

New Alliances for World Communications: Opening Remark

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The Japanese telecommunications industry is undergoing a metamorphosis from the state of a relatively stable, heavily regulated public utility to that of an ordinary vigorously growing industry with technological progresses and the widening and deepening of the markets combined. Some of the idiosyncracies in the Japanese telecommunications regulation such as the statutory division between domestic vs. international services, long distance vs. local call, wired vs. wireless service, and voice telephony vs. data transmission have been removed, or the possibility of removal is under consideration.

The fair rate or return regulation is giving way to the price cap regulation. The interconnection charges for the essential facilities of NTT will soon be calculated not only on the basis of historical cost but also on what the long run incremental cost model tells us. In my opinion, the basic tenet of the telecommunications business law of 1985 to distinguish the first-category and the second-category carrier will succumb to the advancement of technology, international competition and global standardization before long.

The keywords for the future of the Japanese telecommunications industry will be “convergence” and “concordance”. The digital technology will bring about the convergence of communications and broadcasting. Already CS broadcasting is digital and BS has been decided to follow suit next year. The terrestrial broadcasting will also be converted to digital transmission come year 2003. Soon, TV receptors will become no different from personal computers. Wired network and wireless network will be integrated into a geodesic network of networks. Commercial activities will become inseparable from financial services. Globally allied networks will compete with each other over seamless communications demands in any part of the world.

As there will be heated competition for supremacy and *de facto* standard during the process of technological and service convergence, so will there be international contest for the style of regulation. Legal and business cultures differ among US, Japan and Europe to say nothing of other catching up nations. Nevertheless it will be in the area of telecommunications regulation that we will be observing some solid trend for concordance in the near future.

Change will be inevitable in the United States as well. The telecommunications act of 1996 redefined markets and the obligations of service providers in an effort to align the law to

the new reality of digital technology. However, the moment the law was enacted it was destined to be outdated. Technology evolves minute by minute and information flies at the speed of light. Perhaps the statutory approach itself is becoming outmoded. The future law will not look like a Christmas tree but may look like a granite with some *zen* epitaph inscribed on it. The detail of regulation will be relegated to the common law.

The new alliances are emerging and will cover the globe for the world communications. Interconnection is the heart and soul of networks which grow like a rhizome. But alliance for whom? Market evolved with the advance of technology and the rising living standard, and so did the dominant form and rule of competition. When manufacturers competed with their wares in the market, the battle was fought between commodities each claiming its supremacy in price and quality. The good old chivalry of anti-trust law was becoming for the duel in the market.

In the next stage the weapon became corporate image. Companies would lure consumers with brand images much more than individual product's performance-to-cost ratio. Competition between brand names, however, did not cause great headache for the competition policy. Then came the age of network competition. As in the case of VHS and the beta system in the consumer VCR market, competition was staged between two networks of companies-products-software combination, not between Panasonic and Sony, and much less between this appliance and that. The concept of network externalities became the focal point in the Microsoft vs DOJ and what to do about it.

On the issue of network externalities, economists are divided. Some calls for affirmative action since the survivor in the network competition may not be the fittest. Others claim that free entry will eventually drive out the bad network so that there is no element of market failure despite the pretense of the word suggesting otherwise.

Now the focus is on the global alliance. Will it enhance the consumer surplus and in which country? Who governs the multinational association of companies ? Perhaps the key to the question lies in the degree of competitiveness of the global alliances. There must be competition in every market in every country even though companies are allied worldwide. If concordance went so far that a single global alliance survives to serve the entire world market, a nightmare will be created for consumers everywhere. In the absence of the world government, we do not have a legal instrument to control the global monopoly.

Perhaps we need such instrument. Or, perhaps we do not. That depends on what the global alliance will bring to each and every consumer in the world. That will also depend on the new alliance of governments for world communications.