

Précis

UNDER-REGULATED JAPAN TELECOMMUNICATIONS AND THE NEW ECONOMY

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A lack of independent regulators is among Japan's biggest problems in restructuring its economy. It is at the root of Japan's high prices, arcane business laws, bad loans, and barriers to entry by new firms in many markets. The tradition of trusting the wisdom of bureaucratic administrators in care of industrial policy has limited business development, innovation, and consumer choices. Moreover, Japan's antitrust authority, the Fair Trade Commission (JFTC), has not been allowed to intrude on the territory of the ministries, leaving important economic sectors free of serious scrutiny. An excellent example of Japan's flaccid regulatory system is the "new economy" telecommunications sector.

Japan is the only industrialized country that lacks an independent regulator for telecommunications. Instead, the Ministry of Public Management, Home, Posts and Telecommunications (MPHPT. before January 1, 2001 the Ministry of Posts and Telecommunications, MPT) was an independent agency) carries out both industrial policy and competition regulation. Japan is also unique in that antitrust authorities play only a marginal role in telecommunications. In both the European Union and the United States, antitrust authorities played key roles in opening national telecommunications markets to competition. Although the JFTC, the MPHPT, and the Ministry of Economy, Trade and Industry (METI. before January 1, 2001, Ministry of Trade and Industry, MITI,) have done studies sharply critical of Japan's lax regulation of telecommunications, fundamental change has not happened.

There are several key barriers to competition in Japanese telecommunications:

- Interconnect rates that are four times those of U.S. and Germany
- Regulation that does not emphasize the market dominance of NTT
- Possibility of cross-subsidies between member firms of NTT
- Barriers to access to rights of way for competitors that want to install their own networks
- Problems with unbundling

- Regulatory barriers to leasing lines

The unfortunate result for Japan, as demonstrated by a graph in the *2001 METI White Paper on International Trade* (Summary, English Version, <http://www.meti.go.jp/english/whatsnew/data/gWP2001e.html>, May 18, 2001, attached) is that the cost of telecommunications services, including Internet use, in Japan is three times that of the U.S. and most European countries.

The April 2001 selection of Junichiro Koizumi as prime minister may provide an impetus toward tough regulation of NTT. Koizumi has made economic reform his rallying call and his Administration has made some new moves on telecommunications reform. These are:

- Proposal for telecommunications rule-making by JFTC
- Pressure on NTT to speed up layoffs, shift to more efficient structure.
- Proposal for independent watchdog organization to promote competition in telecommunications
- Plan to increase staff of JFTC by 40 percent over five years
- Minister of Economic and Fiscal Policy Takenaka Heizo has advocated full equity separation of NTT group (though he has backed away from this position)

Taken together, these reforms could produce significant access to NTT's competitors. Reform in the telecommunications sector would suggest that the government is committed to pursuing the economics and politics of the "new economy." Constructive change in this sector is a test of official as well as business resolve to restructure Japan's economy.

Will or can Koizumi really bring meaningful reform to telecommunications? Koizumi has strong political support, but it's not certain it will hold if he really pushes forward with painful reform. A recent *Asahi Shimbun* poll found 84 percent of voters support Koizumi's cabinet, but 68 percent say that the content of the reforms Koizumi intends is "not yet clear." He is right in trying first to strengthen his political allies and damage his detractors. For now, interest in reforming telecommunications within the Diet remains weak. The number of Diet members interested in a stronger JFTC is "one or two." Telecommunications executives say there are no Diet members interested in telecommunications reform, while the telecommunications *zoku* of Diet members with close ties to NTT is one of the most powerful groups within the LDP. Allies are sparse in Japan on this issue.

Policy Implications

Hopes that Japan's emerging new economy will compel substantial economic restructuring may be overdrawn. Beliefs that there is *or* will be a different regulatory/political regime between the new and old economies overlook NTT's ability to block access by competitors to the heart of the information economy. Political reform and changes in the role of consumers must to happen first. Users of telecom services, for now,

lack the political interest and clout to stand up to NTT. Even at the heart of the information/new economy it is too optimistic to expect policy convergence with other modern, advanced industrial economies. Significant reforms will continue their slow pace ensuring that the Japanese telecommunications market remains less than that of the U.S. or Europe.

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