# Section 5: Administrative Monopoly

Administrative monopoly is quite another matter. Since the entry threshold of administrative monopoly is not built up by technology or brand, but by license issued by government, under such constraint, a monopolist in the market naturally has no motivation to innovate or establish brand, but only care about engaging in public relations to favor government, more strictly speaking, government officials.

Here, the “Internet Phone Case in Fuzhou” is taken as an example to illustrate that an administrative monopolist is not only lack of motivation to develop new technologies, but also lack of interest in adopting new technologies developed by others.

In March 1997, Chen, a resident in Fuzhou downloaded a software of internet telephone (IP) and connected his computer with the residential telephone through a modem to set up an IP. In September, he used the IP as a promotion for the home appliance store run by his younger brother. Anyone who had bought home appliances in the store could use the IP to talk to their relatives or friends abroad for five minutes free of charge. Some customers asked for longer call time, so his brother applied for a public telephone in October, set up it as an IP, and began to provide long-distance telephone service. On December 23, Fuzhou Telecommunications Bureau reported a case to the police station that Chen brothers was illegal to provide international long-distance telephone service by violating the law that long-distance communication service and international communication service should be only licensed by the relevant administration of central government. The police station then distained the computers and accessories used by the Chen brothers for IP, the business income of RMB50,000, and once restricted their personal freedom for the crime of illegal business operations in the criminal law. The Chen brothers later entrusted a lawyer to bring an administrative lawsuit to the court against the police station, but was rejected in the first instance judgment. The Chen brothers appealed again to the intermediate court and finally got the result of rejecting the first instance judgment on January 20, 1998. It is the sensational “IP Case in Fuzhou” which was regarded as “the No.1 Case of Internet in China” of that time.

However, on the next day after the intermediate court in Fuzhou ruled that “IP is not an exclusive telecommunication service”, the officials from the Telecommunications Administration Bureau of the Ministry of Information Industry urgently declared that “IP does be an exclusive telecommunication service”, and is just “not provided for the time being”.

Private IP business is illegal, because according to the authorization of the State Council of China, only China Telecom and China Unicom could engage in basic telecommunication business, and only China Telecom could engaged in international communication business. At that time, there had been many similar cases in Shanghai and Guangdong, and those involving large amounts of money were sentenced as the crime of illegal business operations in the criminal law. As China does not have a case law system, except for the judicial interpretation of the Supreme Court, the judgment of any local court has no absolute authority, so the judgment of the intermediate court in Fuzhou could not change the situation that China Telecom had monopolized the IP service but did not provide it.

From the above brief introduction of the “IP Case in Fuzhou”, it is easy to find that the Chen brothers were not particularly professional technicians, but even they had no technical difficulty in providing IP business. It means that there was almost no technical barrier for this market. Then how could be the outsiders prevented from entering the market if government had not granted monopoly power to telecom companies?

What is more, how can a telecom company have not the technology that even a civilian personnel like Chen brothers can have? There is a meaningful sentence in the written verdict of the intermediate court in Fuzhou, “IP service will not harm anyone, nor is it a threat to national security, but it is a threat to traditional long-distance telephone service, which is the threat of advanced technology to out-dated technology.” In fact, IP was invented as early as 1995. Why did telecom companies not adopt it? The following data can well explain why: the price of international long-distance call from China to the United States was RMB18.4 per minute at that time, while the highest price of IP by the Chen brothers was just RMB9! The difference between them implies how huge the administrative monopolistic rent of the telecom companies is.

Because the “IP Case in Fuzhou” aroused widespread concern, the telecom companies were under great pressure from the public and finally provided IP service in 1999. It also prompted the Ministry of Information Industry and the supreme court of China to issue the judicial interpretation approving the intermediate court in Fuzhou. It has been the prelude to the dramatic price drop in long-distance telephone, and a milestone event marking a turning point.

In conclusion, an administrative monopolist is unwilling to adopt new technologies with lower costs because he wants to continue to earn high monopolistic rent. Some developed countries conduct cost accounting for public utilities with so-called natural monopoly in order to prevent over-pricing, which will only make the administrative monopolists even less motivated to develop and adopt new technologies to reduce cost that will directly cause price to be reduced.

Therefore, there is no more effective way to intensify competition than abolishing license of entry control which can force the administrative monopolists to try to reduce cost and improve quality. It is administrative monopoly that most needs the antitrust laws to suppress, which has never happened. The antitrust laws are enacted by government, while the administrative monopoly is licensed by government, so how can government suppress itself?

The rent of administrative monopoly comes from entry control of government, not from technological innovation and brand building of producers, which will only make the monopolists lose competitiveness. The competitiveness of a nation is combination of that of all producers in it, so administrative monopoly will eventually damage the nation’s competitiveness. There is no administrative monopoly in the international market that can be licensed by a nation. Competition is still everywhere. A nation can eliminate competition in the domestic market by administrative monopoly, but it cannot do so in the international market. In the end, a nation full of administrative monopoly will become weak in international competition, then how can the producers of it survive in the international market?