

Economics of Information and Communication
Hajime Oniki

**Strategies of Telecom Common Carriers for Globalization:
The Japanese Case**

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Hajime Oniki
Osaka-Gakuin University and Osaka University
oniki@iser.osaka-u.ac.jp
<http://www.crcast.osaka-u.ac.jp/oniki/>

OUTLINE

Japan's International Telecommunication:
1985-1997

Why Japanese Providers ~~Not~~ Possess
Competitive Power?

Japan's International Telecommunication: 1985-1997

The 1985 reform

Impacts

More competition and divestiture of NTT

1997-1998

The 1985 Reform

Telecommunications Business Law of Japan

Carriers: type I and type II

Entry of NCCs (new common carriers)

Five business areas: (1) domestic local, (2) domestic long-distance, (3) international, (4) mobile, and (5) satellite

NTT Law and KDD Law

Privatization of NTT

Special Company



Impacts of 1985 Reform

Price reductions by NTT and KDD

Monopoly price to competitive price

Undercutting cycles (price wars)

Slowdown of price reductions, 1990 to 1994

Rapid increase in the share of NCCs

Figure I-3: International Telephone Calls

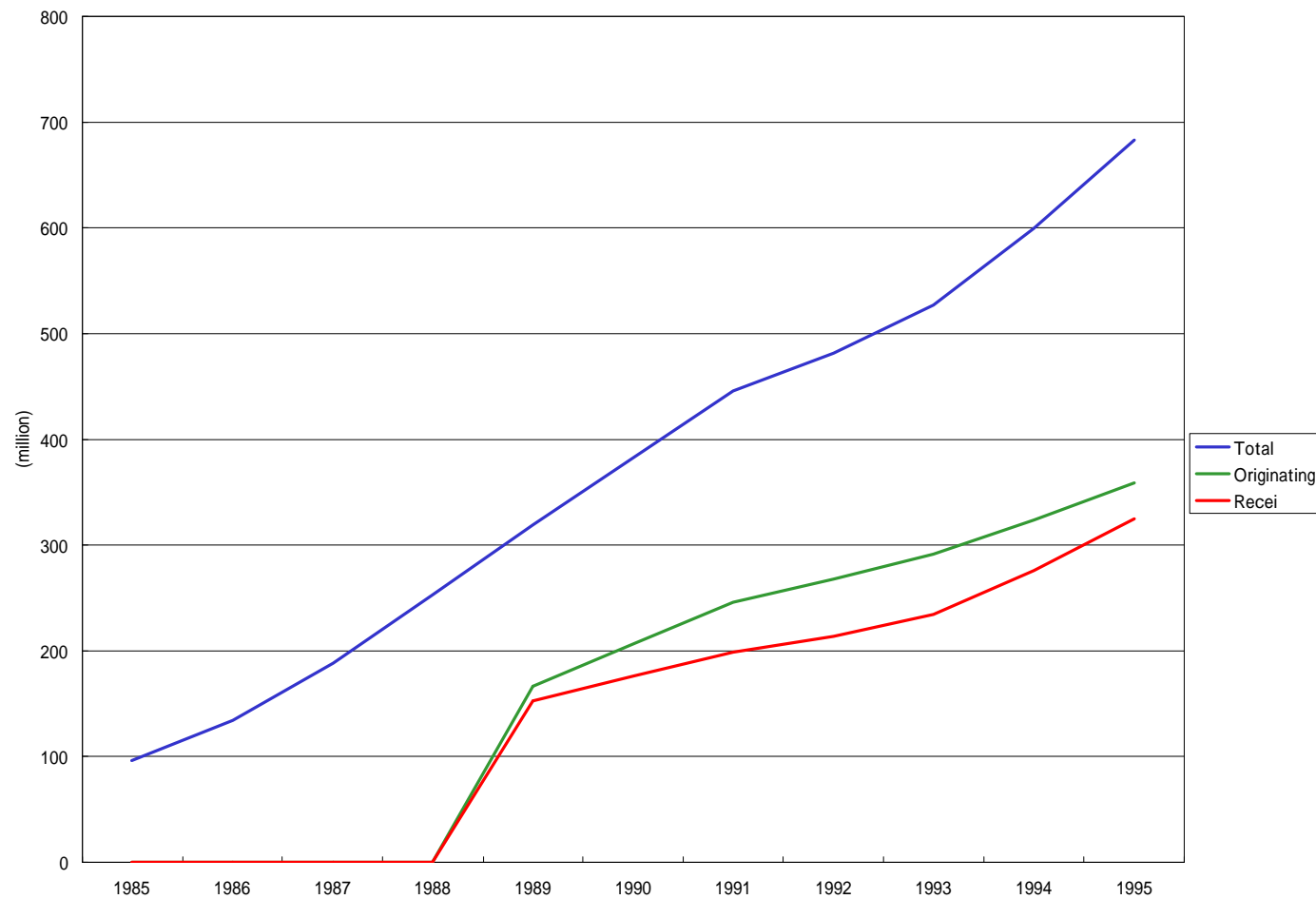
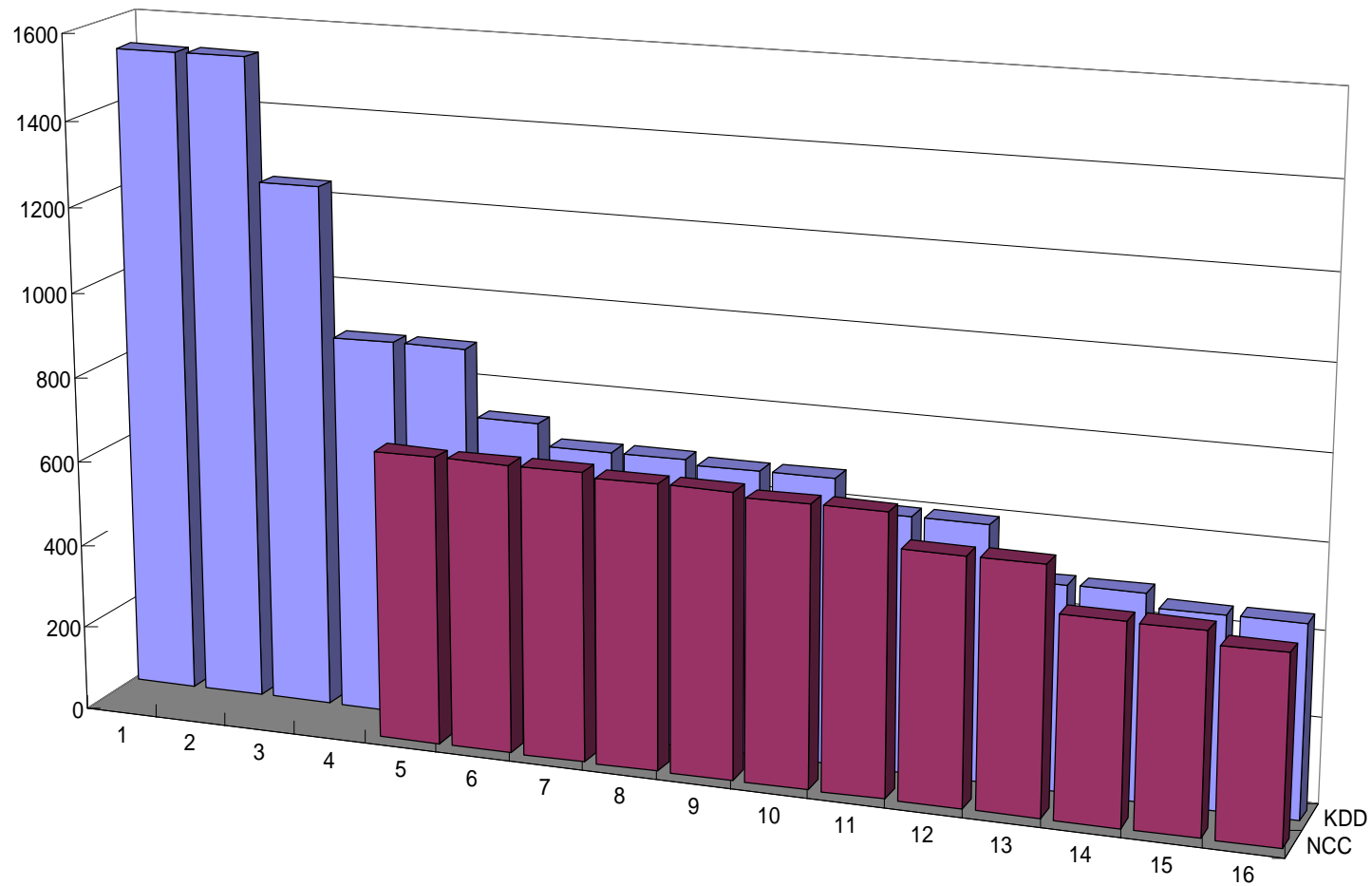
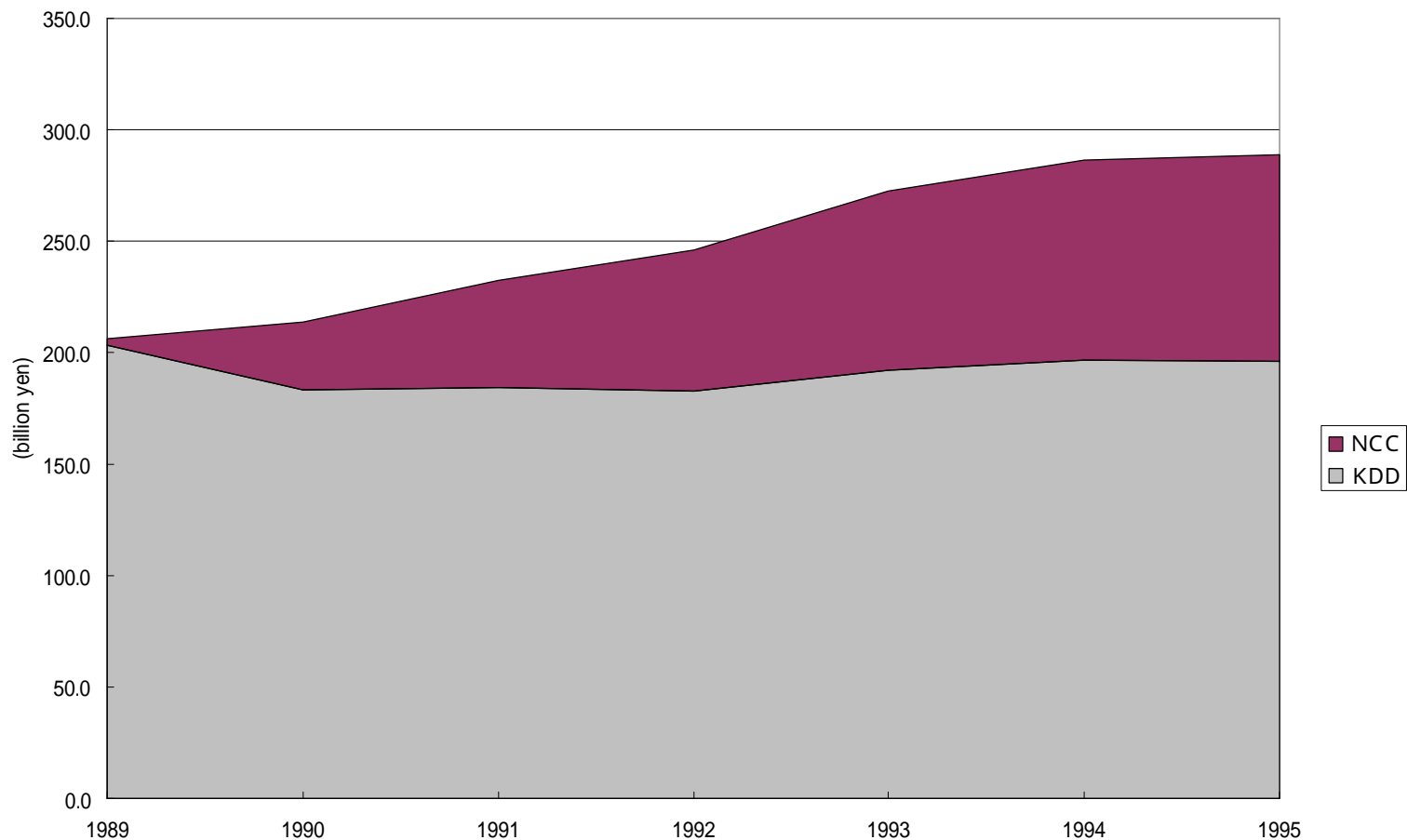


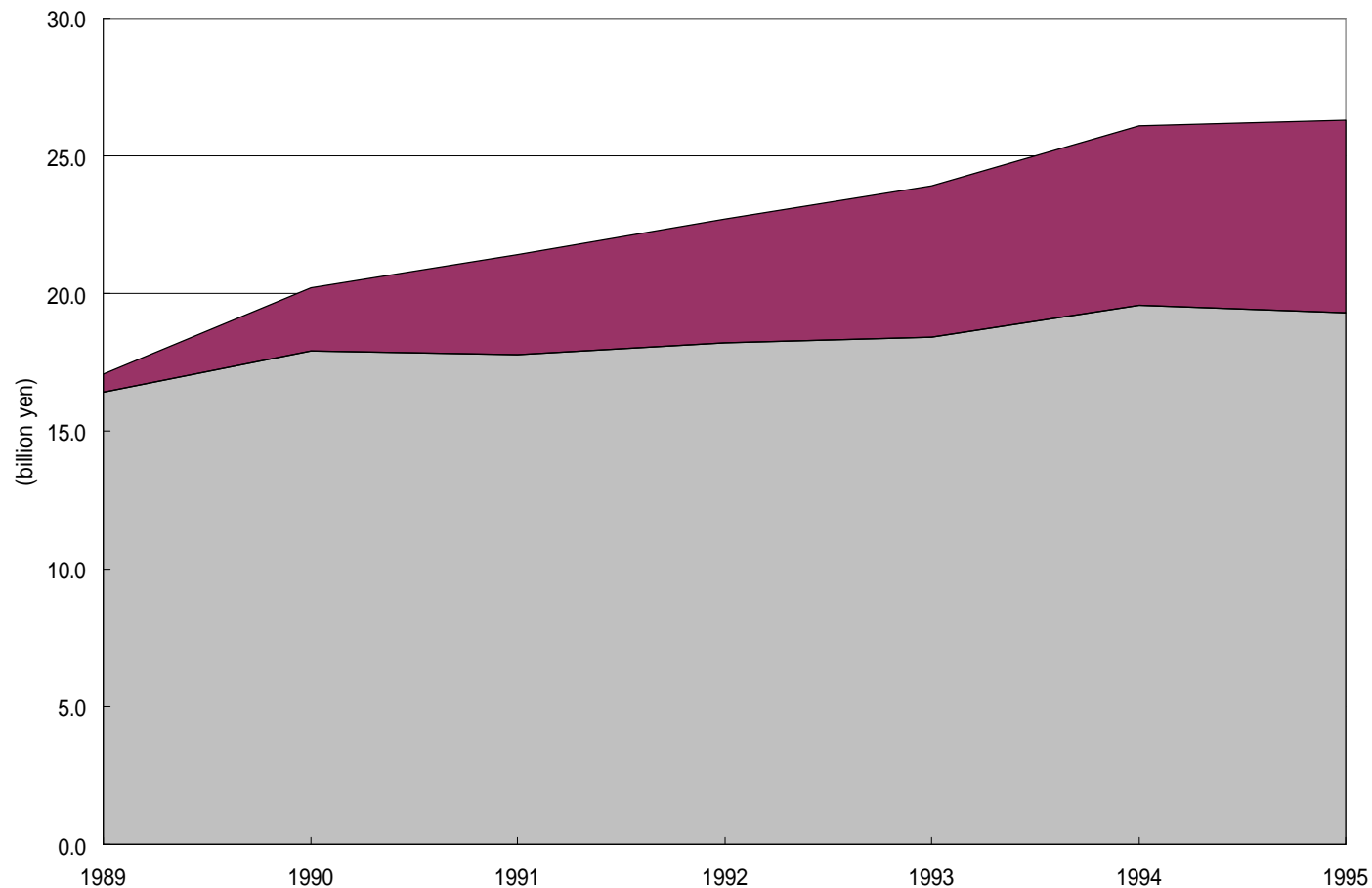
Figure II-3: Example of Price Reductions by KDD and NCC: 1985-1997



**Figure I-4A: Revenues to International Telecommunications Providers of Japan:
Annual Data by Services (Telephone)**



**Figure I-4B: Revenues to International Telecommunications Providers of Japan:
Annual Data by Services (Private Lines)**



Divestiture of NTT

Debate on divestiture, 1994-1997

MPT criticized for excessive regulations

Entrance barriers removed

NTT criticized for monopoly

NTT opened its networks for interconnection

Restructuring of NTT, 1999

NTT Long-Distance, NTT East-Japan, NTT West-Japan, and NTT
Holding Company

No direct regulation on NTT Long-Distance

KDD entering domestic markets



Development 1997-1998

WTO agreement

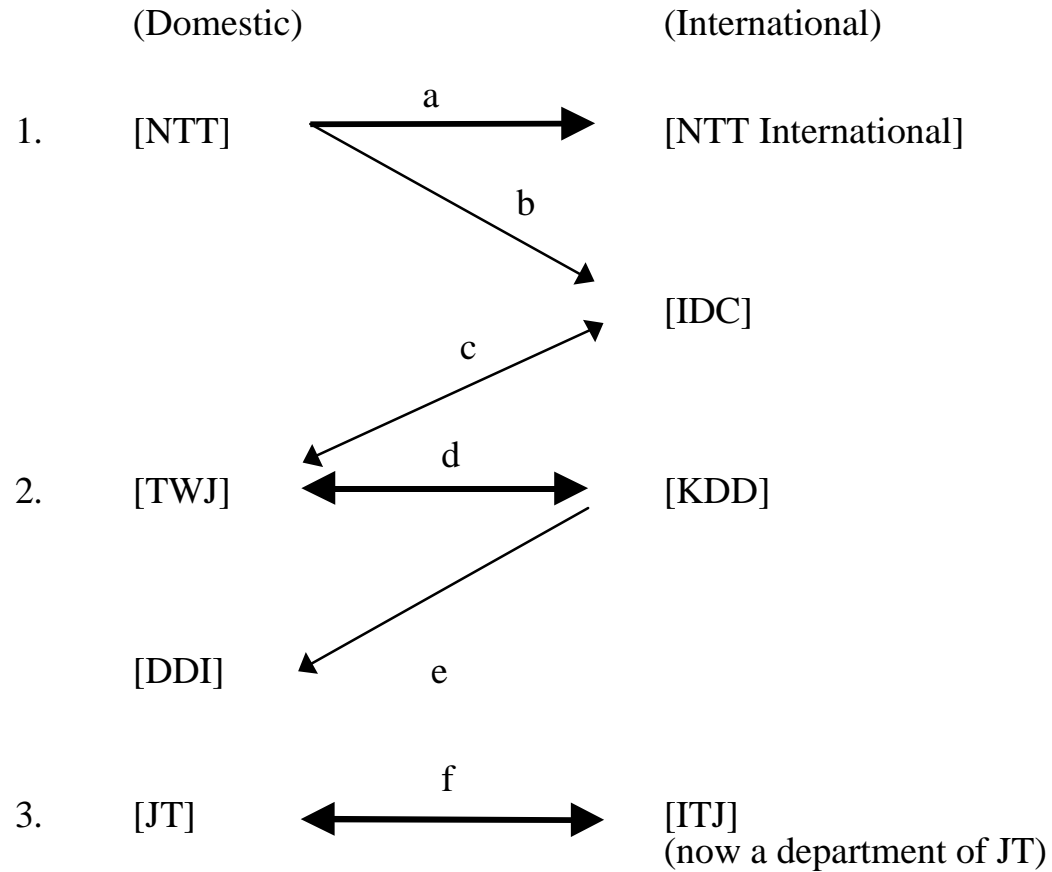
M&A

Rapid increase in ~~call-back~~ services, internet
telephony

International public-private-public line
services



Exhibit 1: Alliances in the Japanese Telecommunication



Why Japanese Providers Not Possess Competitive Power?

MPT's asymmetric regulation and resurgence of NTT's monopoly

Why NTT and KDD ~~slow in~~ globalization?

Absence of comparative advantage with Japan?

MPT's Asymmetric Regulation NTT's Monopoly

Growth of mobile communication

NTT DoCoMo's share exceeded 50% in 1997

Resurgence of old monopoly by NTT (?)

NTT's long-distance department stronger than NCCs

Local and the access markets monopoly power of NTT

MPT's asymmetric regulation

NCC treated favorably

Tradeoffs between evils of monopoly and inefficiency of newcomers



Domestic Telecommunication--Subscriptions

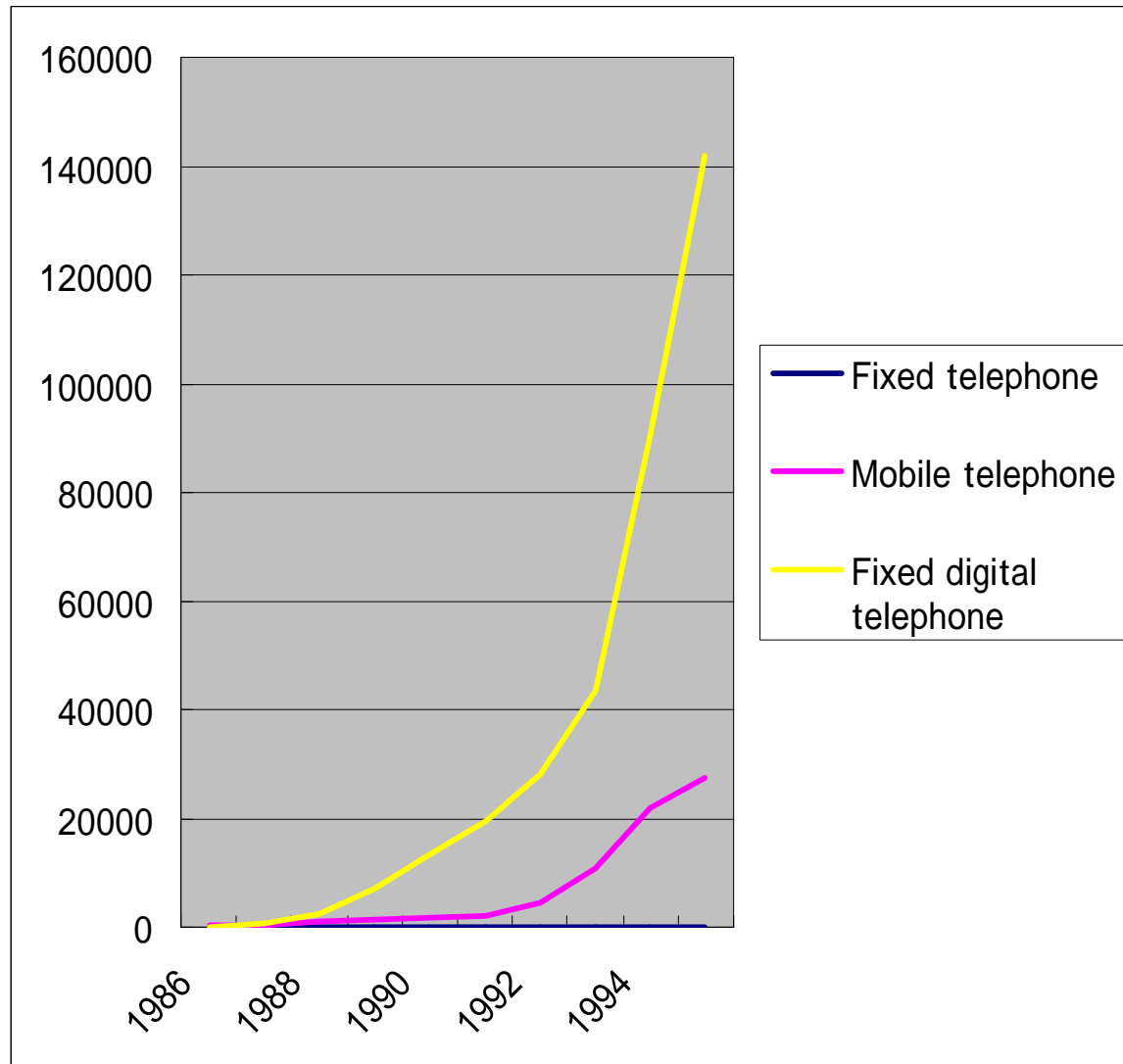


Exhibit 6: The "quantity of laws and rules" concerning the procedure of public hearings and decisions in telecommunication regulations: Japan and U.S.

Japan		"Quantity"	Unit: lines
Telecommunications Business Law		60 (5 Articles: Articles 38, 39, 94-96)	
Rules for the Telecommunications Business Law		50 (3 Rules: Rules 62-64)	
U.S.		"Quantity"	Unit: lines
Communications Act of 1934 (47USC)		600 (7 Articles: 47USC154, 155, 401-405)	
Federal Communications Commission Rules (47CFR)		10,000 (170 Rules: 47CFR § § 1.1-1.615)	

Why NTT and KDD Slow in Globalization?

Globalization unexpectedly slow

NTT completed major investment project,
digitization of switches

NTT established Type II, Type I subsidiaries

KDD's initiatives directed to domestic operations

Absence of Comparative Advantage?

Difference in the *mode of coordination* between Japan and other countries

Distinction of *Deep* and *Wide* coordination

Network-type job _____

Operation of NTT in introducing new services

Delayed timing of introducing new service to ISDN subscribers

Inefficiency in public regulation

MPT closed informationally, deep coordination within itself

Conservative and slow regulation, bringing uncertainty

Laws and the rules for telecommunication in Japan

Conclusions: Japan's Future Telecommunication

Service price continue to be high

Globalization activities will be limited

Investment will be targeted domestically

Mobile, Internet, personal access services

Japan's import of telecommunications services, slow
and gradual

MPT is in transition

A major structural change of Japanese society?

