Deregulation: A Look at Three Industries

By Yoshisuke Iinuma

In Japan today, as in the United States several years ago, deregulation is the hottest topic in industrial policy. The aim of deregulation is to remove or ease regulations binding major industries at all levels, including banking, civil aviation, land transportation, oil refining and urban development, thereby stimulating private sector vitality and generating healthy competition.

Deregulation was first suggested in Japan in a report submitted to the prime minister by the Ad Hoc Committee on Administrative Reform in February 1982. The Ad Hoc Committee had been grappling with the task of scaling down the bureaucracy for years. As one step, it proposed streamlining and trimming the licensing and authorization work undertaken by administrative authorities.

Liberalization of communications

A major step forward in the telecommunications industry came on April 1 this year. Up until then, all domestic telecommunications services were monopolized by the Nippon Telegraph and Telephone Public Corporation (Nippon Denden Kosha, or NTT). Overseas telecommunications services were controlled by Kokusai Denshin Denwa Co., (Kokusai Denden, or KDD). With very few exceptions, such basic services as telephone service and VAN (value-added network), known in the United States as enhanced services, were monopolized by NTT and KDD. The privatization of NTT, carried out as one of the steps in administrative reform, has opened the way for competitors to enter the telecommunications business. While Japan followed the United States and the United Kingdom in privatizing its telecommunications industry and introducing free competition, it has now gone further than the United Kingdom, where competition with BT (British Telecom) is limited to Mercury, Ltd.

There were heated debates on the pros and cons of deregulating telecommunications services. Those opposed to deregulation insisted that services as basic to society as telecommunications should be supplied by the government, and that monopolistic control is necessary to build an ideal telecommunications network and promote basic research and development. The fact that telecommunications services remain under monopolistic government control on the European continent added support to their arguments.

In contrast, the proponents of deregulation pointed out that the telecommunications industry of the future will have to supply not only telephones but also a wide range of other services to meet new and diverse needs. A competitive climate should be created, they argued, in order to bring out innovative ideas, and they showered criticism on the managerial inefficiency of monopolies. In the end, it was decided to opt for the dynamism of private enterprises under free competition.

The new law divides the telecommunications business into two categories: Class 1 carriers which own their own telecommunications circuits and Class 2

NTT headquarters: the privatization of NTT has fueled competition in the telecommunications business.

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carriers which provide telecommunications service over leased circuits. To start a Class 1 telecommunications business, it is necessary to obtain a license from the Ministry of Posts and Telecommunications. For Class 2 telecommunications business, all that is needed is either registration or notification, depending on scale of service to be provided. Numerous companies are moving to enter both these categories.

Five companies have already been licensed to engage in the Class 1 telecommunications business. One plans to lay optical fiber cable under the tracks of the Shinkansen railroad linking major Japanese cities, while another hopes to use expressways for the purpose. A third is planning to construct a microwave trunk line, while the remaining two intend to orbit telecommunications satellites, one in a joint venture with Hughes Communications Corp. and the other in cooperation with Ford Aerospace & Communications Corp. A sixth company with plans to orbit a satellite in partnership with RCA Astro Electronics Communications is waiting for its license to be approved.

Many more companies have entered the Class 2 telecommunications business, and some have already started service. American companies such as AT&T, GTE-Telenet, Timenet, and IBM are among those crowding into Class 2 telecommunications. Japan's telecommunications industry is on the verge of tremendous change, and all thanks to deregulation.

Financial deregulation

Although not as dramatic as in telecommunications, change is also occurring in the finance industry. The severe restrictions which bound this industry for many years are gradually being eased, with impressive results.

The regulations governing finance used to be like an intricate jungle. Establishing a bank or opening a branch was subject to approval by the Ministry of Finance. Interest rates on deposits were controlled to ensure uniformity at all banks. And because Japan adheres to a compartmentalized banking system, trust business was limited to trust banks and bond issue was the exclusive province of long-term credit banks. At the same time, the lines of business which banks and securities companies were allowed to engage in were clearly defined and mutually exclusive.

Today this framework has begun to crumble. Interest rates on deposits exceeding ¥1 billion (about $4.2 million) were freed in October. Liberalization of interest rates will proceed by stages, with interest on deposits of more than ¥100 million ($417,000) being liberalized by the spring of 1987. A schedule for liberalizing interest on small deposits will be drawn up by the spring of 1987.

More than interest rates is being affected. Nine foreign banks (six American, two Swiss and one British) were authorized in June this year to engage in trust business. The walls between banks and securities firms are also being lowered bit by bit. Banks have been authorized to sell government bonds and deal in public bonds, while securities firms can now extend loans with government bonds as collateral.

These moves toward deregulation were triggered by tough negotiations between Japanese and American fiscal authorities in the Yen-Dollar Committee last year. At these negotiations, the U.S. demanded reciprocity in financial businesses, and insisted that rigid controls on Japanese interest rates lay behind a capital drain from Japan which it felt contributed to the dollar's abnormally high exchange rate.

At any rate, competition in Japan's financial industry is sure to intensify, and weak institutions will inevitably be weeded out. The same can be said of the foreign banks which have advanced into the Japanese market.


The winds of deregulation are blowing through the civil aviation industry.

Wide-open skies

The wave of deregulation is even sweeping over the transportation industry, which is regulated in licensing, permits and restrictions on operations.

The most heavily fettered arm of the transportation industry is civil aviation. It is wrapped with detailed regulations on business licensing, aircraft registration, approval of business plans, and authorization of fares and rates. Since 1970, the government has allotted regular international flights and domestic trunk routes to Japan Air Lines (JAL), short-distance international chartered flights and domestic routes to All Nippon Airways (ANA), and local domestic routes to Toa Domestic Airlines (TDA). The goal has been to avert excessive competition among Japanese air carriers.

The government's rigid air route allocation policy, however, has begun to change. In May this year, a new company specializing in cargo flights began operating on Japan-U.S. routes. Minebea Co., a manufacturer of precision bearings, has started irregular cargo flights between Singapore and Japan using its Singapore subsidiary. ANA will soon be able to operate regular short-distance international flights. If the regulations on international flights are eased, it will have ripple effects on domestic routes as well. Domestic air fares have already become flexible as a result of expanded discounts.

The early deregulation of air transport in the U.S. had a big impact on Japan via the Japan-U.S. air transport negotiations. Much the same thing is now happening in maritime transport. As a consequence of deregulation in the U.S., Sealand launched a massive cheap freight rate drive, triggering an age of full-scale competition between the major Japanese and American shipping companies. Now the Japanese government has begun moving to revise its policy of joint operation of vessels by shipping companies which has been in effect since 1964. The aim is to make each company more autonomous and responsible for its own business, another sure sign of the high tide of deregulation in Japan. ●