv}

1e-11 State Council Information Office

This ministerial level office has many functions. The SCIO is responsible for^{xxv}:

- Regulating foreign media operations in China by proposing related policies; coordinating international publicity activities
- Convening press conferences for cabinet departments
- Publishing white papers on China's official views regarding important domestic and international issues
- Helping the Ministry of Foreign Affairs and the National Association of Journalists to supervise resident foreign news offices in China
- Organizing news-gathering trips by overseas media organizations and regulating Internet media

The Office is directly linked to the Chinese Communist Party's Propaganda Department, which oversees news coverage and editorial content for all media operating in China. The State Council Information Office developed regulations prohibiting content providers from directly posting foreign news on their Websites and prohibiting direct links to overseas news Websites.

2. Regional Governments

Local governments have acquired more autonomy from decentralization over the last twenty years. Among other responsibilities, local governments must craft regional laws, propose development strategies, and provide social services. Governments act as entrepreneurs, establishing policies and regulations for their economies. Currently local leaders are preoccupied with increasing investments to help smooth the economic development process, and increasing service sectors to diversify the economy. This would generate more employment.

The central government's relationship to the local governments remains very important. The central government continues to redistribute resources and guide Communist Party ideology throughout the country. The Party implements national policies, which have a direct effect on the regions. As a result, local representation at the National People's Congresses is essential. Each year provincial representatives (delegates) spend two-weeks in Beijing to respond to the central government's policies from the previous year and discuss new concerns. At this time regional initiatives are brought to the central government's attention as a unified body, especially concerning national policies.

During the Fifth Session of the Ninth National People's Congress in March 2002, provinces discussed the following concerns^{xxvi}:

- Beijing: Raising living standards of the disadvantaged, preparing for the Olympics
- Shanghai: Opening up service and trade sectors
- Guangdong: Improving the investment climate
- Shandong: Development of high-tech industries
- Gansu: Developing the West
- Yunnan: Difficulties of reaching economic goals in a fast-changing international setting without the proper infrastructure
- Sichuan: Stimulating economic and social development according to the needs of the local people, reforming state enterprises
- Shaanxi: Reforming state enterprises and reducing local protectionism

Box 1 **State-Owned Enterprises**

One of the pressing arguments by regional governments to obtain economic aid and enhance reform policies is based on the burden of reforming state-owned enterprises (SOEs). In the past, many poor investments were made in developing state-owned enterprises. Plagued by inefficiency and high cost, local governments dished out large sums of resources to either continue to support their inefficiencies, to convert them, or to dismantle them. Until new economic development strategies took place, the government kept direct control over the enterprises, either reaping the profits or passing off the financial burden. Today, provincial economic problems are directly connected to the relative share of SOEs.

2a. Development Strategies

Although provinces vary in size, population and resources, all of the provinces listed above have similar development strategies.

2a-1 Beijing

Beijing has purposely reduced its manufacturing sector to make the city a center for services, education, information technology, culture and tourism^{xxvii}. Beijing in particular has concentrated its development strategies on science and technology, and has thus become the center of science and technological skills for the nation. Its High Technology Development Zone (HTDZ) produces one-quarter of the total output from all HTDZ's in China. Increasing Internet services for businesses and the science community is essential. Currently, the number of Internet subscribers totals 2.8 million, accounting for 12.4 percent of the country's total.

Beijing is hosting the 2008 Summer Olympics and much work is needed to prepare the city for the event, especially in the telecommunications sector. Thousands of reporters, businesses and tourists will utilize the city and it is vital that Beijing has the necessary telecommunications capacity to uphold them.

2a-2 Shanghai

Shanghai is focusing on financial and business services for its development. It has developed Internet services to improve the communication and business environments of local companies and government agencies. Since the government of Shanghai owns part of China Netcom, the city has concentrated its efforts on broadband technologies. This telecom capacity is vital to the city's ability to become a truly sophisticated global city, as Shanghai competes with Hong Kong for foreign investment.

2a-3 Guangdong

Guangdong has followed the footsteps of Hong Kong by reducing its dependency on manufacturing and focusing on financial, information and business services. The development of internet services is an important step towards a more attractive business environment and more service-oriented jobs.

2a-4 Shandong

Shandong has concentrated on diversifying its economy by promoting retail, tourism and information technology, in addition to its agricultural base. Science and technology contributes 49 percent of the local economic growth and is an important focal point for increasing foreign investment.

2a-5 Gansu

Compared with other provinces in China, the economy of Gansu continues to lag behind. The weak economy results from exploited resources, a poor industrial foundation, inadequate communication and transportation, less developed agricultural production, and capital shortage. Economic strategies are focused on improving agriculture, communication and transportation, and now tourism.

2a-6 Yunnan

Yunnan is another poor province. It exports machinery, foodstuffs, non-ferrous metals and native products. Development strategies have focused on infrastructure and tourism. The region has experienced considerable growth in telecommunications. For instance, all the cities within the region have access to national trunk lines via Chinanet, China Telecom's ISP. The local governments have pressured the central government to produce fiber-optic, digital microwave, broadband and multimedia satellite communications networks to provide data and audio-visual information services. Progress for these services is expected now that the Ninth People's Congress has adjourned.

2a-7 Sichuan

Sichuan is the most densely inhabited province with over 111 million people. Its capital, Chongqing, is the seventh largest in China with over 3.1 million inhabitants. The province has suffered extreme poverty, poor education, and an outpouring of migrants to the east coast. New development strategies have focused on reforming defense-related state-owned manufacturing enterprises into technology and engineering facilities. There has been some success in creating aeronautics and engineering industry complexes.

2a-8 Shaanxi

Shaanxi's scientific and technological capacity ranks third in China. Shaanxi's output of science and technology and manpower ranks fifth, the comprehensive level in high-tech industries ranks fifth, and the technological creation ability ranks eleventh in China.^{xxviii} Shaanxi is also the country's first producer of circuit boards. Its development strategy is focused on Guanzhong's high-tech economic zone and eight backbone industries, including electronics information.

IV. Industry Laws

1. Telecommunications Regulation of the People's Republic of China

The Telecommunications Regulation of the People's Republic of China^{xxix} was adopted by the State Council in September 2000, and is perceived as a great achievement of industry lawmaking. These laws are the first telecommunications regulations since the formation of the MII and the six state telecom enterprises. The regulations classify basic and value-added telecommunications, establish general guidelines for licensing and interconnection rules, establish pricing standards, outline rights and obligations for carriers, set construction standards and establish rules for security.

The laws establish guidance for all telecommunication companies. Section 1 gives general guidelines for the regulations, which are “formulated with the purpose of regulating the telecommunications market, securing telecommunications networks and information and promoting the stable development of the telecommunications industry”.

Articles 1–6 detail security protections, establish MII as the industry's regulator, and confirm that the central government controls the telecom administrations of the provinces, autonomous regions, and municipalities.

Article 4 is particularly important regarding international competition. The Article states: “The surveillance and control of the telecommunications sector shall be based upon the following principles: the separation of administrative departments and enterprises; the breakdown of monopolies and the encouragement of competition, transparency, fairness and just practice.” In this article, the government recognizes state-owned telecom companies as monopolies and therefore creates laws to develop competition. Since the implementation of the laws in 2000, the government has called for the breakup of China Telecom into northern and southern companies. This will help reduce prices for fixed line leasing rates of ISPs.

Article 7 categorizes telecommunications services and establishes license regulations. To engage in telecommunications services, a telecom license must be acquired from the telecom administrations of a province, autonomous region or municipality directly under the central government. Article 8 defines value-added telecommunication services as telecommunications and information services through public networks.

Article 13 provides that: A telecommunications carrier must meet the following conditions to engage in value-added telecommunications service:

1. The telecommunications carrier is a lawfully established company
2. The telecommunications carrier has capital and professionals appropriate to the services engaged⁵

⁵ The Telecom Regulations however, do not provide exact definitions on what the “capital and professionals appropriate for the services engaged” means. To foreign investors, this vague language causes

3. The telecommunications carrier has the credit or ability to provide long-term service to customers
4. The telecommunications carrier meets any other conditions required by the state

2. Measures for Managing Internet Information Service

On September 20, 2000, China's State Council Premier Zhu Rongji signed into law the Measures for Managing Internet Information Service.⁶ The law took effect October 1, 2000. Before this Measure, there were no laws governing the establishment and operation of ICPs. The new laws define ICPs as "Internet Information Services" and divides Internet service into commercial and non-commercial providers. (Art.3&4) Commercial services are defined as providing the Internet user with information via the Internet in exchange for compensation, or providing Web page creation. Non-commercial services provide Internet users open-source and shared information via the Internet on a non-profit basis. They must report their services to the government.

2a. Content Providers

All content providers must obtain a MII or local government value-added telecom-operating permit. In addition, content providers must abide by the following rules:

Article 7: Commercial ICPs must apply for a value-added service license from provincial and municipal governments, or State Council information administration, (SCIO).

Article 9: Those planning to provide electronic bulletin board services should submit a special application in addition to licensing or record keeping.

Article 10: Provincial, municipal governments or the State Council Information Office should publish the names of qualified applicants that have attained a license or record keeping approval.

Article 11: ICPs must conduct business within the scope of their license or certification, and cannot exceed the limit of their approval.

Article 12. ICPs must display their license number or certificate number at a conspicuous position on their home page.

Article 14: ICPs that engage in news, publishing or electronic bulletin boards must keep a record of the content, time of presentation, web address or domain name. Internet service providers (ISPs) must keep a record of user visits, time of visits, user accounts, web addresses or domain name visited, and telephone numbers used for access.

uncertainty. Investors may look to the next available source for legal guidance of investments into China's telecom sector.

⁶ All translations of these laws provided by chinanex.com

Article 15: The production, duplication, dissemination or broadcast by ICPs of the content fitting the following categories is prohibited:

- 1) Violating the fundamental principles of the Constitution
- 2) Damaging national security, betraying state secrets, or subverting state sovereignty
- 3) Undermining national honor or interest
- 4) Instigating ethnic hatred, discrimination or damaging ethnic unification
- 5) Undermining state policy on religion, promoting cult or superstitious beliefs
- 6) Spreading rumors, disrupting social order, and undermining social stability
- 7) Obscene material, gambling, violence, murder, horror or any encouragement of crime
- 8) Insulting to others, invading other's legitimate rights
- 9) Other content prohibited by laws or administrative regulations

Article 16: Once content listed in Article 15 is detected, ICPs must stop transmitting such content immediately, retain all related records and report to relevant state agencies.

Article 17: Commercial ICPs applying for IPO or cooperation with foreign companies must submit an application to the State Council Information Office for approval. A percentage of foreign investment must follow relevant laws or administrative regulations.

Article 20 states: Production, publication, and dissemination of any content listed in Article 15 is a crime and be charged with criminal act. If not qualified as a criminal act, the state security agency will execute a penalty according to the PRC Public Safety Management Regulation, Computer Information International Networking Protection and Management Regulation and other regulations. For commercial ICP violations, the licensee must execute a necessary measure to change current action or the license will be revoked. For non-commercial ICP violations, the certificate issuer will order the company to temporarily close business or permanently shut down.

Article 5: Content services that include news, publishing, education, Medicare, medicine and medical equipment must attain approval from relevant government agencies. Before applying for a license or record-keeping certificate, they must attain certification from their respective industry oversight office. (The license provision is up to the discretion of the licensees.)

Article 18 states: The State Council Information Office and provincial, municipal telecommunications administrations oversee and inspect Internet information services. Administrations for news, publishing, health, medicine management, commercial administration, public safety and state security, should execute their responsibility to monitor and manage Internet information services within each respective area.

3. Notice Regarding Relevant Issues for Handling the Licenses to Operate and Filing for the Record of Internet Services

The Notice Regarding Relevant Issues for Handling the Licenses to Operate and Filing for the Record of Internet Services^{xxx} was promulgated on November 3, 2000 by the

Beijing Communication Administration. It has become the standard by which local administrations handle ICP licenses.

The following are guidelines for operating in the Beijing Municipality for commercial ICPs:

1. The Market Supervision and Administration Department under the Beijing Telecommunications Bureau is responsible for screening applications for ICPs in the Beijing Municipality. Applicants shall submit materials to the Market Supervision and Administration Department, and may consult relevant agencies for matters relating to the application procedures.
2. The Market Supervision and Administration Department under the Beijing Telecommunications Administration Bureau shall, based on the relevant regulations of the State and MII, examine application materials submitted by commercial ICPs and approve or reject applications within the stipulated time limit. Where an application is approved, the Beijing Telecommunications Bureau will issue an Operating Permit for Value-added Telecommunications Services (Internet Information Services Category). Where an applicant is rejected, a written notice shall be issued to the applicant explaining why. Having secured an operating permit, applicants shall register or amend their business scope with the relevant administration on the basis of the said operating permit.
3. ICPs shall display the number of their operating permit or their filing serial number prominently on their home pages.
4. Regarding content of information services for which, under the ICP Administration Measures, the approval of the relevant authorities is required prior to application or filing procedures, applicants shall obtain a document of consent issued by the relevant administrative department.
5. No entity may provide Internet information services prior to securing an operating permit or completing filing procedures. No ISP, nor any other telecommunications enterprise, may provide interconnection facilities to those violating this provision; should they do so, they shall assume the corresponding legal liabilities.
6. The requirements to be met and documentation to be submitted by entities applying for commercial ICP operating permits are set forth in Appendix 1.

Appendix 1

Conditions to be Satisfied by Applicants for a Commercial ICP Operating Permit

Applicants for a commercial ICP operating permit must:

- I. Be legally-established companies
- II. Have the funds and professionals necessary to carry out their proposed business activities
- III. Demonstrate the credibility and capability to provide long-term services
- IV. Have a business development plan and relevant technical plan

- V. Have sound measures for the protection of network and information security, including measures for the protection of Web site security, for information security, and confidentiality management systems, and for user information security management systems
- VI. Satisfy other conditions as stipulated by the State.

4. State Secrets Protection Regulation for Computer Information Systems on the Internet

Established by the State Secrets Protection Bureau, the State Secrets Protection Regulation for Computer Information Systems on the Internet governs the activities of all Internet users—people, corporations, national backbone networks, and ISPs.

Art. 10: All units and users that establish BBS, chat rooms or network news groups shall be reviewed and approved by the relevant state secrets protection authorities. No units or individual shall release, discuss or disseminate information about state secrets on BBS, chat rooms or network news groups.

The National People’s Congress Standing Committee defined the term “state secrets” in Article 2 of the PRC Maintenance of State Secret Law on September 5, 1998. State secrets are matters which involve the security and interests of the state and which for a certain period of time are only known by persons within a specific scope, as determined by statutory procedures. Article 4 of the Implementation Measures for the PRC law on Protecting State Secrets (Promulgated by the Bureau for the Protection of State Secrets on April 25, 1990) further elaborates the definition of state secrets as “items the leakage of which would cause, among other things, social instability or harm to the economic interests of the State in foreign activities or weaken the state’s economic, scientific and technological strength”.

5. Provisional Regulations on Governance of Internet-based News Providers

To govern the dissemination of news more thoroughly, the government issued the Provisional Regulations on Governance of Internet-based News Providers on November 6, 2000 by the joint cooperation of the MII and State Council Information Office. China-based Websites will not be allowed to link to overseas news Websites or carry news from overseas news media or Websites, without separate approval by the SCIO. (art. 14) Once approval has been granted, such Websites must further apply to MII for a License of Internet Information Service for Value-added Telecommunications Business. Without specific approval, no Websites may link to foreign news Websites, or disseminate news issued by foreign news media or Internet sites.

V. Rule of Law

1. The American Chamber of Commerce—China definition of rule of law

“The rule of law essentially consists of the promulgation of easily accessible, objective and clearly understandable laws and regulations with communication and participation by affected parties (transparency) and the fair, reliable, and nondiscrimination application and enforcement of both laws and contracts (consistency).”

2. China’s Rule of Law Initiatives

In 1999, the government formally committed itself to the rule of law. This has been a crucial step in reforming China’s legal system and was vital for WTO accession. China must now accelerate its legal system to comply with WTO commitments. Understanding this need, the government is developing a comprehensive administrative law to determine the scope of powers within the various parts of government. The government intends to complete such legislation by late 2003. This law plans to:^{xxxii}

1. Define coercive powers of the government and the bodies that exercise them
2. Define which parts of the government may impose taxes
3. Define which parts of the government have licensing powers; provide clear definitions of those powers
4. Specify how incorporated businesses can levy a complaint against the government

VI. The World Trade Organization

The WTO believes that the Internet is a vital cog to any country's economic system because it vastly expands the scope of services. Such services once considered non-tradable as architecture, medical, education, and legal, are not swapped internationally. Services that can be digitalized can be transported over the Internet, and providing Internet access leads to more services. For instance, an ISP provides Internet access. Once on-line, people read subject matter provided by ICPs and access e-mail accounts. People can shop, trade, or even auction goods—all examples of e-commerce.

The Internet facilitates both the trade of services and the cross-border trade of commodities. Consumers can use the Internet to buy and ship products from another county without ever being physically present. The importance of the Internet to the world-trading regime cannot be underestimated and for this reason, China negotiated Internet services conditions to allow foreign investment.

1. Value-added services

China joined the WTO under an agreement promising to significantly expand the scope of permitted telecommunications services. In fulfilling this agreement, China has negotiated a set of scheduled commitments in foreign equity share in value-added services. Upon accession China will allow up to 30 percent foreign ownership in Beijing, Shanghai and Guangzhou. One year from accession the percentage of foreign ownership will increase to 49 percent and 14 additional cities will be added to the list. These cities include: Chengdu, Chongqing, Dalian, Fuzhou, Hangzhou, Nanjing, Ningbo, Qingdao, Shenyang, Shenzhen, Xiamen, Xi'an, Taiyuan and Wuhan. Two years after accession, foreign ownership will increase to 50 percent and all geographic restrictions will be phased out.

2. Basic Agreement on Telecommunications Services

China has agreed to the WTO Basic Agreement on Telecommunications Services. This has provided legal guidance for China's domestic telecommunications laws; the majority of which were established in 2000.

The Basic Agreement on Telecommunications Services (BATS) aims to reduce foreign ownership restrictions and ensure fair regulatory practices for competition and market access. China's overall commitments to the BATS, in terms of regulatory principles and market liberalization efforts, are consistent with the domestic regulations. Market opening measures in BATS include:

1. Access to the public telecom transport network of current suppliers; these are described in the Telecommunications Regulation of the People's Republic of China^{xxxii} in Part 2, Articles 17–22, based on transparent and non-discriminatory interconnection rules

2. Prices set at cost-oriented rates; Articles 23–30 describe the pricing standards on the basis of costs charged at market rates

Further explanation of BATS in relation to the domestic regulatory environment can be referred to in the Legal Analysis.

3. Transparency

China has agreed to the following concessions under its WTO Accession Protocol:^{xxxiii}

1. China undertakes that only those laws, regulations and other measures pertaining to or affecting trade in goods, services, TRIPS, or the control of foreign exchange that are published and readily available to other WTO Members, individuals and enterprises, shall be enforced. In addition, China shall make available to WTO Members, upon request, laws, regulations and other measures pertaining to or affecting trade in goods, services, TRIPS, or the control of foreign exchange before such measures are implemented or enforced. In emergency situations, laws, regulations and other measures shall be made available at the latest when they are implemented or enforced.
2. China shall establish or designate an official journal dedicated to the publication of laws, regulations and other measures pertaining to or affecting trade in goods, services, TRIPS, or the control of foreign exchange and, after publication of its laws, regulations or other measures in such journal, shall provide a reasonable period for comment to the appropriate authorities before such measures are implemented, except for those laws, regulations and other measures involving national security, specific measures setting foreign exchange rates or monetary policy and other measures the publication of which would impede law enforcement. China shall publish this journal on a regular basis and make copies of all issues of this journal readily available to individuals and enterprises.
3. China shall establish or designate an enquiry point where, upon request of any individual, enterprise or WTO member all information relating to the measure requires to be published under paragraph 2 (C) 1 of this Protocol may be obtained. Replies to requests for information shall generally be provided within 30 days after receipt of a request. In exceptional cases, replies may be provided within 45 days after receipt of a request. Notice of the delay and reasons therefore shall be provided in writing to the interested party. Replies to WTO Members shall be complete and shall represent the authoritative view of the Chinese government. Accurate and reliable information shall be provided to individuals and enterprises.

4. Rule of Law

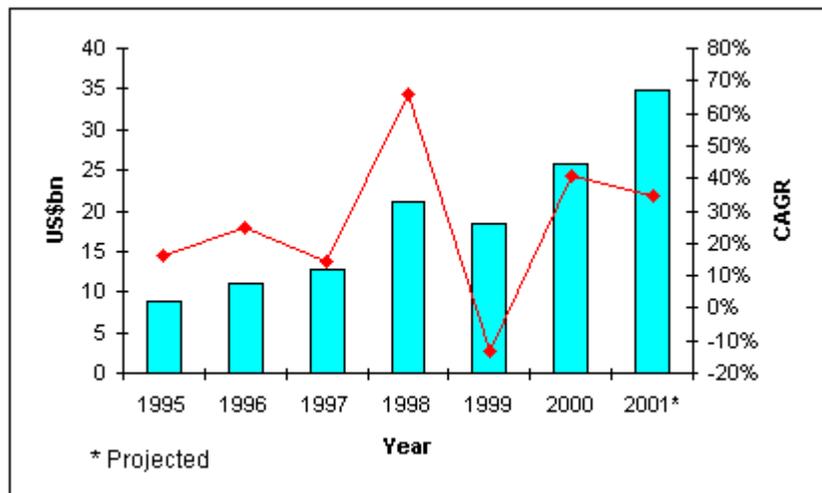
The WTO is a strong advocate for the rule of law in China. During the accession negotiations, the WTO working group made it clear to China that legal reform was necessary for membership attainment. The WTO understands that China will face many problems complying with commitments if it does not:

1. Increase government transparency, including the procedures for developing laws and regulations
2. Alter the judiciary system to allow both domestic and foreign companies to bring forth complaints
3. Strengthen the legal system to consistently uphold intellectual property rights
4. Reduce conflicts between written law and government policy
5. Reduce the overall ambiguity of domestic laws

VII. Commercial Background

1. Role of Foreign Investment

Foreign investment is a vital component of China's economic reform. Investment in China's telecommunications sector has steadily increased over the years, though government policies have limited its scope. In 1998, the government started limiting foreign investments in China Unicom, claiming that they were illegal. Thus, investments slowed in 1999. However, the government proceeded to make selective "deals" with foreign telecommunications companies. For example, AT&T has been involved in over nine joint ventures for fiber optic cables, digital transmission equipment, program-controlled switching systems and communications products.^{xxxiv} Over the years AT&T has been granted contracts due to its relationship with the Chinese government and the company's promise to use the most advanced technology.



[Source: ChinaNex.com, September 2001]

Analysts expected foreign investment to increase considerably when China acceded to the WTO. As mentioned previously, no foreign investment was allowed in China's Internet services industry until accession in December 2001. Bearing in mind the importance of the Internet services market to the nation's economic goals, the WTO committed China to increase productivity in the sector and its spillover IT industries.⁷

2. US perspective

America's interest in China's Internet development is very strong. American IT firms, including Internet service providers and telecommunications companies, strongly advocated passing the Permanent Normal Trade Relations (PNTR) in Congress. US telecommunications companies lobbied Congress to pass PNTR with China because they

⁷ Please refer to the Commercial and Economic Analysis for more information regarding spillover IT industries

believed it was “a solid win for continuing America’s technological leadership and one of the final steps in opening China to trade”.^{xxxv} American telecommunication companies believed that passing PNTR in November 1999 was a great economic achievement for Americans. PNTR enabled the American companies to benefit year after year from the US-China WTO Bilateral Trade Agreement, ending the yearly congressional review of China’s trade status.

China’s large market holds great promise for future IT growth. The US-China WTO Bilateral Trade Agreement helps facilitate this growth. For telecom companies, growth of trade in services is revenue elastic, which means that it grows more rapidly than per capita income because it is central to a modern economy.^{xxxvi} Internet connectivity is such a service.

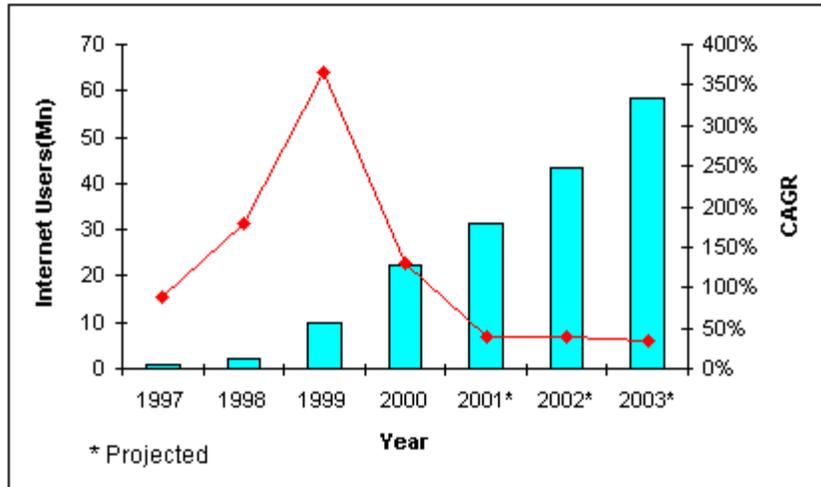
American companies are under pressure to enter China’s market and become true global players, competing with companies from around the world. There is enormous projected growth in Internet access in China over the coming decade. Thus, the US is eager to ensure that China’s telecom service commitment clearly includes all aspects of Internet service in the US–China WTO Bilateral Trade Agreement developed in 1999.

3. IT Sector

China’s information technology market was valued at US \$20.7 billion in 1999, seventeen percent higher than in 1998. Software accounted for US \$2.2 billion, or fourteen percent of the total, and rose to \$5 billion in 2000. The Chinese government has promised to invest Rmb 500 billion into the IT sector between 2001 and 2005 as part of China’s 10th Five-Year Plan. Within this plan, national goals for the sector are set at seven percent of the country’s GDP by 2005.

4. Internet Users

The most exciting facet of any Internet industry is the number of users. China has experienced phenomenal growth in Internet users since 1995, when public service was first offered. Thanks to government initiatives for a modern telecommunications system, Internet users increased from 2 million to 33 million over the past three years. This dramatic increase confirms China as the most rapidly developing telecommunications market in the world. The number of host computers increased from 128,000 in 1999 to 12 million in January 2002. After Japan and the US, China is the world’s biggest market for personal computers and continues to be the fastest growing.



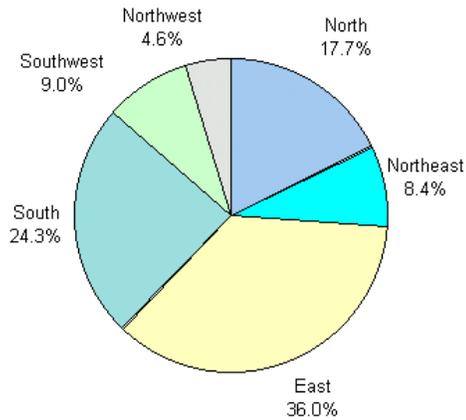
[Source: ChinaNex.com, September 2001]

According to the China Internet Network Information Center (CNNIC), China's official Internet information research agency and domain name registrar, Internet users are defined as Chinese citizens who use the Internet at least one hour per week. The CNNIC conducts biannual on-line surveys to examine the Internet's growth and impact in China. These results are taken from the January 2002 survey.

- Total Internet users: 33,700,000
- Leased line connections: 6,720,000⁸
- Dial-up users: 21,330,000
- Use both: 5,650,000
- Total Computer Hosts in China: about 12,540,000
- Leased line connections: 2,340,000
- Dial-up: 10,200,000
- Income (monthly): 23.6% have income under 500 Yuan, 25.3% between 501–1000 Yuan, 16.3% between 1001–1500 Yuan. Average monthly income for nation is 825 Yuan
- Main Access Locations: home 61.3%, office 45.7%, school 19.7%, Internet café 15.4%
- Hours Spent per Week: 8.5 hours

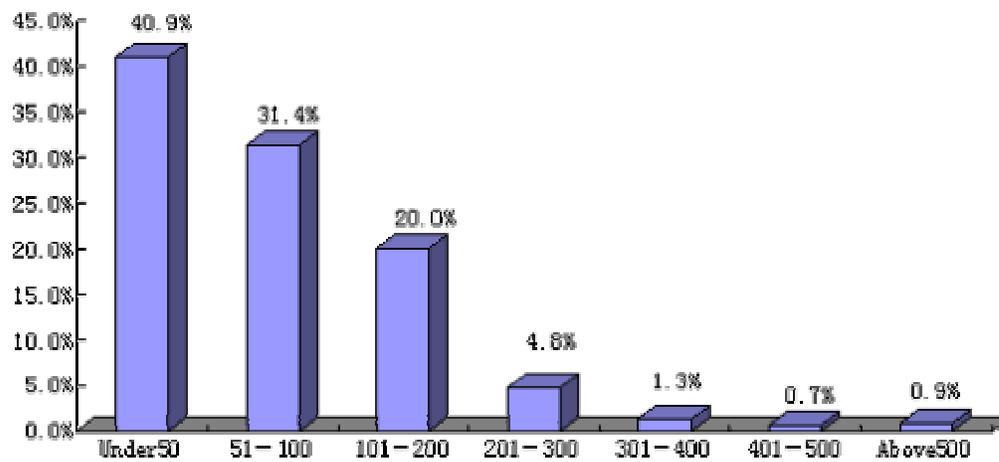
⁸ Refers to lines such as a telephone line or fiber-optic cable that is rented for exclusive 24-hour, 7-days-a-week use from your location to another location. The highest speed data connections require a leased line.
<http://www.matisse.net/files/glossary.html>

Distribution of users throughout the country:



[Source: CNNIC survey, January 2002]

Monthly Expenditure (Rmb):



[Source: CNNIC survey, January 2002]

The results of this CNNIC survey help the government and investors make policy and business decisions. The amount of money for infrastructure development, and how it should be spent, are partially determined by the CNNIC biannual surveys. The CNNIC also contributes information for other state organizations and businesses.

I. Commercial Analysis

Commercial Issue #1: How will these reforms help AmCham member companies⁹?

- By 2006, China will likely have the largest Internet user base
- E-commerce is expected to generate \$3.8 billion in revenue by 2003^{xxxvii}
- Internet connectivity has been increasing more than 100 percent a year
- The demand for connectivity remains high
- By 2004, 100 million broadband connections are expected^{xxxviii}
- After Japan and the US, China is the world's biggest market for personal computers and continues to be the fastest growing as well
- Software and hardware markets have been increasing
- Existing Chinese users complain about quality of services, high prices, and poor content. US companies have the ability to help solve these problems

The current Internet market appears to have all the necessary ingredients for success. In China there is high demand for the Internet, increasing PC rates, and a government that acknowledges the Internet as a major economic driver. However, since regulatory risk remains high, foreign investors are wavering in investing large amounts of capital. Most US companies are not in a position to rebound from a dramatic loss in investment returns, and China's Internet services market will require long-term capital investments. Investors must have faith in China's government to continue positive economic reform.

1. Internet Access Services

1a. Investment Opportunities

There are two main investment possibilities within the Internet access service industry. Investments can be made in any of the four state-owned telecom companies providing commercial Internet services, or they can be made in private companies.

Over the years the government has used state-owned telecom monopolies to develop domestic industry and infrastructure. Higher rates resulted, but revenue was reinvested in the companies until a modernized network developed. Private companies then started supplying local and wide-area networking to connect customers to the national backbone. Private ISPs are allowed to run local packet-switching stations.

As a result, a niche market developed because demand for Internet services outweighs the service providing capacity of large companies. In 1999 and 2000 the MII cut customer rates. Private domestic companies, however, have not been able to sustain a competitive edge over the larger state telecom because leased-line prices remained prohibitively high. Most localized ISPs became wholesale distributors for the large telecom companies. These state telecom companies' government support make them difficult to compete with. Private companies lack capital, technology and expertise.

⁹ Refer to appendix 3 for the list of AmCham member companies that will be most affected by reforms.

Although investing in state-owned telecom companies will create more investment security because Internet services are directly linked to the national backbone, smaller private ISPs have an advantage in supplying customers with higher quality and more diversified services. Currently, the state ISPs have such a large customer base that many Internet users are unhappy with the slow connectivity and high prices. Smaller ISPs can offer an alternative.

According to the China Internet Network Information Center's most recent survey, (January 2002):

The (Customer's) Primary Considerations in Choosing ISPs:

1. Connection Speed: 37.9%
2. Price: 26.7%
3. Service Quality: 26.3%
4. Name Recognition: 7.8%

Most Serious Problems Concerning China's Internet:

1. Slow Access Speed: 42.7%
2. High Price: 19.0%
3. Insufficient information: 4.1%
4. Disordered/Untruthful/Unhealthy Contents: 8.6%

1a-1 Prices

Chinese Internet consumers pay high prices for Internet access even though the government has lowered rates several times over the years. The average consumer pays a flat fee of 30 Yuan plus 1.2 Yuan for each hour, plus the phone charge, which is approximately US \$.4 a minute. Since the average Internet user spends 8.5 hours a week on-line, the total price equals 58.09 Yuan a month, or \$6.62 a month, which is half the price for Internet connection in the States.

At \$15 a month an American with an average annual income of \$42,000 (2000), is only spending .4 percent of his income. For a Chinese with annual income of US\$840 (2000), the price for Internet access consumes 9.5 percent of the annual income.

The costs are too high for the individual consumer due to the high fixed costs charged by state-owned companies to lease the lines of the national backbone and international gateways. Local ISPs must charge these costs to the consumer. Increasing FDI will raise capital for localized ISPs, offering a more competitive price to consumers. Increasing subscribers will lower per unit costs for the leased lines to each consumer, and decrease consumer prices.

Smaller Internet access providers, by providing local- and wide-area networking, help fuel the success of the large Internet service providers. They attract more people to the Internet, which generates more revenue for the state-owned operators, increases competition, and decreases leased-line prices.

1a-2 Connection Speed

To accommodate more Internet users, China has invested US \$16.9 billion per year from 2000 to 2002 to construct broadband networks. The government's commitment to increasing the technical capacity of the national backbone has enabled telecom operators to expand Internet services, and the nation's bandwidth has simultaneously increased as well. As the bandwidth capabilities expand in conjunction with modern technologies, the rate of connectivity will increase, reducing congestion. Private ISPs offering local-area networking can help relieve local congestion by bypassing the dominant local networks to connect to the national backbones.

Box 2

US-China Broadband Comparison

China and the US have similar connective technology. This may change, as China may apply more efficient technologies for Internet connectivity. Broadband has been slow to catch on in the US because the national telephone network is still very efficient. Technologies associated with making a phone call are widespread and by no means outdated. In China, however, millions of people don't have a phone, and existing customers are burdened by poor quality lines and an inconsistent national network. China can now leap-frog technology, replacing the old standard copper phone lines with broadband, including fiber optic cables and cable TV access. Standard national phone networks are not effective in China because of the amount of traffic the networks must endure. Fiber optic cables are faster and allow more traffic, essential for successful Internet services. What is normal for US consumers will become obsolete for the Chinese in a few years. China has adopted technology as it arrives while the US is slow to embrace it.

2. Internet Content Services

As the number of Chinese Internet users grows, the number of Web pages will increase as e-commerce expands. The market value for Internet content is directly related not only to the number of users but what these users do once on-line. As the Internet progresses, Chinese consumers are becoming more responsive to how the Internet fits their needs. The results from CNNIC's January 2002 survey show how consumers use the Internet and what needs are unfulfilled.

Services Used Most Frequently:

- Email 92.2%
- Search Engine 62.7%
- Software Downloading and Uploading 55.3%
- Information Acquiring 46.7%
- Online Chatting 22.0%
- Online Pager 37.6%
- Newsgroup 13.4%
- BBS Services 9.8%
- Free Personal Website Hosting 11.8%

- Online game 17.1%
- Stock Trading and Information Retrieval 7.4%
- Online Shopping and Trading 7.8%
- Short Message 8.0%
- Online Education 11.8%
- IP Telephone 1.7%
- Online Payment 2.1%
- Online Meeting 0.6%
- Multimedia Entertainment (VOD, Online Living Broadcast, MP3 and FLASH download) 22.1%
- Other Services 0.4%

Services That Are Not Being Fulfilled:

- News 25.4%
- Computer Hardware and Software 26.8%
- Entertainment Information 21.0%
- Life Service Information 23.6%
- Social Culture Information 14.4%
- Electronic Books 36.3%
- Science and Education Information 23.5%
- Financial, Estate information 11.7%
- Job Listings 21.9%
- Trade and Commerce Information 13.3%
- Travel Information 15.2%
- Advertisement 9.0%
- Medical Care Information 18.0%
- Matchmaking Services 5.1%
- Laws, regulations and Policies 20.7%
- Others 2.0%

US companies have the expertise and technology to create Websites that promote existing users needs and amplify the services used most frequently.

3. IT Products

Many IT products providing Internet services are imported from the US. An increase in Internet services will increase US exports—benefiting the US’s trade deficit with China.

The following four products are essential components of Internet services and have increased as the number of Internet users has increased.^{xxxix}

Import and Export Volume (2000) US\$

Products	Imports	Exports	Imports from US	Exports to US
Ethernet	194,202,769	680,664	130,562,248	None
Concentrator	29,002,315	19,305,953	13,147,947	5,450,444
Router	259,305,593	1,215,388	246,984,008	816,090
Modem	58,486,679	103,959,329	10,681,528	13,371,878

Import & Export Volume (2001 Jan. to June) US\$

Products	Imports	Exports	Imports from US	Exports to US
Ethernet	193,677,142	12,168,516	141,666,695	1,690,209
Concentrator	18,484,845	14,280,807	6,642,873	3,609,366
Router	245,904,918	1,767,146	227,871,514	735,055
Modem	78,356,030	71,522,541	16,877,874	6,668,983

American products account for 70 percent of the total imports vital to Internet services. The Chinese government is the largest importer of these products, and as more private ISPs develop the demand for these products will increase further.

Breakdown of the leading market share by company:^{xi}

Net Card		Concentrator		Network Switching		Router		Modem	
Co.	%	Co.	%	Co.	%	Co.	%	Co.	%
Dlink	26	3Com	29	Cisco	26	Cisco	62	QianXiang	21
3Com	21	Dlink	27	3Com	24	Hua Wei	10	ShiDa	20
TPLink	18	Accton	12	Intel	14	Bay	8	ShenZhou	17
Intel	14	Intel	8	Bay	13	Intel	7	3Com	15
Accton	6	Other	24	Dlink	11	Boda	6	GVC	14
Others	15			Other	12	Others	7	Others	13

For high end products, Americans accounted for 75 percent of the total China market. Cisco accounted for nearly 60 percent of the Chinese network software market. Last year alone, Cisco sold over \$1 billion of these networking products.

The US IT industry is particularly excited about the possibilities of the Chinese market. The American IT industry exports over 55 percent of its output, making it America's largest exporter.^{xli} China's large market holds great promise for future IT growth and the WTO Accession Agreement will help facilitate this growth. By opening monopoly markets to competitors, the Telecommunications Industry Association has estimated that the agreement will increase the market for telecommunications equipment abroad by \$25 billion per year.^{xliii}

For the IT sector, China's WTO entry is beneficial because China will:

- Eliminate import duties on high-technology goods by 2005.
- Permit foreign investment in the Chinese Internet sector, and liberalize Internet services at the same rate as telecommunications services.
- Permit telecommunications services via satellite.
- Protect intellectual property rights through the WTO TRIPS Agreement.

4. Effects of Reform

Once a more comprehensive Internet regulatory system is established, risk associated with the Internet in China will decrease. National initiatives in policymaking should be developed through a transparent forum in which regulations are open for discussion prior to promulgation. Given that all affected participants are included in the drafting process, AmCham member companies will have an opportunity to discuss Internet-related issues directly with the Chinese government. Such participation will help determine how the proposed regulation affects the economy. It will minimize the chance that investments will be hurt by future regulations.

Inconsistencies between ministerial initiatives and policies should no longer injure investments. Ministries must coordinate new regulations to help the central government formulate a clearer path for the Internet's national development. A more transparent system will help China solidify policies for such e-commerce related issues as on-line payment systems, credit card security, and advertising.

Reducing the complexity of licensing procedures will increase investor confidence because 1) consistent national rules will reduce discretionary behavior among ministries, and 2) this consistency will reduce discretionary interpretations among ministries.

5. Provincial Government Perspectives

Foreign investment is coveted by regional governments. This investment is difficult to capture without the right infrastructure in place. The Internet is the focal point for various provinces that want to expand communications capabilities, produce a more professional business atmosphere, and create local jobs and revenue.

II. Policy Analysis

Policy Issue #1: How far is the Chinese government willing to open up?

China's Internet industry is situated between Communist ideology and a quasi-open market economy. It has been a great challenge for the Chinese government to balance between opening the economy and not losing control over it. The Internet adds a degree of difficulty, as it creates a plethora of new and difficult policy-making issues.

The Internet has changed how the world lives. It presents new challenges to regulators precisely because of its newness. One of the biggest challenges is determining how to regulate within a country's borders goods that flow across borders. The complexity of the world's cyber network makes it difficult to regulate the system. To deal with this complexity and control content, the Chinese government built up a "great firewall".

The Chinese government is most concerned with the content issue, since content could cause social instability. The ease of potentially harmful information being transmitted from all over the world, in conjunction with how the Internet was used to organize the Falun Gong incident, has caused the government much alarm. Until WTO accession, the Chinese government had banned foreign participation in Internet services.

The American Chamber of Commerce feels that the Chinese government has the proper enforcement mechanisms to monitor content to ensure national security. These reforms will help reduce inconsistencies between government policies, create more legal transparency and provide more central control over the Internet.

1. National security argument

The primary argument against reforming the industry for foreign investment is national security. Increasing Internet connectivity makes monitoring content more difficult. The more people on-line, the more likely information could slip through the firewall. Thus, Internet services can hinder national security.

1a. Will an increase in Internet connectivity cause national security problems?

No. The Chinese government has a strong two-tier system to control content and enforce violations.

By focusing on Internet connectivity to the rest of the world, the government has controlled Internet access and content. The international gateways serve two purposes. First, unwanted Websites are blocked from entering the country. Secondly, only China Telecom through its Chinanet services and Jitong through its GB Net services have the authority to control the gateways. All service providers must connect to these two companies to access to the World Wide Web.

The Measures for Managing Internet Information Service were established in October 2001 for the purpose of controlling the Internet and national security. These laws require service providers to block vast categories of information, keep records of all Web site content coming through their service portals, record when people connect to the Internet, the users' account numbers, Internet addresses or domain names, and the phone numbers users dialed in on. The records must be kept for 60 days and must be accessible to the MII for revision. Companies are responsible for reporting any illegal content posted, and companies offering commercial Internet services must assist the policing. Any violation by ICPs and ISPs would subject them to suspension of business operations, or closure of their Web sites. (art. 21)

Article 15 states that the following content is forbidden:

- 1) Violating the fundamental principles of the Constitution
- 2) Damaging national security, betraying state secrets, subverting state sovereignty
- 3) Undermining national honor or interest
- 4) Instigating ethnic hatred, discrimination or damaging ethnic unification
- 5) Undermining state policy on religion, promoting cult or superstitious beliefs
- 6) Disseminating rumors, disrupting the social order, and undermining social stability
- 7) Disseminating obscene material, gambling, violence, murder, horror, or encouraging crime
- 8) Insulting others, invading others' legitimate rights
- 9) Violating laws or administrative regulations.

Commercial sites are subject to annual inspection. They are obliged to ensure that the content they display, in addition to content posted or transmitted across them, is appropriate under Chinese law. In addition, the Circular Concerning the Recordal of Computer Information Systems requires that every Internet user register with local public security bureaus. Cyberpolice monitor on-line activity. Other ministries also monitor Internet content within their jurisdictions. Protecting national security via the Internet relies on the enforcement of these laws.

1b. Protecting domestic industries argument

The Chinese government has kept foreign involvement in the telecommunications sector to a minimum. The government has protected both national security and domestic industries. Foreign investment for Internet services were outlawed until the recent WTO accession, for fear that domestic industries would be unable to compete. The government is aware of the superior technology, management experience, and quality of services and capital that foreign companies enjoy. The Chinese government has been reluctant to develop a reliance on foreign input. No nation would want its telecommunications system dependent on other nations' companies.

As a result, the government has established the state-owned monopoly system for Internet access. Four large Chinese companies are now well-equipped to provide Internet services to a large portion of the population. This system, however, has led to a lack of competition, higher prices, and poorer quality. The policies have enabled four companies

to prosper while the rest of the domestic industry has suffered. Whereas state-owned companies have been financially supported by the government, private companies haven't had the opportunity to raise the necessary capital until December 2001. Thus, foreign

Since state-owned enterprises are the only domestic companies allowed to run the national backbones and international gateways, these companies will always benefit from an increase in Internet subscribers¹⁰. They make money for every new Internet subscriber because private local service providers must lease their lines. The more Internet service exclusion from Internet services has not necessarily helped domestic industries.

The Chinese government will only allow foreign investment through joint ventures up to 50 percent by 2003. Thus, no wholly-owned foreign service providers will be established in China with the ability to injure domestic competition.

Private service providers desperately need foreign investment to compete with state-owned companies. Several state-owned companies themselves have listed on the NYSE to raise more capital. Providers, the more money from leased lines, in addition to the additional money from providing services to individual customers. As companies increase revenues, they can increase their scope of services.

Policy Issue #2: How will liberalization contribute to China's economic growth?

2a. Modern telecommunications system

In the current information age, the Internet is critical for communications and information gathering, important for every business's success. Providing the necessary infrastructure and services is crucial for attracting businesses to a particular city and country. The creation of more businesses, or the relocation of businesses to China would benefit the entire economy. The productivity increase would put more money into the hands of consumers. In an effort to become a truly global player, China has focused on building its Internet capacity, including building its broadband networks and IT industries.

2b. Spillover effects

Internet access is only one component of a large system of interrelated industries. Although the Internet is the catalyst for other industries' growth, each related product and service is essential to the supply-chain. When Internet services increase, the effect is echoed through the entire economy. Hardware, software, services, distribution and every step along the way is influenced. Thus, the Internet provides more opportunities for the modern economy than ever before.

2c. How are current policies hindering this economic growth?

¹⁰ The government did negotiate the entry of up to 49% foreign investment in the packet-switched and circuit-switched data transmission services by 2007 with no geographical barriers.

The government's most pertinent goal is economic development. The variety of ministerial objectives and the lack of unified Internet policy-making system has increased regulatory risk and dissuaded foreign investors. The net effect is damaging to economic growth and the creation of a modern telecommunications system.

The broadband problem between MII and SARFT is a good example of regulatory risk. In 1999 the MII banned the connection of cable networks to telecommunications networks in an effort to control the industry. Cable networks are ideal for high-speed connectivity. MII's decisions prolonged efficient methods of broadband Internet services to the general public until late 2001. The decision set back domestic companies financially because they had been investing in this development for many years. It also cost the cable companies and investors in technology, experience and profits. SARFT goals differ from MII's industry manufacturing goals because it is not in SARFT's interest to promote computer ownership. For SARFT, Internet connectivity is established through televisions. SARFT believes that MII adapted this regulation to control Internet connectivity.

Since 2001 SARFT has developed Internet regulations within their jurisdiction, without the consensus of the MII. However, the lack of coordination between ministries may cause future dilemmas and generate turf wars.

Policy Issue #3: How will reforming the industry accommodate WTO obligations?

Regarding Internet services, the government negotiated the following concessions for ISPs and ICPs: (B-Beijing, S-Shanghai, G-Guangzhou)

Up to 30% foreign ownership in B, S, G	Upon WTO entry (12/01)
Up to 49% foreign ownership in B, S, G + 14 cities	December 2002
Up to 50% foreign ownership all China	December 2003

These WTO commitments were considered an excellent beginning toward liberalizing the sector by all WTO Members. China believed that the changes were necessary for the Internet sector to prosper. The government also committed to improve regulatory transparency and the implementation of the rule of law to facilitate WTO commitments.

Increasing regulatory transparency and implementing the rule of law to the Internet regulatory environment will help the Chinese government fulfill their WTO commitments. The advantages to using transparent legal tools to develop this extremely important sector of the economy are numerous.

China should open its regulation drafting process to interested parties. This is specifically addressed in the Accession Protocol under Transparency, section 1. Understanding how Internet regulations are developed greatly increases regulatory transparency and thus promotes a significant step toward the rule of law.

Specifically, reforms are needed to reduce conflicts between written law and government policy. Industry professionals input must be incorporated prior to the promulgation of future regulations. Discrepancies in enforcement will be reduced, since consensus will produce regulations that are valued in civil society. For example, Internet services companies, in understanding how the regulations were developed, will understand the different issues associated with regulation. Transparency will lead to greater public understanding of the regulations.

Increasing the rule of law (by reducing legal ambiguity) can be achieved by making the ministries work together on Internet-related regulations. This will reduce inconsistencies between policies. If the power to develop regulations is consolidated in one body, ministries can no longer develop vague regulations that reduce the importance of economic development and trade. Policies drafted with the input of many professionals will more than likely be WTO consistent.

III. Economic Analysis

Economic issue #1: How will boosting investor confidence in Internet services help China reach its broad economic goals?

China's broad economic goals are to:

1. Increase productivity and exports
2. Increase employment and incomes
3. Use IT services and industries to stimulate the economy
4. Provide products and services to benefit consumers

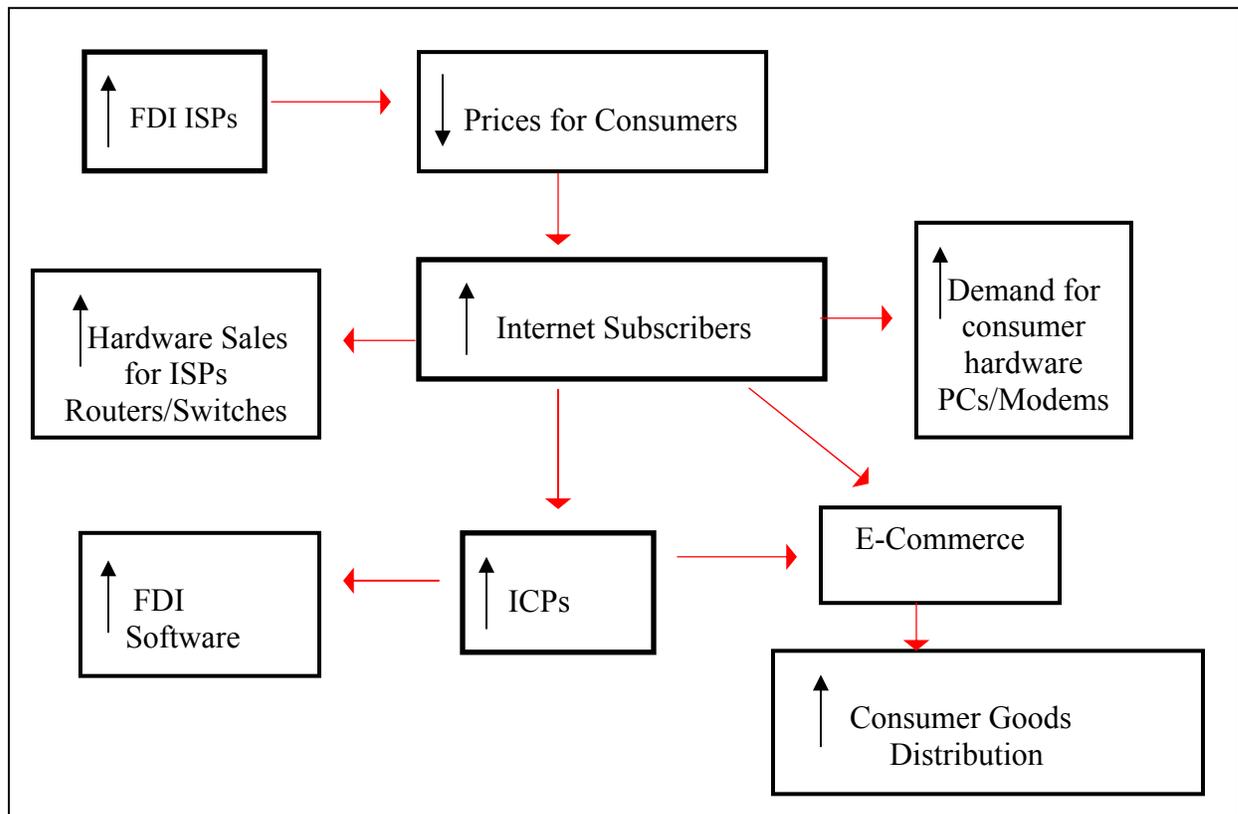
Increasing Internet services are crucial to China's economy because:

1. A modern Internet services industry is essential for a modern telecommunications system
2. Information and communications are vital to business success
3. Increasing Internet services will produce more jobs
4. Internet services create benefits for supply-chain industries; productivity increases
5. The Internet makes information affordable to distant regions
6. IT levels the playing field for smaller firms, which can access inputs and knowledge at a far lower cost
7. Internet services increase e-commerce, which facilitates the production of goods and services

Foreign Direct Investment is vital for China's Internet economy. FDI is a large and growing source of equity investment that brings considerable benefits: technology transfers, management know-how, and export marketing access. All stimulate local productivity through backward linkages to service suppliers and the labor force. FDI in Internet services will increase trade and productivity, increase production, increase wages and incomes, decrease prices and increase consumer welfare.

The Internet is multi-faceted. It created an entirely new type of micro-economy of complimentary products and services. From software to cable lines, from e-mail to e2e business platforms, the Internet has generated revenue, jobs, and increased productivity around the world. Understanding its importance, China has pursued solid Internet infrastructure foundations.

When the Internet user base increases it creates a chain reaction, benefiting supporting supply-chain industries. The following diagram illustrates this point.



The Internet's micro-economy plays a vital role in a country's macro-economy. Take the US for example:

- 149 million Internet users^{xliii}
- ISP market \$63 billion, 2002^{xliv}
- Small businesses estimated to spend \$51 billion in 2002 + \$4.5 billion annually over the next three years^{xlv}
- Jobs in Internet industry: 1.6 million in 1998, grew to 2.3 million 1999^{xlvi}
- E-commerce services est. \$648 billion in 2003^{xlvii}
- E-commerce retail sales: \$38.8 billion in 2000, and expected to grow to \$125.6 billion in the next four years^{xlviii}

The Internet has started to play a larger role in China's economy. Though China's Internet market is not comparable to that of the US, the US example illustrates the possibilities that exist when a liberalized sector develops in a competitive environment. China's Internet industry is unique. Telecommunications are developing faster there than anywhere in the world. The industry has been able to adopt new technologies to leapfrog

the old ones, creating more opportunities for domestic and foreign participants to build China's infohighway.

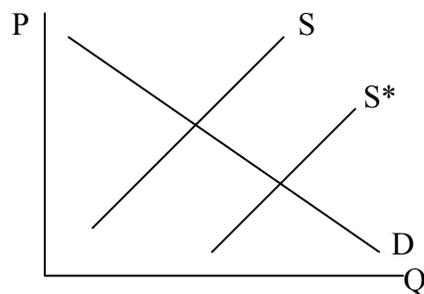
The underlying factors behind the US example can be replicated in China. These reforms will help China develop a modern Internet sector, contributing to the rest of the economy, as has resulted around the world.

1. Prices

Although China has 33 million Internet users, there are only 12 million computer hosts. To attract Internet subscribers, the prices for Internet access must decrease. This can be accomplished through economies of scale.

Foreign investment will help the Chinese government develop networks and simultaneously increase Internet subscribers. An increase in Internet subscribers, through economies of scale, will lower the per-unit costs for each subscriber.

In addition, increasing the number of leased lines will shift the supply curve to the right—decreasing prices for leased lines and therefore lowering consumer prices.



Once prices are reduced, demand for all complementing hardware and software products will increase, along with demand for IT manufacturing and Internet services personnel.

2. Wages/Incomes

The average annual income for American workers is \$42,148, and the average IT worker makes \$68,661.^{xlix} This 63 percent increase is a result of working in a highly demanded field. In China's case, the IT worker will be in high demand as the country develops its Internet. The average income in urban areas in China is \$840. If the US percentage is applied to the Chinese IT worker, then the average IT wages would be \$1,369, contributing to an increase in the national average.

3. Trade

Ninety percent of China's exports are manufactured goods. The manufacture of foreign products for re-export accounts for over fifty percent of Chinese exports. China remains relatively weak in capital- and technology-intensive industries such as telecommunications. Multinational corporations are likely to become the driving force of China's external trade, bringing capital and technology to the exporting industries.

Specifically, IT goods will become a driving force in China's economy. The government has strongly encouraged R&D and technological innovation in its 10th Five-Year Plan. It plans for the sector to gross seven percent of the country's GDP by 2005.

Over the years China's IT hardware industry has produced considerable exports. Foreign investors have expanded their manufacturing capabilities to China. Great Wall Technology, in a joint venture with IBM, has become the first Chinese company to manufacture and sell computer hard disk drives for the world market.

Worldwide demand for IT goods will increase further as China builds up its Internet sector. Total worldwide e-commerce¹ is estimated to grow at a 93 percent rate from 1999 to 2003. Worldwide software and IT services will increase 36 percent to \$1.15 trillion by 2003, with the Asia-Pacific market growing fastest, consuming \$124.5 billion by 2005.

4. Productivity

The Internet increases businesses' productivity. It helps a company communicate and gather information, buy and sell, and advertise their product.

The government will also become more productive as Internet services expand. The Chinese government has already spent millions of dollars to bring all government entities on-line. The "Golden projects"¹¹ allow the government to obtain almost real-time information, enhancing communication between agencies and the public.

5. Production

Currently production of hardware is estimated at \$15.4 billion, while software estimates are \$5 billion.¹² When the number of Internet subscribers increases, demand for these products will also increase.

In China's PC market, nine million computers were sold in 2001. An estimated 10.8 million will be sold in 2002.¹³ By 2003, the country is expected to surpass Japan to become Asia's number one computer market. Investors will flock to the market and Chinese computer manufacturers, like Legend (which holds 31 percent of the market share) will increase productivity to keep pace with demand.

E-commerce itself creates more opportunities for the production of goods and services. E-commerce sales in China are estimated at \$3.8 billion by 2003.¹⁴ This figure is not surprising, considering that thirty-two percent of the 33 million Internet users in China shop on-line. As more goods are sold, distribution for those goods increases. Thus, the supply-chain for the Internet evolves around the number of Internet users. However, as in the US, most Internet users who shop on-line do so from the home. Hence, retail Internet services are needed to increase demand for e-commerce.

6. Consumer Welfare

Besides decreasing the cost of Internet access, increasing competition through foreign investment benefits the consumer by giving him more choices at cheaper costs.

¹¹ The name of the government's on-line initiative

Additional service providers give consumers the opportunity to choose the business that best suits their needs. Most Internet users in China complain of slow access and poor quality. In a more competitive environment, consumers will be able to choose better conditions. Competition will force poor quality providers to enhance services to stay competitive.

For most businesses, the quantity and quality of Internet services outweighs the preoccupation with costs. Corporate Internet services have low price elasticity because the Internet is a vital component to business operations. If service is interrupted, the consuming business loses communication and information. Businesses are demanding more integrated IT and e-commerce solution services.

IV. Political Analysis

Political Issue #1: Analysis of Chinese stakeholders' positions towards reform

Domestic Stakeholders

Given the non-transparent authority of government officials in the Central Committee, NPC Standing Committee, and State Council, AmCham assumes that each government official has an important role in determining whether Internet administrative reforms are initiated. It is unknown to outsiders how the State Council determines whether a regulation is approved or rejected. Thus, all members are considered stakeholders.

1. Central government

Internet reform is embraced by the Communist Party. The situation, however, is not black and white. Like any political party, there are reformers and conservatives, each with their own values and interests.

The top political leaders have various opinions on industry reforms. Although all share a common interest in economic development, Internet-related issues are sensitive topics. Internet service liberalization has attracted over-regulation to ensure that:

- National security is not undermined
- Political ideology is preserved
- Domestic industries are protected from international competition

1a. Central Committee and State Council

Certain officials within the Central Committee and State Council are open to the development of Internet services via changes in existing laws. These officials have liberalized other sectors of the economy, pushing for administrative reforms and economic development.

The following Central Committee members are likely advocates for Internet services reforms¹²:

- President Jiang Zemin
- Premier Zhu Rongji
- Li Ruihuan
- Li Langqing
- Wu Bangguo
- Jia Qinglin

All of these officials have liberalized China's economy through increasing foreign investment, advocating for WTO entry, and supporting the modernization of

¹² Refer to Appendix 14 BATNA Chart for specific interests

telecommunications and the Internet. However, as Communist Party members, these individuals believe in controlling the Internet to preserve national security, which is why many have advocated comprehensive telecommunications regulations. In any case, they should advocate these reforms because they have vocalized a desire to reduce inconsistencies between economic and policy objectives, and to increase the rule of law.

Those likely opposed:

- Li Peng
- Chi Haotian
- Zhang Wannian

These men all perceive the Internet as a serious threat to national security. All three officials believe in a prominent military and tighter control of security policies. Their jobs are to protect state secrets, reduce chances for social instability, and provide for national security. They believe that the Internet is a tool of social instability regarding the reunification of Taiwan, Tibet, and other religious, anti-Communist party ideology.

Those undecided:

- Vice- President Hu Jintao
- Wei Jianxing
- Ding Guangen
- Tian Jiyun
- Li Changchun
- Li Tieying
- Wu Guanzheng
- Jiang Chunyun
- Jia Qinglin
- Huang Ju
- Wen Jiabao
- Qian Qichen
- Luo Gan

More information must be collected to determine how these individuals feel about Internet regulatory reforms.

1b. NPC Standing Committee

The National People's Congress's Standing Committee plays a crucial role in amending the Telecommunications Regulation of the PRC to reduce the complexity of licensing procedures, and in passing administrative reforms, although it will be the responsibility of the State Council to initiate the reforms. Once broad consensus has been reached among the leaders in the Central Committee and State Council, the network will be in place for reform. Since the Central Committee is the apex of Party and government power, its influence over government policy-making is profound.

1c. State Council

The NPC Standing Committee plays an important role in Internet reforms. However, it is the State Council that has the authority to delegate over the ministries, which are the government bodies most affected by Internet-related reforms. The Premier, Vice-Premiers and several Councilors serve dual responsibilities within the government. As a result, State Council members' interests play an extremely important role in the future of the Internet.

- Premier Zhu Rongji
 - Premier Zhu Rongji is responsible to the Politburo Standing Committee and has an extremely close relationship with President Jiang Zemin. Zhu Rongji succeeded the President as mayor of Shanghai in 1985, where he built his reputation around economics and trade. President Jiang has often relied on Zhu's expertise in managing economic reform programs. He is expected to retire next year.
 - AmCham believes Zhu will advocate for reform because he has arduously worked toward liberalizing most economic sectors and recognizes the importance of foreign investment to China's economy. Zhu was pro-WTO accession.
- Vice Premier Li Lanqing
 - Mr. Li is also a Politburo Standing Committee member. His government service history establishes him as a foreign trade expert, having worked as director of the Foreign Trade and Investment Administration of MOFTEC. He also worked as the vice-minister for foreign trade, participating in government negotiations to restructure China's foreign trade system throughout the 1970s to 1990s^{liv}.
 - AmCham believes that Mr. Li will be a proponent for reform because of his close ties to MOFTEC and his efforts in opening-up China's trading system.
- Vice Premier Qian Qichen
 - Also a member of the Central Committee, Mr. Qian has been heavily involved in foreign affairs with the US, Russia, Taiwan, Hong Kong and Macao. His career has concentrated in high policy diplomacy. He was Minister of Foreign Affairs from 1988 to 1998, and has been in charge of United Nations affairs since 1988.
 - More information is needed to determine his position towards the reforms since his expertise revolves around international diplomatic relations.
- Vice Premier Wu Bangguo
 - He is also a member of the Central Committee and has been in charge of reforming the SOEs. He is a long-time ally of Jiang and Zhu since their

days in Shanghai and has supported many economic liberalization initiatives.

- Sine Wu is closely connected to Shanghai and understands the business needs of the city. He has pushed for economic reforms, supporting President Jiang Zemin and Premier Zhu Rongji. AmCham believes that he will advocate reform.
- Vice Premier Wen Jiabao
 - He is also a member of the Central Committee and is expected to succeed Zhu in 2003. He has been Director General Office CPC Central Committee since 1986 and is responsible for presiding over the reformation of banks, the stability of security markets, and the reorganization of the Ministry of Finance. He strongly advocates using monetary policy to promote reforms and develop SOEs, and rationing resources, pushing for Western development and national ecological improvement.
 - AmCham believes his ties to the more liberal Politburo members could influence his support for reform, however more information is needed to determine this.
- Councilor Chi Haotian
 - He is a member of the Central Committee and is Vice-Chairman of CCP and the PRC Central Military Commission. He is concerned with protecting national security and social stability and believes the Internet can be used to undermine these security concerns
 - As a direct result, AmCham believes he will be opposed to the reforms.
- Councilor Luo Gan
 - Also a member of the Central Committee, Luo Gan would like to establish a corps of high-quality experts to guide the development of a modern market economy. His job in the Politburo includes maintaining the rule of law and social stability. He leads the campaign against the Falun Gong
 - Luo's connection to the Falun Gong that makes it difficult to determine whether he would advocate reform. More information is needed at this time.
- Councilor Wu Yi
 - Also known as "China's Iron Lady," Wu Yi is a foreign trade specialist with close ties to Zhu Rongji. She oversaw WTO accession negotiations. She promotes increasing foreign trade and economic aid to Central and Western China, expanding cooperation with the World Intellectual Property Organization, promoting the growth of high tech exports, attracting foreign investment through policies and laws more favorable to foreign investors, and encouraging Chinese firms to invest in overseas assembly plants.

- She will be a proponent of reform because she has supported China's IT sector and wants to increase its exports through the use of foreign investment.
- Councilor Ismail Amat
 - Originally from Xinjiang, Ismail Amat has supported China's fight against Muslim separatists. His efforts concentrate on diplomatic relationships with Uzbekistan, Kyrgyzstan, and Kazakhstan.
 - Since Ismail's duties often take him to Western China for diplomatic missions, Am Cham believes he might advocate for reform if he believes the reforms could increase the communications development in the West. At this time, however more information is needed to reach a conclusion.
- General Secretary Wang Zhongyu
 - He was Minister of State Economic & Trade Commission 1993–1998. He focused on reforming SOEs and restructuring their debt. He aligns with Zhu Rongji on economic reform, and believes in decreasing local government bureaucracy.
 - Given the possible development of several SOEs into IT goods manufacturing facilities with the help of foreign investment, and given Wang's close ties with Zhu Rongji, AmCham believes Wang will advocate reform.

The following members of the State Council will likely advocate Internet services reform:

- Zhu Rongji
- Li Lanqing
- Wu Bangguo
- Wu Yi
- Wang Zhongyu

These members are pro-Internet reform because they have a keen interest in promoting trade and economic development. Most members also have close ties to MOFTEC and share views with the ministry concerning the Internet.

Those undecided:

- Qian Qichen
- Wen Jiabao
- Ismail Amat
- Luo Gan

More information must be gathered about these individuals because their interests are so diverse.

Those opposed:

- Chi Haotian

Also a member of the Central Committee, Chi Haotian is concerned with the Internet's ability to trigger social instability and security concerns.

1d. Next Generation of Leaders

In March 2003, at the annual National People's Congress, several leaders will announce their retirements. Replacements will be chosen by vote during the Communist Party Congress in October 2003. Currently, there are many promising candidates for these higher-level positions¹³. Their views have a great impact on whether these reforms take place.

- Hu Jintao¹⁴ – to be determined
- Zeng Qinghong¹⁵ – to be determined
- Wu Bangguo – pro-reform
- Wen Jiabao – to be determined
- Luo Gan – to be determined
- Li Changchun – to be determined
- Wu Yi – pro-reform
- Jiang Jinheng¹⁶ – pro-reform

1e. Ministries

Competition between the Ministry of Information Industry (MII) and other ministries over Internet jurisdiction has resulted in mistrust and “turf” wars. The likelihood that any ministry would hand over legislative powers to the MII is very doubtful. The current system allows ministerial stakeholders to form Internet regulations without conferring with other ministries about their impact. Regulations have the ability to cause conflicts between ministries, and conflicts between policy and economic goals.

Ministries likely to favor administrative reform:

- The Ministry of Information Industry
- Ministry of Foreign Trade and Economic Cooperation
- State Administration of Radio, Film and Television

¹³ Although exact positions are not known for all candidates

¹⁴ The current vice-president is popular among his colleges for the transition to presidency. However, Mr. Hu has been under criticism for his liberalist tendencies. He has not had much experience dealing with the US but Supports Jiang's efforts to force public security organs to withdraw from business spheres.

¹⁵ President Jiang Zemin's protégé, Mr. Zeng is in competition with Mr. Hu over the presidency.

¹⁶ Currently the Vice-chairman of the Chinese Academy of Sciences, he is Jiang Zemin's son destined to become a member of the Politburo. He is pro-economic reform and is engaged in several successful business ventures.

- MII – The Telecommunications Regulations of the PRC delegate industry responsibilities to the MII. The ministry has worked hard to completely control the Internet industry. Minister Wu Jichuan has gained a reputation for improving the nation’s telecom industry, creating more networks and decreasing prices. However, as a political conservative, he opposed opening the Internet sector to foreign investment, and his attempt to control the sector has caused rivalries with other Ministries. The MII is very sensitive to companies’ relationships with other ministries.^{lv}

To retain complete control over the Internet, the MII should act favorably toward Internet reforms that empower the Ministry. However, the MII will not look favorably on losing the ability to create its own regulations.

- MOFTEC – MOFTEC worked with the WTO Working Group to negotiate the foreign investment schedule for telecommunication services. It has been a strong advocate for WTO membership, since membership promotes China’s trade with the world. The Ministry has also taken the initiative to develop trade related Web sites to embrace e-commerce. Currently there are two very popular sites: www.chinamarket.com.cn and its subsidiary site www.chinamarket.com.cn/E/Showtitle. Both sites offer access to sites that cover laws, investment opportunities and economic news. The sites also give businesses the opportunity to establish their own Web sites and email addresses within the China Market domain.^{lvi} Links are provided for domestic and foreign companies.

The development of MOFTEC’s Websites in 1998 created a rivalry with the MII over the direction of e-commerce. MOFTEC launched the Websites at a time when the MII was restructuring; MII feels MOFTEC took advantage and superceded the MII’s control over the industry. MOFTEC’s determined how many foreign participants and which technology transfers would enter MII’s control. Although the MII has made several attempts to assert control over the industry, it is difficult to determine where the most power lies.

MOFTEC would benefit from reforms that increase China’s trade and economic development. The Ministry has openly embraced e-commerce and information technology to increase productivity and future exports.

- SARFT would greatly benefit from reducing MII’s legislative authority over Internet regulations. As mentioned in the policy analysis, the MII in 1999 developed regulations that prohibited Internet connection via cable TV networks. SARFT and several cable companies lost money and momentum, but were powerless to change the regulation. Fortunately however, the MII abandoned the regulation in 2001. SARFT wants to avoid similar situations in the future.

Opposed:

- Ministry of Public Security

- Ministry of State Security
- State Council Information Office
- Ministry of Education
- Ministry of Culture
- Ministry of Health
- State Drug Administration
- State Press and Publication Administration

Taken as a whole, these ministries oppose regulations stripping their regulatory authority because they want to preserve their legislative powers. Each ministry wants to protect its specific interests.

- The Minister of Public Security, Jia Chunwang, is also commissioner-general of the Chinese People's Armed Police Force, which controls political dissidents and citizen organizations from radical non-party endeavors. This includes the Falun Gong. It is also the principal authority of the Chinese police, Cyber crime, and state security issues. This Ministry's job is to maintain order and guard national security. The Internet is to be regulated to deter activities that promote instability.
- The Ministry of State Security ensures computer information network security. The Ministry regulates the development, manufacturing, sale and usage of network security products and commercial encryption products, and monitors on-line activities. The Ministry wants to ensure it is prepared to handle the necessary monitoring demands associated with the growth in Internet users, while maintaining encryption and e-commerce security.
- The State Council Information Office's primary concern is to regulate and control Internet content. As the official state media legislator, the SCIO wants to ensure that regulations respond appropriately to issues of Internet growth. The Ministry believes it is the most qualified government body to produce content-related regulations due to its closeness to the State Council and its interest in sustaining the state's news monopoly, the Xinhua News Agency.
- The Ministry of Education is responsible for all education Websites and is interested in keeping tight control over the subject since the Ministry is involved in creating national education standards.
- The Ministry of Culture wants to retain the right to develop Internet related laws in its effort to preserve Chinese culture. As the Internet progresses, more cultural issues arise around the globe.
- The Ministry of Health wants to ensure that falsified information about public health is not dispersed on the Internet, to minimize the adverse affects that it might cause. The Ministry also wants to maintain legislative power as new health issues arise in the media and more Internet sites develop.

- The State Drug Administration, like the Ministry of Health, is concerned that false and misleading information will be dispersed on the Internet. In addition, the SDA does not want businesses to sell drugs over the Internet without their approval. The agency would like to control which drugs are sold, though their primary concern is prescription drugs and drugs not developed in accordance with international standards. The SDA's would like to control the sale of drugs that are not developed by their state-owned drug manufacturers.
- The State Press and Publication Administration is responsible for censoring publications, including but not limited to Web content, that reveals state secrets, are derived from unverified sources and offend the nation-state. The Ministry wants to ensure that content is verified before it is posted online, and that the information posted is suitable for Chinese viewers. The regulations developed thus far enable the Ministry tight control over content.

For foreign investors licensing reforms are helpful because they decrease ministries' ambiguous behavior. The necessary permits for business are more readily obtained.

Ministries likely to favor licensing reforms:

- Ministry of Information Industry
- Ministry of Foreign Trade and Economic Cooperation
- MII would be willing to increase its administrative responsibilities by having companies seek pre-business approval with them. Consistent guidelines will be created specifically for a variety of services, and the MII will become more familiar with the logistics of the companies. The MII has been seeking this for years.
- MOFTEC wants to increase foreign investments to China. Their goal is to create a more conducive environment for investors to do business. For MOFTEC, these reforms would eliminate complaints that foreign investors have about the current licensing system on Internet services.

Those opposed:

- Ministry of Public Security
- Ministry of State Security
- Ministry of Education
- Ministry of Culture
- Ministry of Health
- State Press and Publication Administration
- State Drug Administration
- State Council Information Office

These ministries oppose licensing reforms because they believe that 1) the diversity in their jobs makes them the most responsible bodies for carrying out government and party

policies, 2) they are best qualified to determine who is granted approval before a business license can be applied for, and 3) creating consistent licensing procedures for the MII decreases their responsibilities as the Internet progresses, especially as new issues arise that require quick resolution.

Those undecided:

- State Administration of Radio, Film and Television

SARFT wants to retain control over granting business licenses to cable companies engaging in Internet access services, but it also wants to increase foreign investment.

Of all ministries listed, MOFTEC has the most political clout for economic development. The other ministries carry more political weight for carrying out core Communist Party principles. Future leadership and local governments' initiatives will play a crucial role in determining whether economic development or Party principles take precedence for Internet services.

2. Local governments

Every local government would like to enhance its foreign investment environment, and enhance Internet connectivity and competition.

Cities that will benefit immediately from Internet reforms that increase foreign investment:¹⁷

- Beijing
- Shanghai
- Guangzhou

Box 3

Beijing Olympics 2008

Beijing's motto for the Olympics is "New Beijing, Great Olympics". The city's goal is to host a "Green Olympics," a "Hi-tech Olympics," and the "People's Olympics," in order to showcase Beijing as a truly international city. To accomplish these goals, the city needs to promote the development and application of new technologies. This includes one of the most important factors to Olympics success, communications ability. As Beijing prepares for the Olympics, further development of its telecommunications is vital for its Olympics success. If the city does not produce highly efficient Internet and other related services, communication slows. Bottleneck problems showcase Beijing's inability to become a modern city. The Olympics has stimulated opportunities in the city for companies' experienced in IT services to help Beijing reach a technologically advanced status.

¹⁷ These cities were negotiated to be the first to accept foreign investment until December 2002, when the investment restrictions will expand to include 14 additional cities

These cities have considerable power to press the central government for reform. The cities are economically reformed, leading exporters, and provide the State with large tax revenues. They have been test cases for reforms and are models for the rest of the country to emulate.

The leaders of these provinces have close relationships to the central government. Many officials have moved up from mayors or governors of these provinces to become high-level officials in the central government. Early career relationships among officials from the provincial levels are usually carried through to the central government. For example, Jiang Zemin, Zhu Rongji, and Wu Bangguo are close friends from their days in Shanghai.

Provinces that have recently expressed economic ambitions that would benefit from these reforms, as described in the background, include:

- Shandong
- Gansu
- Yunnan
- Sichuan
- Shaanxi

Political Issue #2: Analysis of Foreign Stakeholders

1. United States Trade Representative

The United States Trade Representative (USTR) is the executive level office responsible for developing and coordinating US trade policy for commodities and investment. Such policies aim to create growth and raise living standards by opening markets abroad, maintaining an open-market at home, and promoting the rule of law. The USTR is responsible for investigating international trade complaints by American industries in order to sustain international trade agreements. The USTR would advocate Internet reforms that:

1. Promote the rule of law in China
2. Formulate consistent policies for foreign investment in the Internet services sector, as overwhelmingly sought by US IT and telecom companies
3. Reduce ambiguous interpretations from the ministries resulting from inconsistent licensing procedures. This would give US companies a greater advantage in penetrating the market
4. Increase transparency, thus reducing further problems within the sector
5. Identify the scope of powers for different government stakeholders so the USTR knows exactly who to contact if future problems develop
6. On a Side Note: Robert Zoellick, a member of the Republican party appointed by President Bush, may be interested in promoting these reforms to China since it will greatly benefit America On-Line. Secretary of State Colin Powell is a member of the AOL board of directors and is a major stockholder.

V. Legal Analysis

To increase understanding of the legal dimension of the Internet in China, Jesse Chang, Philp Qu and Helen Sunderland from TransAsia Lawyers summed up the following administrative problems^{lvii}:

Since the central government has classified the Internet with telecommunications, various authorities have become responsible for regulating and supervising different aspects of the Internet in China, without clear delineation of responsibilities.

The Ministry of Information Industry, State administration for Industry and Commerce and the State Administration of Radio, Film and Television, in addition to other competent government departments, thus all have important regulatory responsibilities in respect of different aspects of the Internet. This phenomenon, combined with a general lack of consensus among and within those authorities on basic policies, has not only slowed the pace of regulation but also made the existing legal framework very difficult to navigate.

Much of the IT-related legislation promulgated to date in China is phrased in general terms and issued at no higher than the regulation level. In the author's opinion, this approach was probably deliberate, since it enables the Chinese government first to lay the foundations for regulation before promulgating laws and detailed implementing rules as it becomes more familiar with the issues involved. At present, however, until those laws and rules are formulated, regulations from the Old Economy are being applied to Internet related matters. The application of such inappropriately worded and at times irrelevant legislation risks having a negative consequence on investor confidence, domestic IT industry development, and credibility of regulators.

Reforms developed to solve these types of regulatory problems and to provide a clear framework for transparent new regulations will affect existing laws and administrative procedures. The goal is to create administrative cohesion for the benefit of the Internet's development, and the development of any other industry.

Legal Issue #1: How will current regulations be affected by reforms?

Current regulations regarding licensing procedures should be amended to assure investors they will 1) be granted licenses without discretionary interpretations, and 2) be provided consistent guidelines to meet license requirements. Investors should apply for Internet content and Internet access licenses through the Ministry of Information Industry, rather than other various ministries as further inconsistencies may result.

Internet reforms should amend laws involving licensing procedures for ISPs and ICPs.

By law, all ISPs and ICPs must obtain a license from either the MII or the provincial, municipal governments. Licensing requirements depend on the service providers' business scope and are given in accordance to a ministry's discretion.

1. Internet Access

Telecommunications Regulation of the People's Republic of China

Article 13 provides that: A telecommunications carrier must meet the following conditions to engage in value-added telecommunications service:

- The telecommunications carrier is a company lawfully established
- The telecommunications carrier has capital and professionals appropriate to the services engaged
- The telecommunications carrier has the credit or ability to provide long-term services to customers
- The telecommunications carrier meets any other conditions required by the state

The reform proposes clarity to the term “capital and professionals appropriate for the services engaged”. With no clear definition, investors have relied on the Regulations on Foreign Invested Telecommunications Enterprises for legal guidance. However, since China's WTO accession, these regulations have been outdated. For example, the government requires that foreign firms possess US \$10 billion in revenues and have commercial presence in the PRC for over three years before receiving a joint-venture license for proprietary network operators. US \$5 million is needed for non-proprietary operators. Under WTO rules, market access is not contingent upon prior residence.

2. Internet Content

Managing Internet Information Service

Internet licensing procedures requirements that will be affected by reforms are:

- Apply for value-added service license from provincial and municipal governments, or State Council information administration (art.7)
- Those that plan to provide electronic bulletin board services should submit special application in addition to licensing or record keeping (art.9)
- Content services that include news, publishing, education, Medicare, medicine and medical equipment must attain approval from relevant government agencies. Before applying for a license or record-keeping certificate, ICP applicants must obtain certification from the industry oversight office in their respective service provision. Whether the license is given is up to the discretion of the licensees. (art.5)
- The council information office and provincial, municipal telecommunications administrations oversee and inspect Internet information services. Administration for news, publishing, health, medicine management, commercial administration, public safety and state security, should manage Internet information services within their own areas. (art.18)

Although the Telecommunications Regulation of the People's Republic of China empowers the Ministry of Information Industry (MII) to oversee the Internet, this Measure also encourages many different Chinese governmental authorities to administrate online information services. This causes confusion by blurring the responsibilities of a single organized, transparent governing body (MII) to carry out

licensing procedures based on consistent requirements developed by the ministries as to what can and cannot be placed on the Internet.

There must be consensus and coordination among the Chinese government departments on all Internet regulations. This will facilitate access to accurate information for individuals and businesses, and forward development policies for the Internet in general.

3. Central government's commitments

The government has made several legal commitments to support the liberalization of Internet services.

Article 4 of the Telecommunications Regulation of the People's Republic of China states: The surveillance and control of the telecommunications sector shall be based upon the following principles: the separation of administrative departments and enterprises; the break down of monopolies and the encouragement of competition, transparency, fairness and just practice

The government has recently facilitated the breakdown of monopolies by announcing that China Telecom will be divided into north and south regions. The CT's northern presence will combine with Netcom, and Jitong to develop a new company called China Netcom Group Corp. This will merge China Telecom's networks in Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Henan and Shandong provinces and in Beijing and Tianjin. The southern firm will retain China Telecom but the two companies would share China Telecom's existing backbone network to carry long distance traffic.

Article 4 and the deregulation of China Telecom are both key for developing a healthy sector. In addition, the government is a signatory to the WTO's Basic Agreement on Telecommunication Services. Market opening measures in BATS include:

- Access to the public telecom transport networks of current suppliers; these are described in the Telecommunications Regulation of the People's Republic of China^{lviii} in Part 2, Articles 17–22 based on transparent and non-discriminatory interconnection rules
- Prices set at cost-oriented rates; Articles 23–30 describe the pricing standards on the basis of cost charged at market rates

4. The end result

While the Chinese government has specifically committed to use market-based rules, it has also created a legal gridlock by over-regulating. Legally, the government has slowed the process for foreign investors to obtain the necessary permits before applying for a business license with their Chinese partner. This process contributes to investor confusion and frustration. These licensing procedures may negate the government's commitments to develop the sector.

VI. Recommendations

As detailed in the Background and Analysis sections, the Chinese government's Internet services development goals are to:

- Broaden the scope of Internet connectivity
- Enhance the quality of Internet services
- Improve connectivity speed through broadband infrastructure
- Increase technological transfers and industrial knowledge
- Increase the profitability of small and medium sized firms
- Maintain national security and social stability
- Increase the growth of state-owned commercial service providers

Provincial and many central government authorities realize that foreign investment is essential to Internet development. However, regulatory risk must be decreased to increase foreign investment and facilitate the Chinese government's Internet services goals. The Chinese government has taken on the responsibility to uphold their WTO commitments. In regards to Internet services, these commitments include increasing government transparency and the rule of law.

Implementing AmCham's reform agenda to current regulatory system of China's Internet industry is a necessary step towards liberalization, transparency and the rule of law.

The following reforms are needed for high regulatory risk to be addressed:

- Administrative reforms
To increase transparency within the Internet regulation drafting processes and combat ambiguity and inconsistency between regulatory objectives and economic goals:
 - Consolidate all Internet regulatory responsibilities to the Ministry of Information Industry
 - Open the drafting process to industry professionals and all affected parties – this transparency mechanism will bring China in accordance with WTO commitments on transparency
 - Establish an appeals process where public opposition to draft laws and regulations are heard
 - Create a superseding body within the State Council, for the Ministry of Information Industry to bring drafted regulations for final approval
 - Open the final approval processes to comments from industry professionals and all affected parties
 - Give advance public notice before a new regulation or law goes into effect or an existing regulation or law is implemented
 - Implement and enforce prompt publication of new regulations

- Legislative reforms
To amend the Telecommunications Regulation of the People's Republic of China and reduce the complexity of licensing procedures for ISPs and ICPs, I recommend that the government:
 - Require each ministry to create clearly defined, national guidelines for licensing approval
 - Consolidate all licensing procedures to the Ministry of Information Industry, thus providing a single body to administer content approval and licensing applications
 - Amend articles 5, 7, 9, and 18 of the Telecommunications Regulation of the People's Republic of China to be consistent with administrative reforms

By consolidating regulatory responsibilities to the MII before taking new regulations to the State Council's Internet regulation bureau¹⁸, inconsistent policies that might detriment either national security or economic development can be avoided. The central government could bring Internet related issues directly to the MII. From there, the MII could contact the necessary ministries and industries for input. The MII would be responsible for bringing the regulation for approval to the State Council's bureau. The MII would also be responsible for implementing such measures, which eliminates the problem of identifying the responsible ministry. It is easier to work with one ministry to regulate the industry. Within the system, no one ministry can develop regulations that do not coordinate with government policies.

¹⁸ Or whatever type of body the government creates

VII. Comprehensive Strategy Paper

The American Chamber of Commerce's goal is to successfully lobby the Chinese government for these recommendations. A detailed lobbying campaign is necessary.

To the Chinese government, AmCham will focus on the benefits of these reforms. Reasoning behind the reforms' implementation includes:

1. Increasing China's economic benefits
2. Increasing the commercialization of the industry for China to reach its modern telecommunications and business goals
3. Providing clarity and transparency in the regulatory process to enhance WTO commitments under the rule of law

These regulatory reforms will enhance China's Internet marketability, thereby increasing investment and domestic industrial development and contributing to China's overall economy. These reforms will reduce the probability of future Internet-related problems, reduce the risk for WTO incompatibility, and will bring China in accordance with their WTO commitments on transparency.

These reforms will be implemented only if members of the Central Committee, NPC Standing Committee and State Council support them. Success depends primarily on the lobbying efforts of provincial governments, domestic industries, US trade associations, and the United States Trade Representative. To collect this support, the following initiatives will be taken:

- Build consensus among the current and the next generation of political leaders who support trade and economic development initiatives
- Provide arguments to persuade leaders who have focused on national security and domestic industry protection issues to accept the reforms
- Develop a legislative strategy to convince the NPC Standing Committee to amend articles 5, 7, 9, and 18 of the Telecommunications Regulation of the People's Republic of China to be consistent with administrative reforms. These reforms can be achieved if widespread government consensus is achieved, and the Ministry of Information Industry willingly accepts the responsibilities.
- Build support for the reforms by orchestrating a coalition between provincial governments, domestic telecom and IT industries, AmCham, and the US Information Technology Office. While the entire coalition will be responsible for lobbying the Central government, AmCham and the USITO will also focus their attention on lobbying for USTR's involvement.

- Develop an international strategy, enabling the USTR to bring these reforms to Doha during the services and e-commerce roundtables
- Develop a media strategy to increase the Chinese population's awareness on the benefits of these reforms regarding the price and quality of services

1. Chinese Political Strategy

1a. Build Consensus Among Members within the Central Committee, NPC Standing Committee and the State Council

The most important step for this strategy is attractive presentation of these proposed reforms to the members of the Central Committee. These members have the ultimate power to reform the sector. The State Council is also crucial since it developed the Telecommunication Regulation of the PRC and resides over the ministries. Each member of the Central Committee and the State Council should be contacted by AmCham and given a white paper explaining the recommendations, their purposes and benefits.

AmCham–China will want as much support as possible from all levels of government. Since, however, government officials from the Central Committee, the NPC Standing Committee, and the State Council have the most influence over the central government and Communist Party's policies, efforts should be made to persuade them individually. AmCham–China should specify issues for lobbying efforts and to build coalitions. More specifically, coalition building should focus on the relationships between¹⁹:

- Individuals whose interests lie in trade and development (build coalition)
 - Jiang Zemin
 - Zhu Rongji
 - Li Ruihuan
 - Li Langqing
 - Wu Bangguo
 - Jia Qinglin
 - Wu Yi
 - Wang Zhongyu

- Individuals whose interests lie in national security (focus on lobbying)
 - Chi Haotian
 - Luo Gan
 - Ismail Amat
 - Li Peng
 - Zhang Wannian

¹⁹ Names in bold represent people who are expected to obtain higher-level government positions.

- Those officials Am Cham has yet to determine their status (focus on gaining additional information, and then lobbying accordingly)
 - **Hu Jintao** – Vice- President
 - Wei Jianxing
 - Ding Guangen
 - Tian Jiyun
 - **Li Changchun**
 - Li Tieying
 - Wu Guanzheng
 - Jiang Chunyun
 - Jia Qinglin
 - Huang Ju
 - **Wen Jiabao**
 - Qian Qichen
 - **Luo Gan**

In addition to those listed in bold, two others are expected to become prominent government leaders in 2003. These are:

- **Zeng Qinghong** – President Jiang Zemin’s protégé, Mr. Zeng is competing with Mr. Hu for the presidency. Currently he holds the title of Chief, Chinese Communist Party Central Committee Organization Department. However, President Jiang has not been able to get Mr. Zeng a seat on the Standing Committee.
- **Jiang Jinheng** – Jiang Zemin’s son is destined to become a member of the Central Committee Politburo and is known to share his father’s interest in economic reforms. He is vice chairman of the Chinese Academy of Science (which owns part of China Netcom) and operates a number of profitable business ventures.

The economic benefits of increasing Internet subscribers will be the focal point for lobbying officials who are undecided and opposed. National security arguments addressed in the policy analysis will be used to persuade military leaders. The ability to preserve state secrets and maintain social stability is most important to them. Talking points and Q&A’s will prepare lobbyists for these arguments.²⁰

1b. The Ministries

As specified in the political analysis, not all ministries will want to surrender their legislative powers. Although the Ministry of Information Industry (MII) will be glad to centralize authority over the Internet, it will not want to give up its own legislative powers. Each of the ministries will have counterarguments to these reforms, and will lobby government authorities against AmCham. As a result, AmCham must try to gain

²⁰ Refer to Appendix 9 for talking points and Q&As

ministerial support. If the ministries are behind the reforms, it will be easier for the State Council to advocate and implement them.

One ministry that favors these reforms is the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). AmCham will use its ties with MOFTEC to promote reforms first to the State Council, followed by the Central Committee and NPC Standing Committee.

Another ministry AmCham believes will embrace reforms is the State Administration of Radio, Film and Television (SARFT). SARFT wants to ensure that MII does not take away SARFT's jurisdiction to provide cable Internet access. Broadband companies can build relationships with SARFT to further the expansion of cable Internet access.

The following arguments are to persuade opposing ministries to promote the reforms.

Ministry of Information Industry

- The MII will be responsible for guiding all regulations
- The MII has the responsibility to license, so the industry will be consistent with national policies
- The MII will not have to worry about enforcing contradictory policies
- The MII will impact the development of a national Internet policy
- Most government officials in the Central Committee support increasing the Internet's influence on the economy

Ministry of Public Security

- Security issues are addressed in the Telecommunications Regulations of the PRC
- Enforcement mechanisms are in place to protect state secrets and security
- No other ministry can produce regulations to contradict state security
- The ministry will maintain its powers to certify hardware, software and data security products, while registering new users and monitoring content
- Most government officials in the Central Committee support increasing the Internet's influence on the economy

Ministry of State Security

- The ministry will maintain its authority to monitor the Internet to uphold the State Security Law of the People's Republic of China (1993) for legal action against and individual whose conduct harms PRC state security
- No other ministry can produce regulations that contradict state security
- Security issues are addressed in the Telecommunications Regulations of the PRC
- Enforcement mechanisms are in place to protect state secrets and security

- It is easier to monitor and control the Internet if powers are consolidated to the MII. One ministry is easier to work with than 48 ministries.
- Most government officials in the Central Committee support increasing the Internet's influence on the economy

State Council Information Office

- The ministry will still regulate content in accordance with the Telecommunications Regulation of the PRC
- The ministry will develop a consistent application for content providers
- The ministry will no longer be bogged down with work associated with granting approval to all new content providers
- No other ministry can produce regulations affecting the ministry's jurisdiction without SCIO's input
- Most government officials in the Central Committee support increasing the Internet's influence on the economy

Ministry of Education

- The ministry will continue to create educational standards for Internet education
- The ministry will be able to develop a consistent application process for all on-line schools, education-related Websites and content, while not bearing the responsibility of granting approval
- No other ministry can develop regulations that contradict the MOE's policies
- Most government officials in the Central Committee support increasing the Internet's influence on the economy

Ministry of Culture

- The ministry will still develop regulations that affect China's culture and the Communist Party
- The MOC can draft regulations and provide input on whether the regulation contradicts Party principles
- Most government officials in the Central Committee support increasing the Internet's influence on the economy
- Monitoring will continue so that the on-line selling of audio-visual products adheres to the ministry's regulations

Ministry of Health

- No other ministry can produce regulations that contradict the MOH's policies
- Most government officials in the Central Committee support increasing the Internet's influence on the economy
- Specific guidelines for content providers will alleviate the burden of inspecting all health-related Web content
- Web content will be monitored to ensure that falsified content is not disseminated

State Drug Administration

- No other ministry can produce regulations that contradict the SDA's policies
- Most government officials in the Central Committee support increasing the Internet's influence on the economy
- Monitors will continue to watch for prescription drug sales
- Specific guidelines for content providers will alleviate the burden of inspecting all drug-related Web content

State Press and Publication Administration

- The ministry will continue to develop Internet regulations
- Original news content can be approved automatically by developing specific guidelines for news to follow
- Monitoring will continue to protect these guidelines
- No other ministry can produce regulations that contradict the SPPA's policies
- Most government officials in the Central Committee support increasing the Internet's influence on the economy

Coalition building among regional leaders is of utmost importance. Cooperation among these leaders would add pressure on the central government to reform.

1c. Regional Government Momentum

Since all regional governments advocate reform, one of the most important steps for reform is the ability of regional governments to persuade the central government. Regional governments should be encouraged to synchronize their efforts.

Foreign investment is now allowed in Beijing, Shanghai and Guangzhou. Government leaders from these three provinces should unite. In particular, Beijing should use the Olympics as a mechanism to push for reform.

AmCham can help this synchronization by providing venues for central and regional governments to meet and discuss the future of the Internet. Since ministerial level officials almost always attend trade shows and seminars, a more exclusive setting must be created for heads-of-state to join the heads-of-regions to discuss the monumental issues of foreign investment and the Internet. This venue will be the starting point for discussion between the two levels of governments.

On a broader scale, each province in China should gather data to exemplify how increasing Internet services will help provinces reach their commercial and economic goals, and how this will affect the entire nation. Understanding that many provinces do not have the means to gather complete data, AmCham should offer to assist them.

Regional government officials can send delegates to the Tenth National People's Congress in 2003. Delegates should be prepared to give the National People's Congress's Standing Committee the aforementioned data before the NPC convenes in March 2003. In the meantime, local governments should bring these reforms to the attention of the Legal Committee, the Finance and Economics Committee, and the Education, Science, Culture and Public Health Committees of the National People's Congress. While the NPC is not in session, these committees study, examine and draw up related motions for NPC members to pass when they are in session.

1d. Coalition Building

To maximize the lobbying process for the Chinese government, a US and Chinese industrial coalition must reduce concerns about protecting the Chinese domestic Internet services industry. The Chinese government has expressed concern over the protection of domestic industries by:

1. Tightly controlling the influx of foreign investment throughout the 1980s and 1990s through government policies to strengthen state-owned telecom companies
2. Capping foreign investment at 50 percent in 2003, as negotiated with the WTO

The government has used these mechanisms to control the economic and commercial influences foreign investors bring to the industry. The Chinese domestic industry has successfully created a national broadband network and a national backbone and international gateway access system to allow domestic companies to retain control over the final connectivity stages. China's state-owned companies are actively seeking foreign investment. These points combat the domestic protection argument.

The economic benefits of increasing investment in the sector will be a focal point in our lobbying efforts. Each Chinese company will be asked to provide more detailed information on how the reforms benefit their company and China's economy as a whole. These domestic industry findings will be added to the existing AmCham economic analysis and will be given to the Chinese government in the form of a white paper.

This coalition would include:

AmCham member stakeholders²¹

Chinese state-owned and private companies:

620 private localized ISPs

China Telecom

China Netcom

China Unicom

Jitong Communications

²¹ Refer to Appendix 3 for complete list.

Internet content providers²²:

Sina.com.cn
Netease.com
Sohu.com
China.com
Gbchinese.yahoo.com
Chinaren.com
8848.com

Chinese IT companies²³:

Legend Computers
AsiaInfo
Hitachi Information Systems Shanghai
Founder Group
Stone Electronics Technology
China Great Wall Computer Shenzhen Co. Ltd.
Chang'an Information Industry
Shanghai Post & Telecommunication Equipment

This coalition will work with AmCham to gather the appropriate economic and commercial data to all levels of the government to effectively lobby for reform. By joining together, these companies create a powerful lobbying voice. Meetings with government officials will be established, while AmCham sends a white paper explaining the benefits of reform to officials in the State Council and Central Committee²⁴.

1d-1 Coalition with USITO

USITO²⁵ was established in late 1994 by a consortium of the American Electronics Association (AEA), Software Publishers Association (SPA), and Telecommunications Industry Association (TIA) with support from the United States Department of Commerce. The Semiconductor Industry Association (SIA) became a USITO consortium member effective January 1, 1998. The AEA is the largest electronics and high technology trade group in the US with over 3,000 members from all segments of industry. The SPA is the principal trade association of the PC software industry, representing more than 1,200 software publishers, developers, and service providers. The TIA is a nation-wide trade association representing the interests of over 600 US telecommunications manufacturers and service suppliers. The SIA represents the interests of the American semiconductor industry at home and abroad.

²² Although all ICPs are not listed, these listed are China's most popular sites.

²³ These are not all the Chinese IT companies but a few that are large and successful in the Chinese market. For a more complete list, see Appendix 4.

²⁴ Refer to Appendix 6 for sample white paper

²⁵ The following information on USITO was taken directly from their Website. For further information please visit <http://www.usito.org>

USITO is sponsored in China by the China Council for the Promotion of International Trade (CCPIT) with the active support of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), and the State Science and Technology Commission. USITO's Beijing office was opened in 1995 by the late US Department of Commerce Secretary Ron Brown under the auspices of the US-China Joint Committee on Commerce and Trade (JCCT) between the US Department of Commerce and MOFTEC. The USITO office was created to represent US information technology industries in China, to support legislation conducive to US export and investment opportunities, and to promote further opening of these markets.

The coalition with USITO will benefit AmCham precisely because of USITO's direct link with the Chinese and US governments and its membership base. Many of USITO's members are also AmCham members. See appendix 5 for a complete list.

2. US Political Strategy

The coalition formed with USITO will help AmCham gain the United States Trade Representative's support to bring these reforms to the attention of the Chinese government during future WTO trade in services negotiations. The goal of these reforms is to increase the rule of law and transparency in China's Internet regulations procedures. The USTR should embrace this opportunity to direct China's future Internet regulations to avoid the possibility of future problems.

AmCham representatives will be sent to the USTR's office during their annual Washington visit to lobby for USTR support. To prepare for the first visit in the summer 2002, AmCham, with the help of USITO, will bring:

- A letter from the Executive Director of AmCham to the USTR describing the current situation and the benefits to US companies from reducing regulatory the risk for China's Internet sector²⁶
- A white paper including statistics and data regarding the commercial benefits for US companies involved in Internet services in China and what the benefits would mean for the IT industry in terms of revenues and exports²⁷
- Although these reports will be given to the USTR, it will be crucial to produce leave-behinds so staff members will be able to quickly look for key figures²⁸

In the meantime, as AmCham visits the USTR, all member companies are encouraged to send representatives from their Washington offices to meet with USTR staff and Ambassador Robert Zoellick.

USITO encourages the Department of Commerce to increase efforts at promoting these reforms. The Department of Commerce wants to increase US IT exports to China and

²⁶ Refer to Appendix 7 for a sample letter

²⁷ Refer to Appendix 8 for USTR White Paper

²⁸ Refer to Appendix 10 for a sample leave-behind

monitor China's WTO commitments, and can generate American support for these reforms.

3. Chinese Legislative Strategy

To reduce the complexity of the licensing procedures, changes must be made to the Telecommunications Regulation of the People's Republic of China. The process for making such changes is unknown at this time since China's government functions are not transparent and future explanatory regulations will not be produced until late 2003.

To make up for the lack of information, AmCham will first focus on building consensus within the Central Committee and the State Council, since they are responsible for developing the regulations. Once consensus is reached, efforts to build consensus within the NPC Standing Committee to amend the law will follow. Lobbying initiatives will focus on:

- How consolidating licensing procedures to the MII will promote more investment
- How that investment will benefit China's economy

The licensing proposal will be carried out through letters to the State Council, followed by meetings with AmCham and USITO representatives. Local government officials are encouraged to participate in the lobbying initiatives.

4. Media Strategy

The media strategy includes creating press releases for Chinese newspapers. The goal of these press releases is to inform the Chinese population, especially businesses, what AmCham is proposing. AmCham believes that this will generate a wider understanding of how the Internet is influencing China economically, and what social benefits could result from reform. Effects of these reforms on Internet connectivity and content services should generate enthusiasm for reforming the administrative structure. Specifically, the general populous will be told how these reforms affect prices and quality of services²⁹.

The following newspapers will be given press releases:

People's Daily
Beijing Youth Daily
Beijing Morning Post
China Business Weekly
Guangzhou Daily
South China Morning Post

²⁹ Refer to Appendix 11 for an example press release

Shanghai Daily

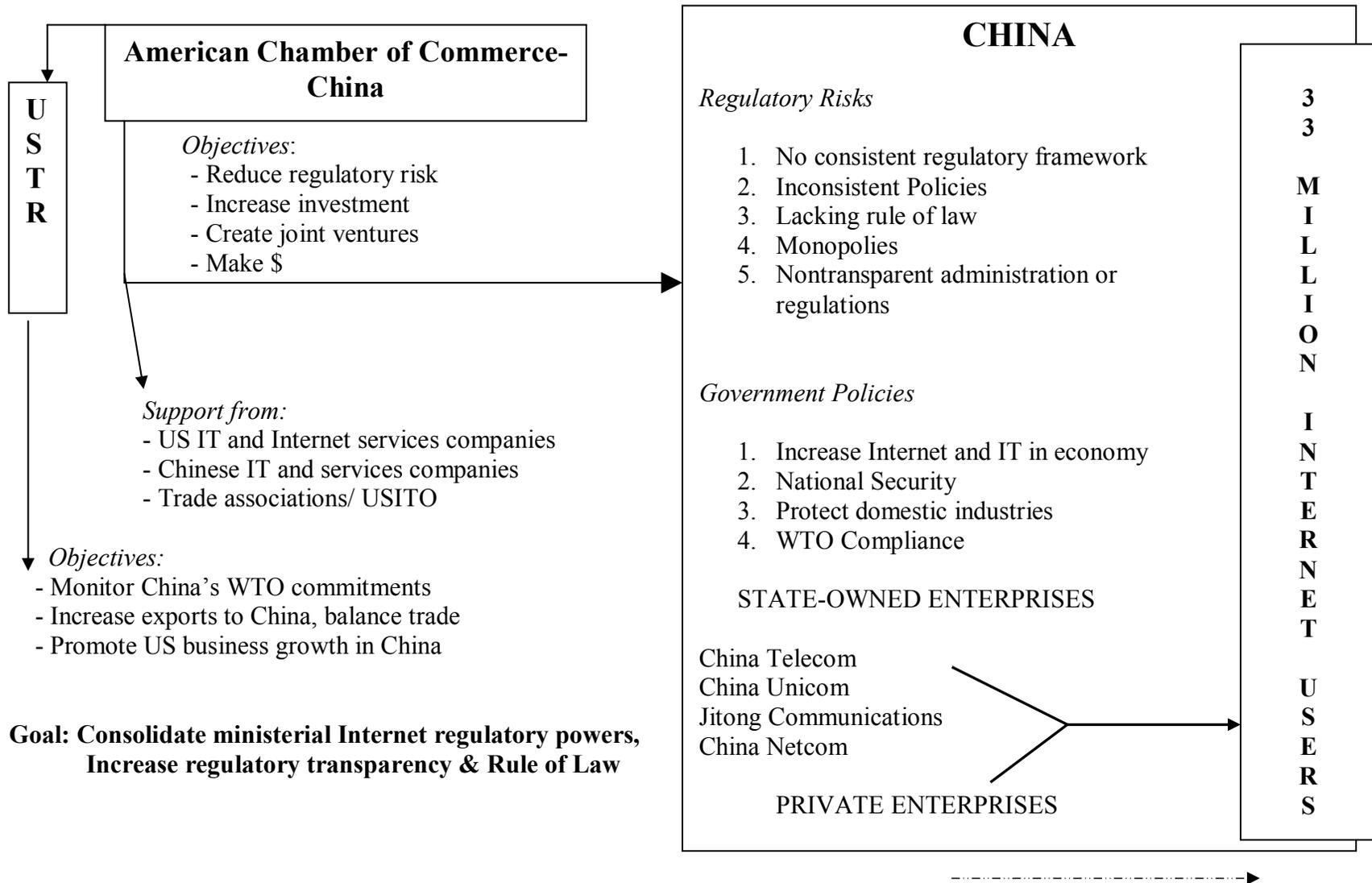
5. Timeline

Refer to Appendix 12.

6. Budget

Refer to Appendix 13.

Appendix 1 – Project Map



Appendix 2 – MII's Thirteen Departments

The MII is composed of thirteen departments. These include:

- General Office – handles daily routines of the ministry, coordinates departmental work, and handles public relations
- Department of Policies, Laws and Regulations – develops comprehensive policies and reform plans; organizes the drafting of laws; supervises the enforcement of laws and other regulations; and handles telecom affairs with Hong Kong, Macao and Taiwan
- Department of Comprehensive Planning – prepares development strategies; coordinates the construction of all telecom networks, and promotes the public network and special network, services and manufacturing industries; manages construction funds within the State budget; directs the import of technology, use of foreign investment, and joint-ventures
- Department of Science and Technology – traces the development trend of international information technology and formulates scientific and technological development plans accordingly; coordinates the formulation of technology system standards for public telecom networks; coordinates the implementation of key scientific research projects
- Department of Economic Reform and Operation – draws up enterprise reform plans, directs the reform, reorganization and management of enterprises; formulates policies to develop large enterprises and directs state-owned enterprises to carry out reorganization and analyzes economic operation; makes forecasts or annual development targets; exercises macroeconomic control of electronic and information products markets
- Telecommunications Regulatory Bureau – produces telecom development plans, policies and measures, supervises telecom and information services according to law; maintains fair competition; examines and approves licenses; allocates and manages telecom network code resources; manages the domains and Web sites of the Internet and related international coordination; codifies interconnection standards of telecom networking equipment and manages the entry of telecom terminal equipment to networks; manages the special government network construction and Internet security supervision and control center; controls urgent telecom for national emergencies; and researches information security problems
- Department of Economic Regulations and Telecom Business Settlement – carries out policies managing the state-owned assets and finance and accounting regulations, draws up telecom finance rules and supervises their implementation; issues subsidies; develops policies formulating services fees; and manages state budgetary funds
- Department of Economic and Information Products Management – formulates long- and middle- term development plans, policies and measures for electronics and information products manufacturing and software industries; organizes and coordinates the development and production of key system equipment, elements and

devices, instruments and materials for state projects; and compiles industry investment guidebooks and directs the promotion and application of electronic and information technologies

- Special Electronic Equipment Bureau – manages the military electronics industry
- Department of Information Promotion – studies and formulates development plans on promoting information economy and society, provides guidance to all regions and industries in the area; assists enterprises in launching key information projects; organizes, coordinates and propels the development of the national software industry; studies and formulates policies and measures concerning the development of information resources, directs and coordinates the development and utilization of information resources and development of information security technology; and propels the spread of education of information technology
- Radio Regulatory Bureau – formulates plans on radio frequency resources and develops and uses frequencies; coordinates satellite orbit positioning
- Department of Foreign Affairs – organizes the participation in international information technology organizations; coordinates the signing of inter-governmental agreements and their implementation, and handles inter-governmental telecom and information businesses; studies policies involving the economic and technical cooperation with foreign nations in information industry; and manages projects abroad
- Department of Personnel – manages staff, training requirements, and wages

Appendix 3 – Affected American Chamber of Commerce – PRC Member Companies

AmCham companies involved in computers, software, information technology, etc.:

Account Mate Software Group – computer software
Adobe Systems Benelux BV, Beijing – software
AIA Everlasting Systems Ltd. – software
Apple Computer International, Ltd. – computer marketing
ARINC – aviation communication
AisaInfo Technologies (China) Inc. – network system integration, software research and development
Autodesk Far East, Ltd. – software
Beijing Omnibyte Computer Co., Ltd. – software
BMC Software, Inc. – software
Computer Associates (China), Inc. – software
Daojing Applied Technology (Tianjin) Co, Ltd. – software
Dell Computer (China) Co., Ltd. – computers
Double Bridge Technologies, Inc. – software, IT
Doubleclick Interactive Online Technology (Beijing) Co., Ltd. – Internet advertising solutions
Elong.com (Beijing), Ltd. – content provider
EMC Corporation, Beijing Rep. Office – computer products sales and maintenance
Global Internet Ventures – investment
Global One – telecom services, equipment, software, IT
GTECH Corporation – supplier of online computerized lottery products and services
Harmonic International, Inc., Beijing Rep. Office – design, manufacturing and marketing of digital and fiber optic systems for delivering video, voice, and data over cable, satellite and wireless networks
IBM – computers
Informix Software, (China) Co., Ltd. – software, IT
Intel China Ltd. – computers
Internet Pictures Corporation (iPIX) – imaging technologies for Internet and others
I.T. Unicorp (ITUC) Information Technology (Beijing) Ltd. – e-commerce, networks
LanBridge Translation System (Beijing) Ltd. – translation software
Lotus Software (China) Co. – software
Marconi Communications – telecom equipment
MCSB Systems (BJ) Limited – IT consultancy and services provider, network systems integration (LAN and WAN)
MCI – telecom services liaison
Microsoft (China) Co., Ltd. – software
Motorola (China) Co., Ltd. – telecom equipment
Motorola (China) Electronics, Ltd. – Tianjin– electronic components
Mountain View Data (Beijing) Inc. – storage solution technology
N.E.T. China, Inc. – telecom equipment, networking products

NCR (China), Ltd. – IT and related services
North Eagle Technology Inc. Beijing Rep. Office – computer system integration, software research and development
Novell, Inc., Beijing Rep. Office – software
Oneworld Software Solutions – software
OpenTV, Inc., Beijing Office – interactive TV solutions, software, IT
PictureTel International Corporation – video conferencing systems
Royal Pacific, Inc. – network communication, business management consultants, training services
Sohu.com – parent co. Internet Technologies China
Sun Microsystems China, Ltd. – computers
Synnex Information Technologies – software and hardware development and manufacturing, network engineering, system integration, technical services, sales
Synopsys Beijing Rep. Office – software and equipment sales
Syntegra (USA) China, Inc. – e-commerce
Terremark Asia – Internet services
3Com Asia, Ltd., Beijing Rep. Office – computer network products, software, other products
TurboLinux (Beijing) Inc. – software
Unisys (China) Co., Ltd. – IT services and e-solutions
VERITAS Software (HK) Ltd., Beijing Rep Office – software
Yahoo! Holding (HK), Ltd. – content

Appendix 4 – Listed Chinese Companies in IT/Telecom Industry

H share companies:

- [China Telecom](#) (HK)
- [Founder Group](#)
- [Legend Holdings Ltd.](#)
- [Stone Electronics Technology](#)

B share companies:

- [Beijing Orient Electronics Group](#) (A share also)
- [Nanjing Putian Telecommunications](#) (A share also)
- [Shanghai Post & Telecommunication Equipment](#) (A share also)
- [Shenzhen Seg](#) (A share also)
- [Yantai Dongfang Electronics Information Industry](#) (A share also)

A share companies:

- [Beijing Bit Co. Ltd.](#)
- [Beijing Tianqiao Beida Jade Bird](#)
- [Chang'an Information Industry](#)
- [China High Tech Group](#)
- [China Kejian Co., Ltd.](#)
- [China Zhenhua Science & Technology](#)
- [CITIC Guoan Information Industry Co., Ltd.](#)
- [Eastern Communications](#)
- [Fujian Start Computer](#)
- [Genius](#)
- [China Great Wall Computer Shenzhen Co. Ltd.](#)
- [Guangxi Strong Co., Ltd.](#)
- [Heilongjiang Clever Networking Co. Ltd.](#)
- [Huayuan Industrial \(Group\) Co., Ltd.](#)
- [Hisense Electric](#)
- [Hunan Computer](#)
- [Hunan Powerise-Wuyiwen](#)
- [Jiangsu Zongyi Shareholding Co. Ltd.](#)
- [Shanghai CITIC-Jiading Industrial](#)
- [Shanghai East China Computer](#)
- [Shanghai Founder Yanzhong Science & Technology](#)
- [Shanghai Guomai Telecommunications](#)
- [Shanghai Tongji Science & Technology Industrial Co., Ltd](#)
- [Shanghai Video & Audio Electronics](#)
- [Shenyang NEU-ALPINE Software](#)
- [Shenyang Northern Business Technology and Equipment](#)
- [Shenzhen Huaqiang Industries](#)
- [Shenzhen Kaifa Technology](#)
- [Shenzhen Sed Industry](#)
- [Shenzhen Tianma Microelectronics Co., Ltd.](#)
- [Shenzhen Zhongxing Telecom](#)
- [Shenzhen Seg Samsung](#)

- [Sichuan Changhong Electric](#)
- [Sichuan Top Changzheng Software](#)
- [Stone Group High-Tech](#)
- [TCL Communications Equipment TCL](#)
- [Tianjin Global Magnetic Card](#)
- [Tsinghua Tongfang](#)
- [Wuhan Zhongnan Commercial Group](#)
- [Xiamen Xiixin Electronics](#)
- [Xiamen Xindeco](#)
- [Xianyang Pianzhuan Co. Ltd.](#)

Appendix 5 – USITO

List of USITO Members:

AcceLight Networks
Agilent Technologies
AMD
AOL
Analog Devices, Inc.
Astrolink
AT&T
Bolero
Borland Software Corporation
Chubb Corporation
Cisco Systems
Condux International Inc.
Corning
Hewlett – Packard
IBM China Company Ltd.
Information Gatekeepers Inc.
Intel China
International Rectifier
Lockheed Martin Commercial Space Systems
LSI Logic
Metromedia China Corporation
Microsoft Co. Ltd.
Millennium 3 Communications
Motorola
National Semiconductor Corporation
Novell Inc, Beijing Office
ON Semiconductor
Oracle
PanAmSat
Perkins Coie
RealNames International
Sohu.com
Storage Technology Corporation
Synopsys
The Hoffman Agency
The UT Starcom (China) Ltd.

Appendix 6 – White Paper to the Chinese government

Executive Summary

The American Chamber of Commerce–PRC celebrated China’s accession to the World Trade Organization in December 2001. AmCham–China was pleased that the Chinese government negotiated foreign investment commitments for the Internet services market. AmCham understands the importance of this market as an engine for the Chinese economy. AmCham has analyzed the Internet services market economically, commercially, politically, and legally to determine reasons for sluggish US investment.

Our analysis reveals that high domestic regulatory risk is the number one deterrent of US investment. The following problems caused this high regulatory risk:

- Complex licensing procedures for Internet content providers, resulting in discretionary interpretations by various ministries
- Nontransparent drafting procedures for all Internet-related regulations. Thirteen ministries are allowed to draft their own regulations without consulting other government entities or affected businesses. The current nontransparent legislative system violates China’s WTO commitments in the Accession Protocol under Transparency, section 1.
- Many Internet regulations are inconsistent with China’s economic goals

Under the current regulatory environment, AmCham believes that the lack of foreign investment in the Internet services sector will undermine China’s efforts to build a modern telecommunications system and undermine the nation’s commercial and economic goals for the Internet and IT sectors.

Modern Telecommunications System

In the current information age, the Internet is critical for communications and is a vital tool for every business’s success. The ability to provide infrastructure and attracts businesses to particular cities and countries. New business and the relocation of businesses to China benefit the entire economy. As productivity increases, money is put back into the hands of consumers. To become a truly global player, China has focused on building its Internet capacity, including its broadband networks and IT industries.

Economic and Commercial Goals

China’s broad economic goals are to:

1. Increase the country’s productivity and exports
2. Increase employment and incomes
3. Use IT services and industries to stimulate the economy
4. Provide quality products and services to benefit consumers

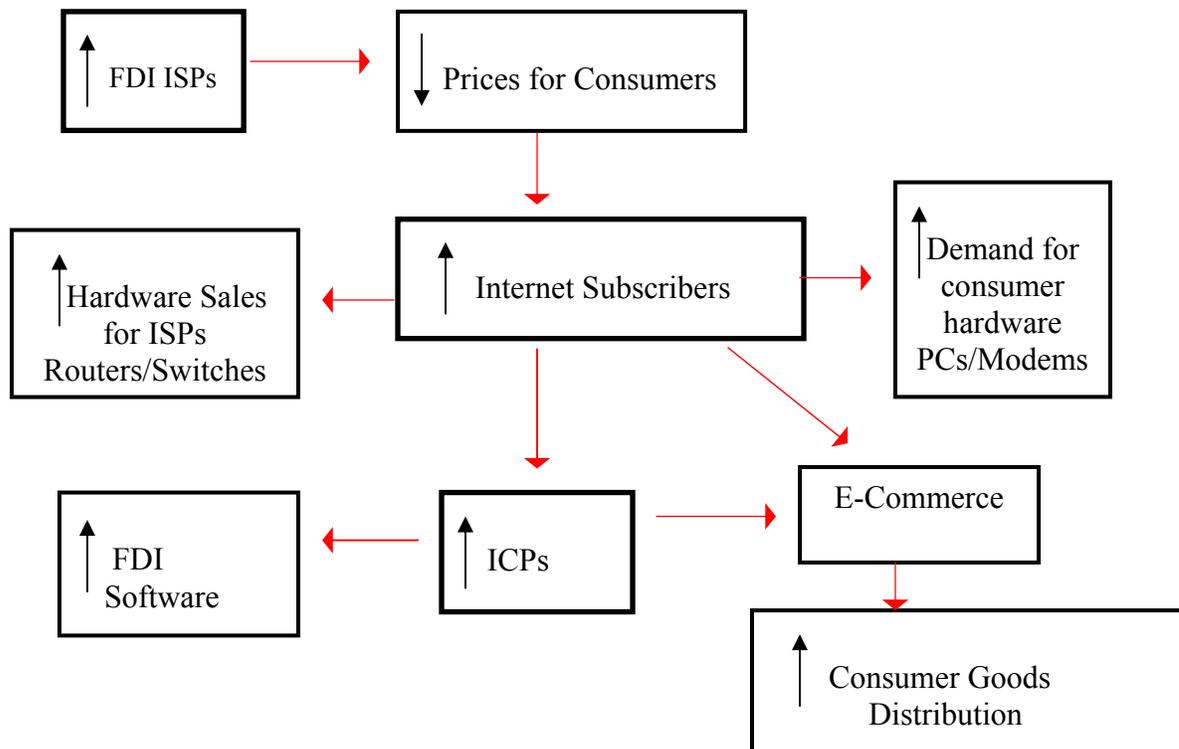
Increasing Internet services are crucial to China’s economy because:

1. A modern Internet services industry is essential to a modern telecommunications system
2. Information and communication are vital to business success
3. Expanding the services industry will produce more jobs
4. Internet services create benefits for supporting supply-chain industries; productivity increases
5. The Internet makes information affordable to distant regions
6. The Internet levels the playing field for smaller firms, which can access inputs and knowledge at a far lower cost
7. Increasing Internet services increases e-commerce, which facilitates greater production of goods and services

Foreign Direct Investment is necessary for increasing Internet services in China and building the Internet economy. FDI is a large and growing source of equity investment that brings with it considerable benefits: technology transfers, management know-how, and export marketing access. All stimulate local productivity through backward linkages to service suppliers and the labor force. FDI in Internet services will increase trade and productivity, increase production, increase wages and incomes, decrease prices and increase consumer welfare.

The Internet is multi-faceted and has created an entirely new type of micro-economy to produce complementary products and services. From software to cable lines, from e-mail to e2e business platforms, the Internet has generated unbelievable amounts of revenue and jobs resulting in higher productivity for countries worldwide. This is why China has been pursuing solid Internet infrastructure foundations.

When the Internet user base increases it creates a chain reaction, benefiting supporting supply-chain industries. The following diagram illustrates this point.



The Internet's micro-economy plays a vital role in a country's macro-economy. The US is an example:

- 149 million Internet users
- ISP market \$63 billion, 2002
- Small businesses estimated to spend \$51 billion in 2002 + \$4.5 billion annually over the next three years
- Jobs in Internet industry – 1.6 million 1998, grew to 2.3 million 1999
- E-commerce services est. \$648 billion in 2003
- E-commerce retail sales \$38.8 billion in 2000 and expected to grow to \$125.6 billion in the next four years

The Internet is playing an increasing role in China's economy. Although China's Internet market can by no means be compared to that of the US, the US example illustrates possibilities that exist when a liberalized sector develops in a competitive environment. China is very unique in that its telecommunications are developing faster than anywhere in the world, the industry has adopted new technologies to leapfrog old ones, and has created unparalleled opportunities for domestic and foreign participants to build China's infohighway.

The conditions for Internet growth in the US can be replicated in China. Reforms will help China develop a truly modern Internet sector, which will contribute to growth in the rest of the economy.

Prices

Although China has 33 million Internet users, only 12 million computer hosts subscribe to services. To attract Internet subscribers prices for Internet access must be reduced. This is possible through economies of scale.

Foreign investment will help the Chinese government develop more networks while increasing the number of Internet subscribers. High fixed costs for ISPs to lease lines result in high consumer prices. An increase in Internet subscribers will lower the per unit costs for each subscriber.

Increasing the supply of leased lines will decrease prices for them and therefore lowering consumer prices. Once these prices go down, the demand for all complementing hardware and software products will increase, as will the demand for IT manufacturing and Internet services personnel.

Wages/Incomes

The average annual income for American workers is \$42,148, and the average IT worker makes \$68,661. This 63 percent increase is a result of high demand in the field. The IT industry worker in China will be in higher demand once the Internet and its application services are more widespread. The average income in urban areas in China is \$840. If the US percentage is applied to the Chinese IT worker, the average IT income would be to \$1,369, which would increase the national wage average.

Trade

Ninety percent of China's exports are manufactured goods. The manufacturing of foreign products in China for re-export accounts for over fifty percent of China's total exports. China remains weak in capital- and technology-intensive industries such as telecommunications, and multinational corporations are likely to become the major driving force of China's external trade as they bring capital and technology to the exporting industries.

IT goods have become a driving force in China's economy. The government has strongly encouraged R&D and technological innovation in its 10th Five-Year Plan. The government hopes for the sector to total seven percent of the country's GDP by 2005.

Over the years China's IT hardware industry has produced considerable output for export as foreign investors have expanded their manufacturing capabilities to China. Great Wall Technology, in a joint venture with IBM, has now become the first Chinese company to manufacture and sell computer hard disk drives for the world market.

The demand for IT goods is increasing worldwide, and with its technological growth China is contributing to the expansion. Total worldwide e-commerce is estimated to grow at a 93 percent rate from 1999 to 2003. Worldwide software and IT services will increase 36 percent to \$1.15 trillion by 2003, with the Asia-Pacific market growing the fastest, consuming \$124.5 billion by 2005.

Productivity

The Internet is a vital tool for corporations because it increases productivity. The Internet decreases communication and information gathering costs, provides a medium for sales via e-commerce, and is a portal for publicity.

Internet services make governments more productive. The Chinese government has already spent million of dollars to bring all government entities on-line. The "Golden projects" allow the government to obtain almost real-time information and enhances communication between agencies and the public.

Production

Hardware production is estimated at around \$15.4 billion, while software production is estimated at \$5 billion. When the number of Internet subscribers increase, the demand for these products also increase.

For example, in the PC market nine million computers were sold in China in 2001, and an estimated 10.8 million will be sold in 2002. By 2003, the country is expected to surpass Japan to become Asia's number one computer market. The market will likely receive more investment, and Chinese computer manufacturers, like Legend with 31 percent of the market share, will increase productivity to keep pace with demand.

E-commerce creates more opportunities for the production of goods and services. E-commerce sales in China are estimated to be worth \$3.8 billion by 2003. Thirty-two

percent of the 33 million Internet users in China shop on-line. As more goods are sold, distribution for the goods increases. Thus, the supply-chain for the Internet evolves around the number of Internet users. Like in the US, most Internet users who shop on-line do so from their home. Hence, the need for retail Internet services to increase the demand for e-commerce.

Consumer Welfare

In addition to decreasing the cost for Internet access, greater competition through foreign investment benefits the consumer by providing more choices. When more service providers exist, consumers can choose the business that best suits their needs. Most Internet users in China complain about slow access and poor quality. In a more competitive environment, consumers will not be forced to accept those conditions. Poor quality providers will have to enhance their services to stay in business.

For most businesses, the quantity and quality of Internet services outweighs the preoccupation with costs. Corporate Internet services have lower price elasticity because the Internet is a vital component to business operations. If service is interrupted the business loses communication and information. Businesses also demand more integrated IT and e-commerce solution services. Working with an internet service that best suits their needs benefits the company's welfare and productivity.

Beijing Olympics 2008

In addition to these economic benefits, foreign investment can help Beijing prepare its "High-tech Olympics". To showcase Beijing as a truly international city, the city needs to promote the development and application of new technologies. This includes one of the most important factors to Olympics success, communications ability. If Beijing does not produce highly efficient Internet and other related services, bottleneck problems will expose Beijing's inabilities to become a modern city. The importance of the Olympics has stimulated opportunities in Beijing for companies' experienced in IT services.

Recommendations

- ▶ Consolidate the drafting of new laws and regulations to the Ministry of Information Industry (MII) to reduce the complexity of licensing procedures for ICPs and ISPs
- ▶ Open the drafting process of new laws and regulations, provide industry and affected parties the opportunity to comment at a meaningful stage prior to promulgation. Establish an appeals process where public opposition to draft laws and regulations can be heard.
- ▶ Create a superseding body within the State Council, where the Ministry of Information Industry brings drafted regulations for final approval
- ▶ Require each ministry to create clearly defined, national guidelines for licensing approval
- ▶ Give adequate advance public notice before a new law goes into effect or an existing law is implemented.
- ▶ Establish a national codification system for all laws and circulars; increase efforts to

publish new circulars for immediate access to the public; post all circulars on a consolidated government website

Conclusion

AmCham hopes that the Chinese government will consider these recommendations for a comprehensible and more transparent telecommunications legal framework that increases competition and improves the investment environment. We believe that these recommendations will help China meet WTO requirements, further implement the rule of law, increase transparency, and gain considerable economic and commercial benefits.

The provincial governments have shown considerable interest in these recommendations. We hope to unite the efforts of the central and provincial governments to reform one of the most valuable sectors in the Chinese economy.

Appendix 7 – Sample Letter to USTR

June 25, 2002

The Honorable Robert Zoellick
United States Trade Representative
Office of the USTR
Winder Building
600 17th Street, N.W.
Room 201
Washington, DC 20506

Dear Ambassador Zoellick:

The Members of the American Chamber of Commerce–People’s Republic of China seek your support on several issues regarding the liberalization of China’s Internet services market.

Ninety-one percent of 160 respondents to a membership questionnaire conducted by AmCham–China in 2000 said they were either cautiously optimistic or optimistic about their business outlook for the next five years; eight percent were neutral, leaving only one percent pessimistic. Tempering this positive outlook is the realization that the structural and process-oriented changes the Chinese institutions must undergo to meet WTO standards will not be easy to implement, despite the government’s strong commitment.

Among the international practices AmCham-China members most wish to see implemented is government transparency. Broadly defined, transparency includes: allowing business and other interested parties to comment on draft laws and regulations before they are finalized; making public all laws and regulations in full detail; and making public the reasoning used in interpreting these laws and regulations.

Also crucial to successful business operations is effective compliance to legal requirements. The myriad levels of government regulations in China, with various agencies having overlapping jurisdictions and inconsistent rules, makes compliance a daunting, time-consuming, and costly task. Across all industries, AmCham-China’s recommendation is to streamline government approval procedures and make regulations consistent at all levels, from top to bottom and across administrative jurisdictions.

China’s Internet Services sector lacks transparency and effective implementation of the rule of law. This has restricted American companies from investing. As a result, China’s future Internet growth will be affected, as well as future US IT exports.

Along with this letter, I am sending the Chamber’s White Paper to familiarize you with our problem. In addition, I hope to see you when AmCham makes its yearly visit to Washington this August. I shall be in touch with your secretary shortly to make the necessary meeting arrangements.

I look forward to meeting with you.

Best Regards,

Mike Furst
Executive Director, American Chamber of Commerce–People’s Republic of China

Appendix 8 – Sample White Paper to USTR

Executive Summary

The American Chamber of Commerce–PRC celebrated China’s accession to the World Trade Organization in December 2001. United States businesses are for the first time allowed to invest in the highly anticipated Internet services sector.³⁰ This sector has enormous market potential:

- 33 million current Internet users
- The largest Internet user base by 2006
- Rate of Internet connectivity has been increasing more than 100 percent a year. The demand for connectivity is extremely high.
- 100 million broadband connections are expected by 2004
- Fastest growing PC market
- Software and hardware markets have been rapidly increasing
- Possible \$1 trillion market

China’s market holds great promise to the US for future IT growth and value-added telecommunications services. American business interests in China’s Internet services sector are well established, and the US continues to advocate all liberalization efforts. American IT firms, including Internet service providers, telecommunications companies, and software and hardware manufacturers have made the Permanent Normal Trade Relations (PNTR) in Congress one of their top priorities. These US companies lobbied Congress to pass PNTR with China because they believed that it was “a solid win for continuing America’s technological leadership and one of the final steps in opening China to trade”. American telecommunication companies saw the passing of PNTR in November 1999 as a great economic achievement for Americans. PNTR enabled these companies to benefit year after year from the US-China WTO Bilateral Trade Agreement, ending the yearly congressional review of China’s trade status.

For telecom companies, numerous domestic barriers have impeded investor confidence. This problem has reduced the imports of US IT goods to China. Modems, computers, hardware, software, switching boards and other access equipment are plentiful in the US and are ready for export.

In light of the current recession, gaining access to China’s market through the trade in goods and investments is critical to the US’s economy.

³⁰ China now allows up to 30 percent foreign investment in Beijing, Shanghai and Guangzhou. By December 2002, foreign investment will increase to 49 percent with an additional fourteen cities added to the geographic scope. By December 2003, foreign investment will be allowed up to 50 percent with no geographic limitations.

Overview of Benefits to US Companies

Many IT products in China are imported from the US. An increase in Internet services will increase American exports—reducing the US’s trade deficit with China.

The following four products are essential components for Internet services. Their trade has increased as the number of Internet users has increased.

<u>Import and Export Volume (2000) US\$</u>				
<u>Products</u>	<u>Total Import</u>	<u>Export Total</u>	<u>Import from US</u>	<u>Export to US</u>
Ethernet	194,202,769	680,664	130,562,248	None
Concentrator	29,002,315	19,305,953	13,147,947	5,450,444
Router	259,305,593	1,215,388	246,984,008	816,090
Modem	58,486,679	103,959,329	10,681,528	13,371,878

<u>Import & Export Volume (2001 Jan. to June) US\$</u>				
<u>Products</u>	<u>Total Import</u>	<u>Export Total</u>	<u>Import from US</u>	<u>Export to US</u>
Ethernet	193,677,142	12,168,516	141,666,695	1,690,209
Concentrator	18,484,845	14,280,807	6,642,873	3,609,366
Router	245,904,918	1,767,146	227,871,514	735,055
Modem	78,356,03	71,522,541	16,877,874	6,668,983

American products account for 70 percent of the total import market for Internet services. The Chinese government is the largest importer of these products but as more private ISPs develop, demand for these products will increase.

The following is a breakdown of the leading market share by company:

Net Card		Concentrator		Network Switching		Router		Modem	
Co.	%	Co.	%	Co.	%	Co.	%	Co.	%
Dlink	26	3Com	29	Cisco	26	Cisco	62	QianXiang	21
3Com	21	Dlink	27	3Com	24	Hua Wei	10	ShiDa	20
TPLink	18	Accton	12	Intel	14	Bay	8	ShenZhou	17
Intel	14	Intel	8	Bay	13	Intel	7	3Com	15
Accton	6	Other	24	Dlink	11	Boda	6	GVC	14
Others	15			Other	12	Others	7	Others	13

Americans accounted for 75 percent of high-end products for China’s market. Cisco accounted for nearly 60 percent of China’s network software. Last year alone, Cisco sold over \$1 billion of networking products.

The US IT industry is particularly excited about the Chinese market, because American IT exports over 55 percent of its output, making it America’s largest exporter. China’s large market holds great promise for future IT growth. The WTO Accession Agreement will help facilitate this growth. By opening monopoly markets to competitors, the

Telecommunications Industry Association has estimated that this agreement will increase the market for telecommunications equipment abroad by \$25 billion per year.

WTO entry is beneficial for China's IT sector because it will:

- Eliminate import duties on high-technology goods by 2005.
- Permit foreign investment in the Chinese Internet sector, and liberalize Internet services at the same rate as telecommunications services.
- Permit provision of telecommunications services via satellite.
- Protect intellectual property rights through adherence to the WTO TRIPS Agreement.

The United States is the largest telecommunications market in the world, accounting for eight of the top twenty telecom operators internationally. China now has the world's second largest telecom network. In China's 2000–2005 economic plan, the telecom sector is targeted for growth at triple the national average rate. With China's annual GDP growth forecast at 6–8 percent, most industry analysts expect even more explosive growth, roughly 30 percent annually, during the period.

Even more significantly, the number of Internet users has been doubling every 4–6 months. Already, the Chinese language is the second most widely used on the Internet. The potential market for US invested IT goods and services is enormous. However, the demand for IT goods will lag unless high regulatory risk is decreased for foreign investment. Without IT services, the rest of the supply-chain will not have the opportunity to benefit from the sector's full capacity.

The Problem

China's Internet services industry is dominated by high regulatory risk, which is impeding the American investor's willingness to invest in the industry. This high regulatory risk is a direct result of the following:

- Complex licensing procedures for Internet content providers, resulting in discretionary interpretations by various ministries
- Nontransparent drafting procedures for all Internet-related regulations, where thirteen ministries are allowed to draft their own regulations without consulting other government entities or affected businesses. The current nontransparent legislative system directly violates China's WTO commitments addressed in the Accession Protocol under Transparency, section 1.
- Internet regulations are often inconsistent with China's economic goals

US investors in China want a more transparent and consistent regulatory framework. This would allow them to achieve predictable results. The following are AmCham-China's specific recommendations to improve the Internet services industry's regulatory risk.

List of Recommendations

- ▶ Consolidate the drafting of new laws and regulations to the Ministry of Information Industry (MII) to reduce the complexity of licensing procedures for ICPs and ISPs
- ▶ Open the drafting process of new laws and regulations, providing industry and affected parties the opportunity to comment at a meaningful stage prior to promulgation. Establish an appeals process where public opposition to draft laws and regulations can be heard.
- ▶ Create a superseding body within the State Council, where the Ministry of Information Industry brings drafted regulations for final approval
- ▶ Require each ministry to create clearly defined, national guidelines for licensing approval
- ▶ Give adequate advance public notice before a new law goes into effect or an existing law is implemented.
- ▶ Establish a national codification system for all laws and circulars; increase efforts to publish new circulars for immediate access to the public; post all circulars on a consolidated government website

USTR's Involvement

AmCham–China appreciates the USTR advocating these recommendations and bringing these reforms to the attention of the Chinese government during future WTO trade in services negotiations. The goal of these reforms is to increase the rule of law and transparency in China's Internet regulations procedures. AmCham believes that multilateral services negotiations will provide an opportunity for the USTR to direct China's future Internet regulations and policies toward a more reliable path.

The American Chamber of Commerce–PRC is seeking the USTR's help to achieve these goals. If US Internet service investors cannot invest in a competitive, pro-business environment, American IT exports will miss their opportunity for future growth, thus hurting America's largest exporters' ability to compete internationally.

Appendix 9 – Talking Points, Q&As

Talking points

□ Commercial highlights for American companies

Market Highlights:

- By 2006, China will likely have the largest Internet user base.
- E-commerce is expected to generate \$3.8 billion in revenue by 2003.
- The rate of Internet connectivity has been increasing more than 100 percent a year. The demand for connectivity is high.
- By 2004, 100 million broadband connections are expected.
- After Japan and the US, China is the world's biggest market for personal computers and continues to be the fastest growing as well.
- Software and hardware markets have been increasing.
- Existing Chinese users complain about quality of services, high prices, and poor content. US companies have the ability to help solve these problems.

US Companies have the experience, expertise and technology to bring about affordable and higher quality Internet services. In addition, greater foreign investment in Internet services will increase the number of subscribers, lowering the per-unit costs to each consumer for leased lines from the state telecom enterprises. A continuous decrease in consumer prices and an attractive investment climate for American companies will result.

US information technology manufacturers will benefit from the growth of Internet services. As the number of subscribers increase, the demand for IT networking goods, related hardware and software will also increase. Currently, the US exports 60% of the goods used for China's networking capabilities.

□ Economic benefits to China

Increasing Internet services are crucial to China's economy because:

1. A modern Internet services industry is a key for modern telecommunications
2. Information and communication are vital to business success
3. Improving the services industry will produce more jobs
4. Internet services benefit supporting supply-chain industries; productivity increases
5. The Internet makes information affordable to distant regions
6. The Internet levels the playing field for smaller firms, which can access inputs and knowledge at a lower cost
7. Increasing Internet services also increases e-commerce, which facilitates greater production of goods and services

Foreign Direct Investment is vital for building the Internet economy in China. FDI is a large and growing source of equity that brings considerable benefits: technology transfers, management know-how, and export marketing access. All stimulate local productivity through backward linkages to service suppliers and the labor force. FDI in Internet services will increase trade and productivity, increase production, increase wages and incomes, decrease prices and increase consumer welfare.

□ **National Security concerns**

The paramount argument against reforming the industry to increase foreign investment is national security. The government may not want to increase Internet connectivity because monitoring content becomes much harder. The more people on-line, the more likely information could slip through the firewall.

These reforms, however, do not threaten national security because the government has a strong two-tier system to control content and enforce violations. This is achieved by 1) allowing the state to control the nation's backbone and international gateways which censor unwanted Websites from entering the country, and 2) the Measures for Managing Internet Information Service, which legally bind ISPs and ICPs to monitor content and Net activity to ensure that national security objectives are not compromised.

Q&As

Q: What are the Chinese government's arguments for upholding their current regulatory system for the Internet services sector?

A: The Chinese government argues that it has developed the current regulatory system to protect national security and domestic industries, i.e., state-owned telecommunications enterprises. Currently four state telecom companies have licenses to provide Internet service. Protecting these state companies only benefits the current monopolistic system, which has caused high consumer prices, and has caused most private ISPs to go bankrupt or become wholesalers for state ISPs.

Q: What has the Chinese government done since WTO accession to enforce the rule of law?

A: As a member of the WTO, China needs to bring its legal system into compliance with WTO commitments. The government intends to complete legislation by late 2003 that would determine the scope of power within each government body. These laws aim to:

1. Define the government's coercive powers and which bodies exercise these powers
2. Define which parts of the government have the right to impose taxes
3. Define which parts of the government have licensing powers and provide clear definitions of those powers

4. Specify how incorporated businesses can issue a complaint against the government

Q: How will the proposed regulations affect China's initiatives to implement the rule of law?

A: China should open its regulation drafting process to interested parties. This is specifically addressed in the Accession Protocol under Transparency, section 1. Understanding how Internet regulations are developed greatly increases the sectors regulatory transparency and is a significant step toward the rule of law.

By incorporating industry professionals' input prior to future regulations, reforms can reduce conflicts between written law and government policy. Discrepancies in enforcement will be reduced since regulations will be valued in the civil society. Internet service companies, in understanding how the regulations were developed, will understand different issues associated with the regulation. Thus, transparency will lead to greater public understanding of the regulations.

Increasing the rule of law (by reducing the ambiguity of laws) can be achieved by making ministries work together to determine the exact meaning and provide definitions for all Internet-related regulations. This will help eliminate inconsistencies between policies since government bodies are affected by each ministry's interpretation of their regulations. If the power to regulate is consolidated to one body, ministries can no longer develop vague regulations that reduce the importance of economic development and trade. Policies drafted with input from many professionals will likely be WTO consistent.

Appendix 10 – Sample Leave-behind for USTR

Recommendations

The USTR should negotiate with the Chinese government to accept the following recommendations:

- Consolidate all ministerial regulatory powers to the Ministry of Information Industry
- Create transparency in the drafting procedures for Internet regulations by opening the drafting process to industry professionals and all affected parties for comments at a meaningful stage prior to promulgation
- Establish an appeals process to hear public opposition to draft laws and regulations
- Establish a body within the State Council to pass all Internet-related regulations
- Reduce the complexity of the licensing procedures for ICPs by amending current articles under the Telecom Regulation of PRC. Create a one-stop shopping system for those seeking approval before applying for the necessary licenses
- Reduce discretionary interpretation from the ministries by creating clearly defined, national guidelines for content and licensing approval
- Give adequate advance public notice before a new regulation or law goes into effect or an existing regulation or law is implemented
- Implement and enforce prompt publication of new regulations

Issue

China's Internet services industry is dominated by high regulatory risk, impeding the American investor's willingness to invest in the industry. This high regulatory risk is a direct result of the following problems:

- Complex licensing procedures for Internet content providers, resulting in discretionary interpretations by various ministries
- Nontransparent drafting procedures for all Internet-related regulations, where thirteen ministries can draft their own regulations without consulting other government entities or affected businesses. The current nontransparent legislative system violates China's WTO commitments specifically addressed in the Accession Protocol under Transparency, section 1.
- Internet regulations are often inconsistent with China's economic goals

Outlook

The WTO services negotiations are the appropriate place to forward new ideas on China's Internet regulations. These proposed reforms aim to increase American investor confidence in this potentially highly profitable market. The USTR, representing a coalition of companies that have invested or anticipate investing in China's Internet services market, wants to ensure that China's new Internet laws will create a competitive business environment.

Appendix 11 – Sample Press Release

Press Release

American Chamber of Commerce – PRC Releases Analysis on
China’s Internet Services Industry
“High Regulatory Risk Inhibiting Foreign Investment”
April 27, 2003

The American Chamber of Commerce–PRC today released their research analysis on the current regulatory environment for Internet services in China.

According to the report, China’s regulatory environment is nontransparent and overly complex, thus inhibiting US investment in Internet services. The lack of competition in the sector is helping to perpetuate high Internet access prices and slow connectivity rates.

Current Problems in China’s Internet Regulatory System

- Complex licensing procedures for Internet content providers result in discretionary interpretations by various ministries
- Nontransparent drafting procedures for Internet-related regulations allow thirteen ministries to draft their own regulations without consulting other government entities or affected businesses. The current nontransparent legislative system violates China’s WTO commitments specifically addressed in the Accession Protocol under Transparency, section 1.
- Internet regulations are often inconsistent with China’s economic goals

Foreign Investment

Foreign Direct Investment is vital for building the Internet economy in China. FDI is a large and growing source of equity and brings considerable benefits: technology transfers, management know-how, and export marketing access. All stimulate local productivity through backward linkages to service suppliers and the labor force. FDI in Internet services will increase trade and productivity, increase production, increase wages and incomes, decrease prices and increase consumer welfare.

The Internet has created an entirely new type of micro-economy to produce complementary products and services. From software to cable lines, from e-mail to e2e business platforms, the Internet has generated jobs and higher productivity for every country around the world. This is precisely why China has been pursuing solid Internet infrastructure foundations.

Prices

Although China has 33 million Internet users, only 12 million computer hosts subscribe to services. To attract Internet subscribers the prices for Internet access must go down. Foreign investment will help the Chinese government develop more networks, and the economies of scale will attract more Internet subscribers.

Once prices are reduced, the demand for all complementing hardware and software products will rise, as will the demand for IT manufacturing and Internet services personnel.

Wages/Incomes

The average annual income for American workers is \$42,148, and the average IT worker makes \$68,661. This 63 percent increase is a result of high demand in the field. In China, the IT industry worker will be in higher demand once the Internet and its application services are more widespread. The average income in urban areas in China is \$840. If the US percentage is applied to the Chinese IT worker, the average IT wage would be \$1,369, which would increase the overall national average.

Trade

Ninety percent of China's exports are manufactured goods. The manufacture of foreign products in China for re-export accounts for over fifty percent of China's total exports. IT goods have become a driving force in China's economy. The government has strongly encouraged R&D and technological innovation in its 10th Five-Year Plan, and plans for the sector to total seven percent of the country's GDP by 2005.

The demand for IT goods is increasing worldwide, and IT growth in China will further this trend. Total worldwide e-commerce is estimated to grow at a 93 percent rate from 1999 to 2003. Worldwide software and IT services will increase 36 percent to \$1.15 trillion by 2003, with the Asia-Pacific market growing the fastest, consuming \$124.5 billion by 2005.

Production

Current production of hardware is estimated at \$15.4 billion, while software production is estimated at \$5 billion. When Internet subscribers increase, the demand for these products will also increase.

E-commerce creates more opportunities for the production of goods and services. E-commerce sales in China are estimated to be worth \$3.8 billion by 2003. Thirty-two percent of the 33 million Internet users in China shop on-line. As more goods are sold, distribution for those goods increases. The supply-chain for the Internet evolves around the number of Internet users. Like in the US, most Internet users who shop on-line in China do so from home. Hence, the need for retail Internet services.

Consumer Welfare

In addition to decreasing the cost for Internet access, increasing competition through foreign investment gives the consumer more choices at cheaper costs. When more service providers exist, consumers can choose the business that best suits their needs. Most Internet users in China complain about slow access and poor quality. In a more competitive environment, consumers will not have to accept those conditions. Competition will force poor quality providers to enhance services to stay competitive.

Appendix 12 – Timeline

The timeframe for this strategy is a maximum of two years, June 2002–June 2004. AmCham believes that this is ample time to lobby for reforms. Within this timeframe WTO scheduling for foreign investment will be completed, granting foreign investors up to fifty percent ownership in a joint venture with no geographic restrictions.

Timeline for the first year³¹:

June 2002

- Hire three employees–lobbyists and coordinators
- Make phone calls and schedule meetings for industry coalitions (USITO)

Summer 2002

- Build coalition with local governments and industry leaders
- Develop materials for lobbyists and leave-behinds for government officials
- Approach Central Committee and State Council members at the annual AmCham appreciation dinner about reforms
- Compile tally sheet from the dinner and make appointments accordingly
- Further develop coalitions
- Collect industry and regional government data
- August–yearly visit to Washington, visit USTR and Department of Commerce

Fall 2002

- Present white papers to Chinese government
- Send in the lobbyists!

January 2003

- Have first heads-of-state, heads-of-provinces Internet gala, develop tally sheets from the success of the dinner/conference
- Continue lobbying processes

Spring 2003

- Continue lobbying efforts
- Send press releases to Chinese newspapers

Summer 2003

- August–yearly visit to Washington, visit USTR and Department of Commerce
- Annual AmCham appreciation dinner–time to build friendships and trust
- Second heads-of-state, heads-of-provinces Internet gala, publicly announce the the government’s position on reforms, or any new policies that have changed the investment climate
- Lobby to the end!

³¹ Contingent on the first year’s success, a second year timeline will be drafted in the summer 2003.

Appendix 13 – Annual Budget

<u>Item</u>	<u>Cost</u>
Headquarter Staff (4)	<u>\$170,000</u>
Equipment/offices	Provided by AmCham
Travel Expenses	<u>\$14,731</u>
Washington–6 flights	\$4,731
Within China	\$4,000
Other travel expenses	\$6,000
Entertainment	<u>\$22,000</u>
1 Heads-of State, Provincial leaders	
Internet Forums and Dinners	\$20,000
Luncheons with USTR and other	\$2,000
US visiting delegates	
Miscellaneous Expenses	<u>\$10,000</u>
Total:	<u>\$216,731</u>

AmCham will be asking member companies for contributions to finance the lobbying campaigns.

Appendix 14 – BATNA Chart

People	Interests	Options	Objective Criteria	BATNA
<p>Central Committee of the Communist Party of China</p> <p>Three most important components:</p> <p>1. President 2. Politburo's Standing Committee 3. Politburo</p>	<ul style="list-style-type: none"> -Carry out Party policies & ideology -Elect the best people for the Politburo & it's Standing Committee -Strengthen government legitimacy -Deregulate central government responsibilities -Reorganize village level party branches -Alleviate poverty -Reorganize State Owned Enterprises for profitability, move to privatize many of them -Strengthen legal control of ethnic and religious affairs -Combat corruption -Increase telecom connectivity around the country -Maintain control over telecom, including Internet & E-commerce -Increase country's economic efficiency & strength -Improve & expand the education system -Become a world superpower -Increase good relations with US & other nations, esp. through WTO -Continue to advance toward rule of law, increase # of law schools, increase # of competent judges & lawyers -Increase trade -Increase citizens' standard of living -Improve air quality, help eliminate other pollution problems -“Greener” movements in cities -Prepare Beijing for 2008 Olympics -Improve national transportation -Develop Western China -Develop tax incentive plans to lure FDI for the West -Increase FDI -Complete Three Gorges Dam 	<ul style="list-style-type: none"> -Change laws to 1. reduce the complexity of the licensing procedures 2. provide clear definitions of 'state secrets' 3. consolidate drafting process of new laws -Do not bother to negotiate at all, claim that AmCham has no jurisdiction in this area -Negotiate with AmCham -Establish meeting to hear AmCham's case -Develop team of experts to explore the possibilities of reforming -Leave the laws alone -Meet with all interested parties -Go to AmCham events to understand their issues 	<ul style="list-style-type: none"> -All data presented by members -How reforms benefit the economy -How reforms jeopardize national security -How reforms will injure domestic industries -How MII will handle responsibilities -How other ministries will handle loss of power 	<ul style="list-style-type: none"> -Status Quo
<p>General Secretary of Central Committee and President of PRC: Jiang Zemin</p>	<ul style="list-style-type: none"> -Nominate the premier of the State Council -Chairman of CPC & PRC Central Military Commission -Regarded as the “core of the leadership of the third generation” -Deputy Director of State Import & Export Administration & State Foreign Investment Administration 1980 	<ul style="list-style-type: none"> -Send govt. officials to meet with AmCham to hear the case -Ignore AmCham -Set up MII to investigate the possibilities of 		<ul style="list-style-type: none"> -Status Quo

<p>Education: Jiatong University, majored in electrical engineering</p>	<ul style="list-style-type: none"> -Implemented State Economic Zones -Mayor of Shanghai -Urban construction, infrastructure development—built subway, Nanpu bridge, water pollution treatment, airport expansion, & program-controlled telephone exchanges -Constantly pursuing the foundations laid by Deng Xiaoping theory of economic reforms -Building a socialist market system with Chinese characteristics -Increasing privatization -Increasing scope of democracy, holding democratic elections, institute democratic management/supervision -Increasing rule of law -Advocate anti-corruption campaigns -Minister of Electronics Industry 1980s -Received “Agricola” medal from UN Food & Agriculture Organization for outstanding contribution to increasing food production & eliminating poverty & hunger -Enjoys Western literature -Classic Chinese literature -Chinese folk music -Western symphonic music, Mozart & Beethoven -Plays erhu, piano & bamboo flute 	<p>such reform -Agree to reform laws</p>		
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<p>Standing Committee of the Political Bureau</p> <p>-Major decision making power of the government</p> <p>-Possesses “boundless” power over general party policies</p>	<ul style="list-style-type: none"> -Carry out Party policies -Increase China’s modernization reforms, especially in agriculture, industry, national defense, science & technology -Select the best people to direct the Party, government, & military 	<ul style="list-style-type: none"> -Send members of the State Council to hear AmCham’s case -Check with State Council ministries about the possibility of the idea -Meet with all interested parties -Go to AmCham events to understand their issues -Leave regulations Designate another body to handle the issue 	<p>-same as above</p>	<p>-Status Quo</p>
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<p>Li Peng</p> <p>Education: Zhangjiakou Vocational School of Industry</p>	<ul style="list-style-type: none"> -Minister of State Commission for Economic Restructuring 1988-1990 -Re-elected member of Standing Committee of the Political Bureau in 1997 -Has paid special attention to economic growth & socialist cultural & ethical progress -Development of education, science, & culture; Particular care for the work of intellectuals -Concerned about the speed and role of foreigners on economic development -Considered to be on the conservative side - Enjoys reading 	<ul style="list-style-type: none"> -become actively involved by trying to stop the process before it starts -lobby against reforms 	<ul style="list-style-type: none"> -Economic data proving that the rate of FDI and telecom growth is efficient to reach policy & economic goals, argument stems toward overheating & developing the industry too fast so that govt. loses control 	<ul style="list-style-type: none"> -Status Quo
<p>Zhu Rongji</p> <p>Education: Qinghua University</p>	<ul style="list-style-type: none"> -Mayor Shanghai 1987-1989 Vice-premier State Council 1991 -Head of State Council Economic & Trade Office 1992 -Premier of State Council since 1998 -Head of State Steering Group of Science, Technology & Education 1998 -Chairman of Committee for Construction of Three Gorges Project 1998 -Economic administrator, concerned with curbing inflation -Reforming state enterprises -Strengthening agriculture as the economic base of the country -Continuing a moderately tight monetary policy -Believes in “strict administration” -Recent delegations to US -Enjoys Peking Opera 	<ul style="list-style-type: none"> -lobby everyone to accept reforms -meet with interested parties -leave the issue alone 		<ul style="list-style-type: none"> -Status Quo
<p>Vice President Hu Jintao</p> <p>Education: Qinghua University</p>	<ul style="list-style-type: none"> -Vice President of PRC -Vice-Chairman CPC Central Military Commission & PRC Central Military Commission -Member of the Secretariat -President of CPC Party School -Secretary Tibet Autonomous Regional Party Committee 1988 -Vice Chairman CPC & PRC Central Military Commissions 1999 -Hydraulic engineering on the Yellow River 1970s -Has lived in remote & poor regions in China which have led to him becoming a staunch supporter of open-door reform policies -Top decision makers on Korea and Japan 	<ul style="list-style-type: none"> -lobby everyone to accept reforms -meet with interested parties -leave the issue alone 		<ul style="list-style-type: none"> -Status Quo

	<ul style="list-style-type: none"> -Does not have a lot of experience dealing with the US -Supports Jiang's efforts to force public security organs to withdraw from business spheres 			
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Li Ruihuan	<ul style="list-style-type: none"> -Enjoys carpentry -Unite all sectors of society -Confer on state affairs -Provide ideas for the top bodies of govt. for reference -Mayor of Tianjin 1982-84 -Improve urban housing & public transport conditions -Chairman of 8th & 9th CPPCC National Committees 1993, 1998 -Delegations to Nepal, India & Pakistan -Honorary Chairman Disabled Persons' Federation 1998 -Receives a lot of support from overseas Chinese in Hong Kong and Macao for economic development -Enjoys Peking Opera -Tennis -Ping Pong 	<ul style="list-style-type: none"> -lobby everyone to accept reforms -meet with interested parties -leave the issue alone 		-Status Quo
Wei Jianxing Education: Dalian Engineering Institute	<ul style="list-style-type: none"> Mayor of Harbin City 1981-1983 -Vice-President All-China Federation of Trade Unions 1983-1984 -Head of Organization Department of CPC Central Committee 1984-1987 -Minister of Supervision 1987-1993 -President of 12th & 13th Executive Committees of All-China Federation of Trade Unions 1993, 1998 -Secretary CPC Beijing municipal Committee 1995-1997 -Member of Political Bureau -Secretary CPC Central Commission for Discipline Inspection 1992, 1997 	<ul style="list-style-type: none"> -lobby everyone to accept reforms -meet with interested parties -leave the issue alone 		-Status Quo

<p>Li Langqing</p> <p>Education: Fudan University</p>	<ul style="list-style-type: none"> -Standing Committee member of Political Bureau since 1992 -Deputy director Economic & Trade Office of State Council 1992 -Vice-premier State Council since 1993 -Deputy Head of State Steering Group of Science, Technology, & Education 1998 -Chief of the Government Loan Office under State Commission on Imports & Exports 1981 -Director of Foreign Investment Administrative Bureau in Ministry of Foreign Trade & Economic Cooperation (MOFTEC) 1982 -Vice Mayor Tianjin 1983 -Vice Minister MOFTEC 1986-1990 -Minister MOFERT 1990-1992 -Director National Committees for Patriotic Public Health Campaign 1998 	<ul style="list-style-type: none"> -lobby everyone to accept reforms -meet with interested parties -leave the issue alone 		<p>-Status Quo</p>
<p>Members of the Politburo</p>	<ul style="list-style-type: none"> -Develop national policies -Select the best people to direct the Party, government, & military -Hold national conferences to help develop national policies -Increase China's modernization reforms, especially in agriculture, industry, national defense, science & technology 			

<p>Ding Guangen</p>	<p>-Head of Publicity Department of CPC Central Committee -Former engineer in the ministry of Railways -Became Minister of Railways 1985 -Assumed responsibilities for cargo freight, passenger transportation, infrastructure construction, car renovation -Director Taiwan Affairs 1988 -Responsible for organizing, directing, managing, coordinating Taiwan-related affairs -Vice minister State Planning Commission 1988 -Head of the United Front Work Department of the CPC Central Committee 1990 -Director of the Central Commission for Guiding the Ethic & Cultural Progress 1997 -Member of Secretariat 1997 -Deputy of 8th National People's Congress</p>			<p>-Status Quo</p>
<p>Tian Jiyun</p> <p>Education: Guizhou Provincial Training Class for Financial Cadres</p>	<p>-Vice-premier of State Council 1983-1993 -Economic reforms -Price and wage reforms -Played an important role in the "tax payment in lieu of profit turnover"- financial management of state enterprises -Enjoys tennis</p>			<p>-Status Quo</p>
<p>Li Changchun</p> <p>Education: Harbin Polytechnical University</p>	<p>-Vice Mayor Shenyang City 1982-1983 -Governor of Henan province 1990-1992 -Chairman Standing Committee 1993-1998 -Member Political Bureau 1997 -Deputy 6th & 9th NPC</p>			<p>-Status Quo</p>
<p>Li Tieying</p>	<p>-President of Chinese Academy of Social Sciences -Minister Electronics Industry 1985 -Minister in Charge of the State Commission for Restructuring the Economy 1987, 1993-1998 -Head of Housing system Reform group of State Council 1991 -Director of the Central Committee for Patriotic Public Health Campaign 1991 -Minister in Charge of the State Education Commission 1988 -Honorary president of Mao Zedong Academy of the Arts 1997</p>			<p>-Status Quo</p>

<p>Wu Bangguo</p> <p>Education: Qinghua University</p>	<ul style="list-style-type: none"> -Standing Committee member of the CPC Shanghai Municipal Committee, party secretary in charge of the municipality's work on science & technology 1983 - Shanghai deputy Party secretary-developed close ties with Jiang Zemin & Zhu Rongji -Succeeded Zhu Rongji as Shanghai's Party Chief 1991 -Political Bureau member 1992 -Political Bureau & member of Secretariat of Central Committee in Beijing 1994 -Vice-Premier of State Council 1995 -Secretary of the Work Committee of Large Enterprises of CPC Central Committee 1999 -In charge of reforming SOEs -Long-time ally of Jiang and Zhu since their days in Shanghai 			<p>-Status Quo</p>
<p>Wu Guanzheng</p> <p>Education: Qinghua University</p>	<ul style="list-style-type: none"> -Secretary CPC Shangdong Provincial Committee -Member of Political Bureau -Mayor Wuhan City 1983-1986 -Governor Jiangxi Province 1993-1995 -Secretary of CPC Jiangxi Provincial Committee 1995-1997 -Standing Committee Member, secretary & president of Party School of CPC Shangdong Provincial Committee 1997 -Member of Political bureau since 1997 -Deputy of 6th & 9th NPC 			<p>-Status Quo</p>
<p>Chi Haotian</p> <p>Education: Anti-Japanese Military and Political College</p>	<ul style="list-style-type: none"> -Member of Political Bureau -Vice Chairman of CPC & PRC Central Military Commission -State Councilor & Minister of National Defense -Deputy director of Chinese PLA Election Committee -Fought Japanese during Liberation War (1946-1949) -Awarded Third-Class People's Hero of East China -Chief of PLA General Staff 1987-1992 -Ranked general 1988 -Enjoys wrestling -Shooting -Horse riding -Swimming -Calligraphy 			<p>-Status Quo</p>

<p>Zhang Wannian</p> <p>Education: Nanjing Military Academy</p>	<ul style="list-style-type: none"> -Vice Chairman CPC & PRC Central Military Commission -Member of Politburo -Member of Secretariat -Director of Chinese PLA Elected Committee -Fought in the Liberation War -Awarded Order of Liberation (class 3) & top merit citation 3 times 			<p>-Status Quo</p>
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<p>Luo Gan</p> <p>Education: Beijing Institute of Iron and Steel Engineering</p>	<ul style="list-style-type: none"> -Member of Politburo -Vice Director Henan Provincial Imports & Exports Commission 1980 -Director of Provincial Science & Technology Commission 1980s -Vice Governor Henan Province & Secretary Henan Provincial Committee of the CPC 1981 -Vice President of All-China Federation of Trade Unions 1983 -Minister of Labor 1988-1993 -Deputy Secretary of the Central Political Science & Law Committee 1993 -Beijing Planning & Construction Committee 1995 -Secretary-general State Council 1988-1998 -President of Chinese Society of Administrative Management 1993-1998 -Director Central Committee for Comprehensive Management of Public Security 1998 -Secretary of Committee of Political Science & Law Under CPC Central Committee 1998 -Director of Secrets Committee of Central Committee 1998 -Leading reformer to reduce size of bureaucrats in government, improve government efficiency -Would like to establish a corps of high-quality experts to guide the development of a modern market economy (technocrat) -In Politburo job includes maintaining rule of law and social stability -Also deals with issues such as corruption, legal enforcement, rural unrest, smuggling, and drug trafficking -Leads the campaign against the Falun Gong 			<p>-Status Quo</p>
<p>Jiang Chunyun</p> <p>Education: No formal college, self-taught</p>	<ul style="list-style-type: none"> -Member of the Politburo -Party Secretary of Jinan City 1984-1987 -Governor Shandong province 1987 -CPC Shandong Provincial Committee 1993-1994 -Part-time professor Shandong University -Deputy 7th & 8th NPC -9th NPC Standing Committee 1998 -Enjoys reading 			<p>-Status Quo</p>
<p>Jia Qinglin</p> <p>Education: Hebei Engineering</p>	<ul style="list-style-type: none"> -Member of Political Bureau of CPC Central Committee -Secretary CPC Beijing Municipal Committee -General Manager China National 			<p>-Status Quo</p>

College	<p>Machinery & Equipment Import & Export Corporation 1978-1983</p> <ul style="list-style-type: none"> -Chairman of board of Overseas Chinese University 1983-1985 -Standing Committee member & head of Organization Department 1985-1996 -Vice Mayor & then Mayor of Beijing 1996 -Director Beijing Greening Committee 1997 -Director of Beijing Planning & Construction Committee 1998 -President of Chinese Association of Mayors 1998 -Deputy to 8th & 9th NPC 			
Qian Qichen	<ul style="list-style-type: none"> -Vice Premier of PRC State Council -Member of Politburo 15th CPC Central Committee -Chairman of Macao SAR Preparatory Committee -Worked in Chinese Embassy in Moscow, Councilor 1972 -Ambassador to Guinea -Has had a close relationship with the press -Vice Minister of Foreign Affairs 1982 -Deputy Secretary Party Committee of Ministry 1982 -Negotiated with the Soviet Union as the Special Envoy of the Chinese govt. over border disputes & diplomatic relations 1982, 1987 -Experienced negotiator -In charge of United Nations affairs since 1988 -Minister of Foreign Affairs 1988-1998 -Secretary of CPC Party Committee of the Ministry 1988-1998 -Chairman Macao SAR Preparatory Committee 1998-1999 -Heavily involved in foreign affairs with the US, Russia, Taiwan, Hong Kong and Macao -Overall career concentration in high policy diplomacy 			-Status Quo
Huang Ju Education: Qinghua University	<ul style="list-style-type: none"> -Member of Standing Committee 1883-1985 -Secretary of Industrial Working Committee & Secretary general of CPC Shanghai Municipal Committee 1983-1985 -Mayor Shanghai 1993-1995 -Deputy to 8th & 9th NPC 			-Status Quo

<p>Wen Jiabao</p>	<ul style="list-style-type: none"> -Expected to succeed Zhu Rongji in 2003 -Director General Office CPC Central Committee since 1986 -Presided over the reformation of banks, stability of security markets, reorganization of the Ministry of Finance -The use of monetary policy to promote reforms and development of SOEs -Supports rationalization of resources, Western development and ecological improvement -Worked in Ministry of Geology & Mineral Resources, head of Policy & Regulations Research Section 1982 -Vice Minister & Deputy Secretary of its Leading Party Members' Group -Director of its Political Department -Secretary of the Work Committee of Departments under CPC Central Committee 1988-1993 -Vice Chairman National Committee on Minerals Resources & Deputy Head of State Leading Group for Science & Technology in 1996 -Secretary of Financial Work Committee of CPC Central Committee 1998 -Director of State Flood Control Headquarters 1998 -Director of national Greening Committee 1998 -Chairman of China Council for International Cooperation on Environment & Development -Head of Leading Group for Aid-the-Poor Development under State Council 			<p>-Status Quo</p>
<p>State Council, Premier: Zhu Rongji</p>	<ul style="list-style-type: none"> -See above -As premier, nominate members for State Council -Send policies to be adopted by NPC 			<p>-Status Quo</p>
<p>State Councilor: Li Lanqing</p>	<ul style="list-style-type: none"> -See above -Max. serving time is 10 years, do not want to be removed by the President 			<p>-Status Quo</p>

Vice-Premier: Qian Qichen	-See above -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council			-Status Quo
Vice-Premier: Wu Bangguo	-See above -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council			-Status Quo
Vice-Premier: Wen Jiabao	-See above -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council			-Status Quo
State Councilor: Chi Haotian	-See above -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council			-Status Quo
State Councilor: Luo Gan	-See above -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council			-Status Quo

<p>State Councilor: Wu Yi</p> <p>Education: Beijing Petroleum College</p>	<ul style="list-style-type: none"> -“China’s Iron Lady” -Close ties to Zhu -Oversaw negotiations with WTO for accession -Increase foreign trade and econ aid to Central and Western China -Expand cooperation with the World Intellectual Property Organization -Promote the growth of high tech exports -Attract foreign investment through policies and laws more favorable to foreign investors -Encourage Chinese firms to invest in overseas assembly plants -Developed 5 trade agreements w/ Russia in 1999 -Background in etrochemical enterprises -Vice mayor Beijing 1988 -Vice-minister Foreign Economic Relations & Trade 1991-1993 -President China Association of Foreign-Funded Enterprises 1992 -Minister Foreign Trade & Economic Cooperation 1993-1998, made deals with the US on copyright protection, trade ad investment agreements -Director Women & Children Work Committee of State Council 1998 -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council -Enjoys reading -Economics -Literature -Politics -Western classical music -Dancing -Tennis -Golf -Angling 			<p>-Status Quo</p>
<p>State Councilor: Ismail Amat</p>	<ul style="list-style-type: none"> -State Councilor since 1993, promoted by Zhu Rongji - Bilateral negotiations and affairs with Uzbekistan, Kyrgyzstan, Kazakhstan -Secretary of the CPC Xinjiang Regional Committee & Chairman Xinjiang Regional People’s Government, 1972-1986 -Supporting China's fight against Muslim separatists -Chairman State Ethnical Affairs Commission & Secretary of the Party 			<p>-Status quo</p>

	<p>Group of the commission 1986-1988</p> <ul style="list-style-type: none"> -Vice-chairman of the National Committee of the Chinese People's Political Consultative Conference & member of the CPPCC Party Group 1988-1993 -Members of 10th-15th CPC Central Committees, 1970-1997 -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council 			
<p>State Councilor</p> <p>Secretary General: Wang Zhongyu</p> <p>Education: Shenyang Light Industry Vocational School</p>	<ul style="list-style-type: none"> -Minister of State Economic & Trade Commission 1993-1998 -In sync with Zhu on all aspects of economic reform -Focus a lot of time on restructuring the debt of SOEs and promoting their reform -Decrease local government bureaucracy -Prepare staff for WTO entry -Promote one child policy -Promote more qualified personnel into public sector -Max. serving time is 10 years, do not want to be removed by the President -Moved to a higher governmental position after serving on State Council -Enjoys Confucian classics -History -Ball games 			-Status quo

<p>State Council Information Office</p>	<ul style="list-style-type: none"> -Tightly regulating the dissemination of news over the Internet -Worked with the MII to develop the Provisional Regulations on Governance of Internet-based News Providers 	<ul style="list-style-type: none"> -Reject idea that the Internet News Providers law be changed to decrease complexity of licensing -Approach State Council with reasons why the law should stay the same or change -Endorse AmCham's ideas by working with MII to adopt new regulation 	<ul style="list-style-type: none"> -Data showing loss of social stability and detriment to CCP 	
<p>Ministry of Information Industry</p> <p>Minister Wu Jichuan</p>	<ul style="list-style-type: none"> -Worked in posts & telecommunications for over 30 years -Expert in the field of telecom transmission -Conservative -Remain Minister & increase power of 	<ul style="list-style-type: none"> -Make it a case that AmCham should not meddle in Chinese govt. affairs -Embrace the 	<ul style="list-style-type: none"> -Provide evidence that proves that current rate of FDI is sufficient 	-Status Quo

Education: Beijing Institute of Posts & Telecom- munications	the industry -Take power away from MOFTEC in investment related areas of industry -Increase connectivity of telecom throughout China -Develop national standards -Revitalize telecom & software industries -Promote IT products & education -Complete all tasks regulated throughout 13 internal offices -Maintain control over the entire industry -Reduce foreign participation	concept that the Internet law making process be confined to MII only before State Council approval -Revoke the idea that industry experts outside the govt. be used as consultants for the draft laws -Consult with State Council to see where the majority of party heads stand on the issue	for policy & economic objectives -Provide data how consolidation will benefit the market	
Bureau for the Protection of State Secrets Director- General: Zheng Xiaoyu Director: Shen Hongyin	-Responsible for the protection of the state secrets related to the govt. & Party -Implement & monitor the Committee for the Protection of State Secrets under the Central Committee -Responsible for classifying secret information according to existing laws -Creating regulations related to state secrets, to uphold the policies of the CCP & govt. -Intervening in major cases involving state secrets -Protecting technological & economic state secrets from leaking to Hong Kong & rest of the world -Control political dissidents from using encoded email to transmit state secrets -Register encryption software for private companies -Try to control spying	-Make argument directly to heads-of-state that definition for state secrets is purposely broad to promote national security -Tell AmCham that this is territory they have no right in addressing -Embrace idea to clarify definition in order to increase investor confidence in public content services market -Approach MII with new draft law	-Provide economic resources that show FDI has not been affected by the broad definition -National security problems	-Status Quo
Ministry of Education Minister: Chen Zhili	-First female education minister -She is very influential in CCP -Introduced a 9-year compulsory education program -Pushed for reform of higher education system -Responsible for drafting education-related policies, laws and regulations for the government -Oversee school establishment, including those over the Internet -Regulate teacher training -Promote the commercialized aspect of scientific research achievements, esp. for new high technology, guiding universities to take on new tech. programs		-Data showing detriment to education, loss of national standards on the Internet, inability to monitor efficiently	-Status Quo
Press and	-Control dissemination of mass media	-Ignore AmCham's	-Data	-Status

Publications Admin. of China	content in accordance to Party policies, ideology	requests -Consult with State Council Information Office over licensing procedures in the Internet News Providers law -Work with SCIO & MII to develop new procedures -Create coalition between two ministries to persuade State Council to accept new regulations	showing an increase in the number of forbidden news, etc. still makes its way to the Web -Detriment to society	Quo
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<p>Ministry of Public Security</p> <p>Minister Jia Chunwang</p>	<ul style="list-style-type: none"> -Minister is also commissioner-general of Chinese People's Armed Police Force -Uphold Party & govt. principals -Control political dissidents, citizen organizations from radical non-party endeavors, ex- Falun Gong -Principal Chinese police authority -Intelligence, police operations, prisons, and political, economic, and communications security -Cyber crime, state security issues -Oversees local-level security bureaus -Prevent crime, administers penalties, controls rallies and demonstrations, fights and prevents fires, control traffic, supervises border defense and internal security, training of police officers & controlling firearms 	<ul style="list-style-type: none"> -Work with Bureau of State Secrets in developing new state secrets definition that will not harm the integrity or national security of China -Ignore AmCham's requests 	<ul style="list-style-type: none"> -Show data proving that current state secrets definition is vital to maintain national security 	<ul style="list-style-type: none"> -Status Quo
<p>Ministry of Science and Technology</p>	<ul style="list-style-type: none"> -Develop policies, guidelines for tech development -Stimulate economy through science & technology -Attain research money -Upgrade the national capacity of innovation -Optimize science & tech resources -Industrialization of high & new technologies -Administer the national high and new technology industry development zones -Promote export of related goods -Manage the programs of scientific and technological aid from foreign governments and international organizations 	<ul style="list-style-type: none"> -Build coalition with other ministries to push for increased FDI to build a bigger IT sector domestically -Encourage MOFTEC to increase FDI & tech transfer for this purpose -Ignore AmCham's request 	<ul style="list-style-type: none"> -Bring economic & commercial data showing how increased FDI in Internet services will benefit the country 	<ul style="list-style-type: none"> -Status Quo
<p>Ministry of Foreign Trade & Economic Cooperation (MOFTEC)</p> <p>Minister Shi Guangsheng since 1998</p>	<ul style="list-style-type: none"> -Boost exports -Capitalize on the Internet -Expand domestic demand and attract more foreign capital -Encourage large and medium-sized enterprises to plow foreign funds into management enhancement and asset rejuvenation, and encourage foreign-funded enterprises to use Chinese equipment and to invest in China's central and western regions -Policy affecting telecom foreign investments, foreign exchange, & export (Must approve all foreign investments, including parts assembly, & tech transfers) -Develops policy on how foreign investments should be materialized & what responsibility each party will have -Produces guidelines for disputes on trade & investments -Customs & inspection -Management of electro-mechanic products -Chinese investment in overseas markets -Technology imports/exports -Maintain current authority & make sure that MII will not gain total control over telecom, E-commerce industry -Follow WTO commitments 	<ul style="list-style-type: none"> -Lobby to show how reforms will benefit trade & economy -Build coalitions w/ advocate officials -Join AmCham coalitions -Lobby USTR 	<ul style="list-style-type: none"> -All data showing benefits of increased trade, etc. 	<ul style="list-style-type: none"> -Status Quo

<p>State Drug Admin.</p> <p>Minister: Zheng Xiaoyu</p>	<ul style="list-style-type: none"> -Establish drug standards and certification schemes -Supervise manufacturing and distribution of medicines -Research on all drugs, from imports to traditional medicine -Very concerned with achieving rule of law and meeting WTO standards -Concerned with intellectual property in pharmaceuticals -Has been focusing on SOE rehabilitation programs, promoting full use of the idle production capacity by allowing certain drug manufacturers to authorize qualified enterprises in other locales to process their products 	<ul style="list-style-type: none"> -Form Coalition with other ministries and state-drug manufacturers -Lobby against reforms 	<ul style="list-style-type: none"> -Data showing how prescription drug trade will increase -Negative effects for domestic industries 	<ul style="list-style-type: none"> -Status Quo
<p>Ministry of Health</p> <p>Minister: Zhang Wenkang</p>	<ul style="list-style-type: none"> -Increase distribution resources of medical care, supplies, etc -Benefit hospitals, providing for national health care systems -Promote community health centers -Disease prevention -Promote traditional Chinese medicine -Regulate Internet content dealing with medical issues -Develop and approve medical related content -Control its segment of Internet jurisdiction -Establish broad national health care goals 	<ul style="list-style-type: none"> -Join anti-reform coalitions -Lobby central government not to reform 	<ul style="list-style-type: none"> -Adverse public health affects if false info is disseminated on the web 	<ul style="list-style-type: none"> -Status Quo

US Stakeholders

<p>American Chamber of Commerce-China (AmCham-China)</p>	<ul style="list-style-type: none"> -Increase membership -Provide a forum for Americans engaged in business in China and to work with Chinese and U.S. government authorities to help foster vibrant and constructive commercial relations between the two countries -Reduction of tariffs for US goods -Improving distribution channels -Strong legal protection -More international accounting standards & business practices -WTO compliance -Transparent & consistent legal framework for foreign investments -Lobby Chinese govt to consider recommendations 	<ul style="list-style-type: none"> -Consolidate power to 2 ministries, MII for telecom aspects and another for media aspects -Meet with all interested parties -Lobby Central Committee, State council, ministries and USTR, according to interests -Build coalition w/ USITO, Chinese industries 	<ul style="list-style-type: none"> -After collecting all domestic industry, local government data stats & US industry stats, can present it to USTR & Chinese gov. -All data regarding the benefits to economy, 	<ul style="list-style-type: none"> -Walk away with at least one concession that increases investor confidence
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	<p>For Internet Services</p> <ul style="list-style-type: none"> -Create an environment which increases & stimulated US investor confidence -Reduce the complexity of the licensing procedures -Provide clear definitions and prompt publication for laws -Reduce discretionary interpretations -Consolidate law-making procedures -Open the drafting process of new laws and regulations, providing industry and affected parties the opportunity to comment at a meaningful stage prior to promulgation -Combat ambiguousness and inconsistency between regulatory objectives and economic goals 		<p>protection of national security and domestic industries</p>	
<p>USTR: Robert Zoellick</p>	<ul style="list-style-type: none"> -Maintain & improve good relations with China -Reduce trade deficit, increase US exports to China -Improve rule of law in China to help solve legal woes for all WTO concessions -Improve US investor confidence in China -Protect US producers' of goods & services interests -Endorse & help establish WTO assistance centers 	<ul style="list-style-type: none"> -Listen to AmCham -Meet w/ Am Cham, USITO and member companies -Lobby Chinese gov. to make reforms at Doha 		

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