

Deep but Divisive Integration

The United States and Japanese
Telecommunications Policy in the Internet Age

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[要旨]

米国と日本の通信政策関係の現状について、政策立案者、利害関係者、そして分析者たちはどう考えているのだろうか。今後数年にかけての彼らの優先課題とは何だろうか。深化する国際経済統合に関して特有の、「国境の後ろにある」政治的变化に対処する能力を両国が促進するためには、どのようなステップがとられるべきだろうか。本論文は、このような問題、そしてそれに付随する問題を考察する。GLOCOMの要請を受けて、筆者は、日本の通信環境に関する現在の米国の政策と選好を概観するため、指導的な地位にある専門家の意見を非公式に調査した。広い意味で言えば、この試みから出てきたメッセージとは、両国の貿易関係はいくらか分裂的な方向に進みつつあり、もっと生産的なレベルへ引き上げる現実の機会を両国が逸しているのではないかというものであった。そうした機会をとらえるためには両国がともに変わる必要がある——特に日本では、親競争的な改革をかなり深める必要がある。しかし、もっと多様で、もっと効率的な対話とガバナンスのメカニズムを、力を合わせて作る必要もあるだろう。そうした文脈をセットするために、第一節では、過去10年にわたる米国の対日政策の進化における、鍵となるステップに簡単にハイライトを当てる。第二節では、日本の電気通信に関する米国の指導的な専門家の間で持たれている支配的な見方について報告し、両国間のアジェンダにとって鍵となる短期的な優先課題であると彼らが考えることに関連づける。最後に第三節では、二国間関係のふるまいを改善するための方法として、特定の問題よりもプロセスに焦点を当てて、筆者自身の大枠の提言を示すことにする。

[Abstract]

What are American policy makers, stakeholders, and analysts thinking about the state of U.S.-Japan telecommunications policy relations? What are their top priorities for the years ahead? What steps could be taken to enhance the two countries' ability to manage the unique "behind the borders" political challenges associated with deepening international economic integration? This paper considers these and related questions. At the invitation of Glocom, the author informally surveyed the views of leading experts in order to provide an overview of current U.S. policy and preferences regarding Japan's telecommunications environment. In broad terms, the message that emerges from this exercise is simply that while the trade relationship is moving forward in an incremental and somewhat divisive manner, the two sides may be missing real opportunities to elevate it to a more productive level. Doing so would require changes on both sides---most notably, a significant extension of pro-competitive reforms in Japan. But it would also require a collective effort to institutionalize more diverse and effective mechanisms for dialogue and governance. To set the context, the first section briefly highlights some of the key steps in the evolution of U.S. policy toward Japan over the past decade. The second section reports on the prevailing views among some leading U.S. experts on Japanese telecommunications and then relates what they believe to be the key near-term priorities for the bilateral agenda. Finally, the third section offers the author's own schematic recommendations, focusing more on process than on specific substantive issues, concerning ways to improve the conduct of the bilateral relationship.

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The United States and Japan are close friends and geo-political allies that nevertheless have endured a tumultuous economic relationship for the past fifty years. Japan's rise to global economic power in the 1970s-80s coincided with a period of relative decline for the United States. This unhappy coincidence led to enormous strains and poisonous atmospherics in the bilateral trade relationship, especially in sectors such as automobiles, microelectronics, and consumer electronics. Conversely, in the 1990s, America's resurgence as a global economic power, fueled in particular by globalization and the Internet stage of the information revolution, unfortunately coincided with Japan's "lost decade" of relative economic decline. This time the new strains were in the services sector rather than in manufacturing, and while there was less open rancor the process did test the bonds between the world's two largest economies.

The increasing importance of trade negotiations concerning services industries and the domestic regulatory policies that shape them is both a driver and a consequence of the "deep integration" that increasingly characterizes economic relations among industrialized countries. Deep integration requires close assessments of the details of policies and procedures existing behind borders in order to arrive at mutually acceptable governance arrangements, whether through harmonization, mutual recognition, or some other means. Not surprisingly, this is a process that can generate substantial friction between countries, especially when the trust-building institutions needed to manage relationships are neglected and underdeveloped. Alas, this is the case with the United States and Japan today.

One services sector that has been especially contentious in consequence is telecommunications. Throughout the 1990s, the United States aggressively pressured Japan to open its domestic telecommunications services sector to foreign trade and investment. This pressure met with a mixed progression of responses from the Japanese side that ranged from firm opposition to grudging resistance to accommodative reforms. But then the 21st Century brought a new presidential administration in Washington, D.C., one that initially trumpeted its commitment to humility in international affairs but quickly lurched in an aggressively unilateralist direction. So what does this mean for the current state of play in U.S. policy toward Japanese telecommunications? Moreover, what are American telecommunications experts thinking about the state of the bilateral relationship today and the priorities going forward?

The purpose of this paper is to consider these and related questions. At the invitation of Glacom, the author "made the rounds" in Washington D.C. and interviewed policymakers, industry stakeholders, and expert analysts who follow Japanese telecommunication issues in order to obtain and then convey a sense of their current outlook. The interviews were conducted with assurances of confidentiality, and their results accordingly were at times striking. In addition, this report draws on the relevant scholarly and policy literatures, including documents from both govern-

ments, in order to present a some contextual background on U.S. policy.

In broad terms, the message that emerges from this survey is simply that while the trade relationship is moving forward in an incremental and somewhat divisive manner, the two sides may be missing real opportunities to elevate it to a more productive level. Doing so would require changes on both sides---most notably, a significant deepening of pro-competitive reforms in Japan. But it would also require a collective effort to institutionalize more diverse and effective mechanisms for dialogue and governance.

The paper is organized as follows. To set the context, the first section briefly highlights some of the key steps in the evolution of U.S. policy toward Japan over the past decade. The second section reports on the prevailing views among some leading U.S. experts on Japanese telecommunications and then relates what they believe to be the key near-term priorities for the bilateral agenda. Finally, the third section offers some schematic recommendations, focusing more on process than on specific substantive issues, concerning ways to potentially improve the conduct of the bilateral relationship.

I. Main Trends in U.S. Policy

In the 1980s, the liberalization of international telecommunications markets became a new cause generating significant excitement among policy and industry insiders. There was growing talk about how the world was moving toward a "post-industrial" or information economy in which a dynamic and competitive telecommunications industry would be key to economic growth.

At the same time, the explosion of America's trade deficit with Japan was enflaming passions across the political spectrum and generating unprecedented doubts about the relative merits of the U.S. and Japanese economic models. Hence, the Reagan and first Bush administrations saw prying open Japanese markets as a top priority of their foreign economic policies. Both made Japan trade an internal focal point for the Executive Branch, appointed to key positions people who were making names for themselves by advocating a tough line with Japan, and made trade even more central to summitry and other high-level political contacts. Most of the political heat focused on sectors in which the United States had substantial trade deficits, such as automobiles and consumer electronics.

Telecommunications came to be seen largely in this zero-sum context. The nominal privatization of Nippon Telegraph and Telephone (NTT) early in the decade and slow and uneven reform elsewhere in the industrialized world added to the attrac-

tiveness of pushing the new telecommunications trade agenda with Japan. In the manufacturing sector, ensuring market-oriented standardization and network attachment policies were viewed as key concerns of corporate users seeking to construct private networks. In addition, opening up NTT's procurement of equipment became the focus of a laborious multi-year struggle. Accordingly, from the early 1980s, the United States and Japan negotiated seven successive agreements on NTT procurement practices, the last of which expired in 2001.^{*1} These have had some impact the distribution of market shares in telecommunications equipment, but certainly much less than American manufacturers would like.

In the growing services sector, the liberalization of international value-added networks and private leased circuits were American priorities. Years of protracted consultation on these resulted inter alia in the Japan-U.S. IVANS Arrangements and other accords that opened specialized service markets and increased the flexibility with which corporate customers could employ their private circuits. These activities did not cut deeply to the core of the public switched network and basic services, so accommodations favorable to the influential business constituencies proved possible. Bargaining on these and related points incrementally yielded important gains for U.S.-based firms and the Japanese economy alike. Nevertheless, the net effect was to place telecommunications almost entirely within a heated trade relationship marked by iterative and difficult negotiations over increasingly detailed aspects of Japanese regulatory and industrial structures.^{*2}

In the 1990s, international telecommunications policy greatly expanded in scope and moved much further up the agenda of America's political leaders. Technological change and convergence, the spread of national liberalization and privatization programs, the shift to a trade in services framework under the aegis of the World Trade Organization (WTO), the commercialization and mass popularization of the Internet and the consequent expansion of global electronic commerce---these and a wide variety of related trends thoroughly transformed the policy environment and gave telecommunications and related ICT issues high political and economic visibility.

From its first year in office, the Clinton Administration was centrally involved in these developments. Under the leadership of Vice President Gore in particular, the administration put in place the organizational infrastructure needed to pursue a wide reaching activist agenda. The Administration placed in key posts throughout the Executive Branch a number of energetic, technology-savvy officials; established new coordination mechanisms like the Interagency Task Force on Information Infrastructure; and catalyzed and supported new ways of thinking about the information economy and its proper governance. It also constructed ambitious multi-dimensional policy initiatives on wide variety of fronts, such as reforming U.S. legislation and regulations, promoting telecommunications competition and Internet development abroad,

erecting new rules for electronic commerce, and establishing market-oriented reform agendas in regional and multilateral institutions.

In pursuing these objectives, the administration did not focus solely on promoting liberalization and competition under government oversight. It also sought to devise social policies appropriate to the new digital environment, e.g. with respect to universal service provisioning, consumer protection, and the like. Further, it sought to leverage the new technology's capabilities in order to promote socially-beneficial applications---electronic government, telemedicine, wired schools and libraries, community networks and tele-centers, and on and on. The Republican-controlled Congress' budgetary constraints, ideological opposition, and close relationships with industry and other factions opposed to the administration's policies served as a constant limitation on what the staff could achieve, but they still managed to do quite a bit. In these and other respects, the Clinton Administration's approach to telecommunications and information policy was by any measure unprecedented and highly innovative.^{*3}

While the bulk of this effort focused on domestic activities, there were some notable international initiatives as well. The Clinton Administration sought in various bilateral and international contexts to develop collaborative efforts in order to creatively deploy technology in pursuit of global social objectives. To these ends, it cultivated new kinds of partnerships with the private sector, which, flush with cash from the Internet boom, launched a number of innovative initiatives of its own, e.g., to help lessen the global digital divide.^{*4}

Here and elsewhere, the administration recognized that collaboration with Japan was important and would increase the chances of success. Accordingly, the United States built into its ICT relationship with Japan some efforts to launch application pilot projects, support the development of the Digital Opportunity Task Force (DOT Force), and so on. Alas, budgetary and institutional constraints coupled with sub-optimal collaborative dynamics to lead to mixed results and diminished enthusiasm, but that global digital divide initiatives and related programs were even pursued was a very interesting development.

With regard to U.S.-Japan trade issues, the Clinton Administration came to power indicating that it was no less committed than its predecessors to doggedly negotiating better access to the Japanese market. Indeed, some of the leading lights of Clinton's economic and trade teams were notable critics of Japanese policies and business practices. In addition, some were also proponents of new and more activist approaches to foreign economic policy, such as strategic trade theory and "national competitiveness."^{*5} The collision of these perspectives and American resolve with Japanese resistance to politically painful forms of market opening resulted in some difficult negotiations, such as the 1993-95 Framework Talks, that strained the relationship.

However, conditions began to change significantly early in President Clinton's second term in office. Japan's prolonged economic crisis and its government's ineffective responses; the growing salience of the U.S.-Japan security relationship; America's technology-enabled economic boom; the globalization and decreasing political salience of industries like automobiles; the increasing attractiveness of focusing on other international economic relationships, e.g. with China---these and other factors led to a reconsideration of the merits of maintaining a hard line with Japan on trade issues.

In consequence, the administration shifted from a politicized and aggressive approach to a more bureaucratic model of interaction. To be sure, the government continued to defend the interests of U.S.-based companies that had complaints about the Japanese market and to propose very detailed reforms in numerous sectors. But it sought to lower tensions by relying more on routine staff-level interactions than political posturing, and it framed the issues differently by emphasizing that reform would be especially beneficial to Japan's businesses, consumers, and---by extension--- society as a whole. In addition, to detract from any narrowly nationalistic reactions, it tried to be seen as being less as an outside instigator and more as a cheerleader for change, i.e. by supporting the views of domestic Japanese reformers in government, business, and civil society. *⁶

What did all this mean for bilateral telecommunications policy? The Clinton Administration regarded information economy-related issues as central both to the prospects for prosperity and social change within the two countries and to the relationship between them. In this context, U.S.-based firms were doing rather well in information technology hardware and software markets, and telecommunications equipment manufacturers were at least getting a piece of Japanese procurement.

What needed much greater attention than ever before were the services sectors---not only telecommunications and information, but also finance, professional services and beyond---that depend heavily on networks and are source of American comparative advantage, rather than deficits. But while promoting trade in goods involves tackling familiar tariff and non-tariff barriers, expanding trade and investment in services is a conceptually and institutionally demanding activity that requires the laborious adjustment of innumerable "behind the borders" measures. These include not only discriminatory quantitative restrictions on market access, but also the minute details of regulatory rules and procedures.

Inevitably, plunging into this process of deep integration required protracted and increasingly technical dialogues that sometimes wore thin the patience of both sides. From 1995, the principal bilateral vehicle for doing so was the Enhanced Initiative on Deregulation and Competition Policy under the U.S.-Japan Framework for a New Economic Partnership. The initiative provided for a joint annual review ranging, inter alia, from macro-institutional issues like transparency and competition policy

to the regulation of telecommunications, distribution, financial, and legal services, among others.^{*7} A Telecommunications Working Group was created which still meets a few times yearly today and must carry the weight as the principal institutionalized mechanism for dialogue.

Adding additional momentum to the process was the General Agreement on Trade in Services (GATS) produced by the 1986-94 Uruguay Round negotiations that created the WTO. While most of the commitments undertaken during the Uruguay Round focused on market access issues and essentially locked in existing levels of liberalization, the subsequent negotiations on basic telecommunications took WTO disciplines on telecommunications significantly further behind the borders. In February 1997, the Group on Basic Telecommunications (GBT) completed a deal among sixty-nine governments, which others have joined subsequently. Essentially, the participants—who account for more than 90 percent of the global market—deepened their national schedules by including basic telecommunications to varying degrees. Most also endorsed a Reference Paper comprising six key principles for the redesign of national telecommunications regulatory rules and institutions to ensure compatibility with trade disciplines. These require market-opening actions with respect to competitive safeguards, network interconnection, the protection of universal service, the public availability of licensing criteria, the establishment of independent regulators, and the allocation and use of scarce resources such as radio frequency spectrum.^{*8}

Following the conclusion of the basic telecommunications agreement, the Clinton Administration began to suggest that Japan was not living up to its GATS commitments. In consequence, the administration suggested that it might take its case into the WTO's new dispute settlement system if it did not get satisfaction. The government of Japan rejected these allegations, but nevertheless found itself compelled to justify in detail a variety of policies and industrial practices according to a new external criteria. A wide range of issues were explored and negotiated under the Enhanced Initiative, which strengthened the hand of reformers within Japan and helped to catalyze the adoption of a series of significant liberalization measures.

Certainly the most high profile and controversial matter raised under the initiative concerned the interconnection charges levied by NTT on competing telecommunications providers. The United States viewed this as a critical "test case" for the GATS Reference Paper. It argued that Japan's interconnection charges were substantially above cost, much higher than those imposed within other industrialized countries, and contrary to its WTO commitments. Its proposed solution was rate reductions to be calculated in line with the Long Run Incremental Cost (LRIC) model favored by the U.S. Federal Communications Commission (FCC). NTT, the Ministry of Posts and Telecommunications (MPT), and others in Japan found much they did not like with both the LRIC model and the manner in which the issue was being pressed. Neverthe-

less, in July 2000, Japan agreed to reduce interconnection charges for regional access by fifty percent and for local access by twenty percent over two years.

In pursuing this approach toward Japanese telecommunications, the Clinton Administration received support and pressure from the U.S. Congress. For much of the past twenty years, congressional interest in and criticism of Japanese economic and trade policies has been intense.^{*9} Indeed, Japan has been the focus of the most vitriolic trade debates Washington has endured, and the desire to strengthen the United States' bargaining position vis-_-vis Japan often has figured prominently in trade legislation. Not surprisingly then, as trade in telecommunications grew into a leading edge issue in the 1990s, the Congress pressed the Clinton Administration and its predecessors for firm and specific action.

In both the House and the Senate, top agency officials periodically were pushed to obtain greater Japanese commitments to liberalization. This pressure was exerted informally, in private consultations, or formally, in at least three contexts. One was during the review and approval of annual budgetary requests for Executive Branch agencies. That Congress can inter alia cut the budgets of or demand changes in agencies it perceives to be under-performing influences how work is carried out. Another was during committee hearings concerning the preparation or the implementation of trade laws.^{*10} In relation to Japan, a key law affecting bilateral relations is the Omnibus Trade and Competitiveness Act of 1988, which includes a Section 1377 requiring annual assessments of foreign compliance with U.S. trade laws, including in telecommunications.

A final setting was on the floor of the House or Senate, where Japanese telecommunications periodically received a level of close attention unparalleled with respect to other bilateral relations. For example, in both 1999 and 2000, the Senate adopted "Sense of the Senate" resolutions that were sharply critical of Japanese policy.^{*11} While such resolutions are non-binding, they do have the effect of crystallizing in a high-profile manner the feelings of the key elements of the Washington, D.C. policy food chain, which includes not only politicians, but also the administration officials, corporate lobbyists, think tanks, and pundits that feed the system. As such, it is illustrative to quote the most recent one in full:

Whereas the United States has a deep and sustained interest in the promotion of deregulation, competition, and regulatory reform in Japan;

Whereas new and bold measures by the Government of Japan regarding regulatory reform will help remove the regulatory and structural impediments to the effective functioning of market forces in the Japanese economy;

Whereas regulatory reform will increase the efficient allocation of resources in Japan, which is critical to returning Japan to a long-term growth path powered by domestic demand;

Whereas regulatory reform will not only improve market access for United States business and other foreign firms, but will also enhance consumer choice and economic prosperity in Japan;

Whereas a sustained recovery of the Japanese economy is vital to a sustained recovery of Asian economies;

Whereas the Japanese economy must serve as one of the main engines of growth for Asia and for the global economy;

Whereas the Governments of the United States and Japan reconfirmed the critical importance of deregulation, competition, and regulatory reform when the 2 Governments established the Enhanced Initiative on Deregulation and Competition Policy in 1997;

Whereas telecommunications is a critical sector requiring reform in Japan, where the market is hampered by a history of laws, regulations, and monopolistic practices that do not meet the needs of a competitive market;

Whereas as the result of Japan's laws, regulations, and monopolistic practices, Japanese consumers and Japanese industry have been denied the broad benefits of innovative telecommunications services, cutting edge technology, and lower prices that competition would bring to the market;

Whereas Japan's significant lag in developing broadband and Internet services, and Japan's lag in the entire area of electronic commerce, is a direct result of a noncompetitive telecommunications regulatory structure;

Whereas Japan's lag in developing broadband and Internet services is evidenced by the following: (1) Japan has only 17,000,000 Internet users, while the United States has 80,000,000 Internet users; (2) Japan hosts fewer than 2,000,000 websites, while the United States hosts over 30,000,000 websites; (3) electronic commerce in Japan is valued at less than \$1,000,000,000, while in the United States electronic commerce is valued at over \$30,000,000,000; and (4) 19 percent of Japan's schools are connected to the Internet, while in the United States 89 percent of schools are connected;

Whereas the disparity between the United States and Japan is largely caused by the failure of Japan to ensure conditions that allow for the development of competitive networks which would stimulate the use of the Internet and electronic commerce;

Whereas leading edge foreign telecommunications companies, because of their high level of technology and innovation, are the key to building the necessary telecommunications infrastructure in Japan, which will only be able to serve Japanese consumers and industry if there is a fundamental change in Japan's regulatory approach to telecommunications; and

Whereas deregulating the monopoly power of Nippon Telegraph and Telephone Corporation would help liberate Japan's economy and allow Japan to take full advantage of information technology: Now, therefore, be it

Resolved, That it is the sense of the Senate that--

(1) the appropriate officials in the executive branch should implement vigorously the call for Japan to undertake a major regulatory reform in the telecommunications sector, the so-called "Telecommunications Big Bang";

(2) a "Telecommunications Big Bang" must address fundamental legislative and regulatory issues within a strictly defined timeframe;

(3) the new telecommunications regulatory framework should put competition first in order to encourage new and innovative businesses to enter the telecommunications market in Japan;

(4) the Government of Japan should ensure that Nippon Telegraph and Telephone Corporation (NTT) and its affiliates (the NTT Group) are prevented from using their dominant position in the wired and wireless market in an anticompetitive manner; and

(5) the Government of Japan should take credible steps to ensure that competitive carriers have reasonable, cost-based, and nondiscriminatory access to the rights-of-way, facilities, and services controlled by NTT, the NTT Group, other utilities, and the Government of Japan, including--

(A) access to interconnection at market-based rates;

(B) unrestricted access to unbundled elements of the network belonging to NTT and the NTT Group; and

(C) access to public roads for the installation of facilities.

Figure 1: Senate Resolution 275, "Fair Access to Japanese Telecommunications Facilities and Services," Adopted May 2, 2000.

In sum then, a number of factors in the domestic and international environment worked together to encourage the Clinton Administration to maintain continuous and increasingly specific pressure for the reform of Japanese telecommunications. These efforts found support among pro-reform segments of the Japanese policy and industrial establishments, and throughout the 1990s Japan took a series of incremental steps toward greater openness in the sector. As such, the Clinton Administration left office feeling that its efforts had paid off, a view that generally found receptive audiences both in Washington D.C. and in much of the global telecommunications profession. Within Japan, it would seem that opinions on the matter were a little more diverse.

In light of this experience, some in Japan may have hoped that the election of George W. Bush promised a new and more relaxed relationship. After all, during the 2000 presidential election, the Governor of Texas had repeatedly suggested that, if elected, the United States would pursue a "humble" foreign policy and would refrain from telling other countries how to organize their internal affairs. In reality, once installed in government, it did not take Bush's hawkish foreign policy advisors long to chart an aggressively unilateralist approach. Similarly, far from being humble, the new administration's trade policy blithely has combined bald-faced protectionism with demands for market opening abroad. Whatever else it may be, the Bush (II) Administration's approach to dealing with foreign governments and peoples can hardly be characterized as "kinder and gentler" than that of its predecessor.

So just what is the Bush policy on international telecommunications and ICT issues, and what does this mean for Japan? One perhaps telling element of an answer to the first of these questions is that when asked, a majority of the U.S. experts this author interviewed broke out in laughter. And no wonder: in almost every way, the Bush Administration's approach is the mirror opposite of what preceded it. The President has a bit of a background in the oil industry and has surrounded himself with senior advisors whose minds and life experiences are similarly rooted in what, a few years ago, people referred to as the "old economy."

To this leadership team, the comparatively freewheeling dynamics of the "new economy"---in cultural, intellectual, and other respects---are largely foreign territory. Moreover, Bush's principal contributors in the 2000 presidential campaign and many of the corporate relationships he has cultivated since then are of a similar nature, whereas many technology companies had supported Al Gore. Some of the administration's closest linkages with the ICT world are with the Regional Bell Operating Companies (RBOCs), which are not widely regarded as the enlightened cutting edge of the Internet age.

Given the outlook and priorities of its leadership, it is no surprise that the Bush Administration's approach has been one of benign neglect. None of the policymakers, industry stakeholders, and analysts interviewed for this report was able to name key

White House staff members with expertise and interests in the national or global information infrastructures. Hence, technology companies that want to get the White House's attention tend to meet with people like Karl Rove, the President's political advisor; cutting deals to build campaign relationships and contributions are the priorities, not governing ICTs in pursuit of an economic and social vision.

Beyond the White House, what used to be top positions are filled by committed "in-activists." Secretary of Commerce Don Evans has shown little interest in the policy issues raised by the information revolution; it is just business, to be worried about by businesses. Similarly, FCC Chairman Michael Powell resolutely refuses to chart a course toward promoting competition and diversity in telecommunications and media. Doing so might require making difficult decisions that leave the RBOCs or other powerful corporations unhappy, which would not be convenient for the administration or for his own future political prospects.^{*12} For his part, Office of the U.S. Trade Representative (USTR) head Robert Zoellick is far more interested in issues like steel and agriculture and typically steers clear of the comparatively less politically salient e-topics.

Given this lack of high-level leadership and expertise, the Bush Administration has not attempted to establish any sort of distinctive, forward-looking vision relevant to the Internet age. Clinton-era initiatives have been dropped or targeted for elimination with nothing to replace them. Thinking about issues other than national security aspects appears to have been privatized or outsourced to conservative think tanks like the Progress and Freedom Foundation, the American Enterprise Institute, The Heritage Foundation, The Cato Institute, and so on. And absent a push from the upper political levels of government, only minimalist policy initiatives that can benefit selected constituencies are possible.

This approach has international ramifications, including for relations with Japan. The administration has shown no signs of a real desire to devote the time, energy, or resources needed to cultivate a multi-dimensional, Internet age-oriented relationship. To be sure, in June 2001, President Bush and Prime Minister Koizumi launched the Regulatory Reform and Competition Policy Initiative to replace the Clinton-era Enhanced Initiative, and in this context the U.S. leadership has proposed bilateral "cooperation" in three areas. It would like an e-education initiative designed to "expand PC-based Internet use throughout Japan's education system," as well as an effort to promote the use of ICT in the private sector.^{*13} These would seem to be viewed as means of expanding opportunities for U.S.-based firms; Japan obviously does not need U.S. assistance to pursue these goals. The third proposal, for increased Internet security, reflects the two main sides of the Bush agenda---national security, and again, new business opportunities. In short, to the administration's political leadership, bilateral policy cooperation appears to be viewed more in terms of market opening than coop-

eration to achieve any unrelated social or economic objectives.

Things are better below the political level, i.e. among the agencies staffs that often have extensive expertise on Japanese telecommunications issues and are charged with carrying on routine relations. However, organizational mandates, inadequate resources, and the priorities of agency leadership often result in their skills being underutilized. For example, key FCC staff members have developed good working relationships with MPHPT counterparts and have made significant progress in jointly rethinking regulatory practices, interconnection pricing, and related matters. But the Commission cannot play a larger policy role due to its rather specific regulatory mandate. While its decisions on international matters like cable landings, satellite facilities, resale, call-back, accounting and settlement and the like can have direct effects abroad, nominally it is not supposed to be involved in setting broader international trade or other policies related to Japan and other countries.

Other agencies also have expertise, but their overall influence has slipped in the Bush Administration. For example, the Department of Commerce is supposed to play a lead role as the President's principal advisor and voice on telecommunications issues. This is in part a function of history; when the White House's Office of Telecommunications Policy was shut down in the 1970s, its function was transferred to Commerce in the form of a new National Telecommunications and Information Administration (NTIA). But NTIA's staff, resources, and influence in international affairs have diminished along with the influence of policy matters, while more business promotion-oriented units---the International Trade Administration, and the Technology Administration---have increased in clout. Also important is the Office of Japan of the Market Access and Compliance Division, which reviews foreign implementation of trade agreements.

In parallel, the Department of State's role in international telecommunications and information policy has diminished significantly, save in particular with regard to dealings with multilateral institutions and satellite systems.^{*14} Over the years the department has led bilateral meetings with selected countries like Japan and coordinates high-level delegations and activities involving the Ambassador in Tokyo, but in general its role is more of a facilitator than as a driving force in setting and promoting U.S. policy. It also hosts a series of private sector advisory committees in which U.S.-based firms frequently complain about problems they are encountering in foreign markets, including Japan, and the views expressed in these meetings can affect U.S. policy.^{*15}

Compared to the other agencies, the USTR has a narrower mandate. It does not get involved in broad policy initiatives or have to manage complex multi-purpose relationships. Its goal is simply carry out U.S. trade law, and as a White House agency it has a significant degree of clout. Given the lack of upper-level interest in building a

broader e-relationship and the shrinking roles of the agencies and people that would have to maintain one, by default, trade and investment issues have become the primary focus of bilateral telecommunications affairs. Accordingly, USTR has emerged as the lead agency in policy formulation and consultations with respect to Japan and other countries. In the Spring, the USTR releases its Section 1377 review of telecommunications; and in the Fall, it releases its annual review under the Regulatory Reform and Competition Policy Initiative. Along the way, the staff holds consultations with Japanese counterparts, and with U.S. firms. This is all time consuming and complex work on important issues, but it is arguably a rather thin basis of interaction between the world's two leading information economies.

Not only does trade policy narrowly define the telecommunications relationship with Japan today, but from the U.S. perspective at least, its urgency has diminished. The head of the USTR is, as we have noted, largely focused on other issues. And for its part, the U.S. Congress is preoccupied with domestic e-problems concerning the RBOCs, the fiasco of broadband deployment, and policy frameworks for the Internet. There is less interest today in international telecommunications, and what interest remains is focused on more dynamic bilateral relationships and multilateral affairs.

What about the U.S. business community, which is really the key driver of most U.S. activity? Here too, the breadth of interest in dealing with Japan-related problems is shrinking. To a limited degree, this reflects the progress that Japan has made with telecommunications reform in the past few years; some of the companies that used to complain the loudest have received sufficient satisfaction. But to a greater extent it reflects two considerations that might be cause for concern.

First, the Dot Com and telecom busts of the past few years have caused many U.S. telecommunications and ICT firms to significantly scale back on their international involvements. The money and sense of security required for overseas expansion just is not there in many cases. Second, those resources that firms remain prepared to devote to international ventures are often being redirected to other markets where the opportunities are greater and the headaches are fewer. In contrast, many companies find that trying to win their way into and thrive within Japan has been a long, painful, and not entirely rewarding experience. As such, in talking with some corporate officials, one senses declining enthusiasm for the fight, which also means less complaining to and pressure on the USTR from a diverse range of ICT companies.

These shifts leave only a small number of firms---most notably, certain telephone companies---still prepared to aggressively press a case. Hence, in the 2002 round of Section 1377 reviews of compliance with trade agreements, there were very few submissions pertaining to Japan. And what commentary there was tended to concentrate on the same long-standing issues, such as the absence of an independent regulator

and interconnection charges.^{*16} Instead, most of the submissions dealt with Mexico, China, and other "hot" markets.

To summarize, U.S. policy toward Japanese telecommunications is now largely the province of USTR staff members acting on behalf of a relatively small slice of the ICT business establishment with little high level political involvement. Going forward, there may be some additional attention to security issues raised by the Internet, and to the adequacy of Japanese policies concerning e-commerce. But beyond dealing with a small number of long-standing complaints, one does not sense that most American insiders currently view the bilateral relationship with a great deal of urgency.

II. Current U.S. Concerns and Priorities

We next present an overview of some general U.S. concerns about Japanese policy and U.S.-Japan relations in the telecommunications arena. The observations offered here drawn on the scholarly and policy literatures, government documents, and a series of "not for attribution" or anonymous (and therefore frank) conversations with leading American practitioners and observers of U.S.-Japan telecommunications. Again, in line with the paper's mandate, the purpose here is to convey a sense of what a sample of key Americans are thinking, even if not all the views expressed seem agreeable to all readers; and that in this context the author is serving more as a reporter than as an advocate of a particular view.

When evaluating the state of relations between the two countries, a simple baseline starting point is to ask, "compared to what?" Depending how one specifies this question, the views that American policy makers, industry stakeholders, and analysts offer can be strikingly different.

If the baseline comparison is with the state of the relationship in previous periods, then Americans tend to see things in a fairly positive light. It is widely recognized in Washington D.C. and beyond that compared with, say, ten or even five years ago, Japan has taken quite a few significant steps toward a more open, competitive, and innovative telecommunications environment. Americans recognize that Japan now has a more reform-oriented institutional nexus to guide public policymaking, e.g. the Ministry of Public Management, Home Affairs and Posts and Telecommunications' (MPHPT) study groups and Telecommunications Dispute Settlement Committee, the advisory Telecommunications Council, the Japan Fair Trade Commission, the IT Strategy Council and IT Minister, the Strategic Headquarters for the Promotion of an Advanced Information and Telecommunications Network Society, etc. They also acknowledge that Japan has split up Nippon Telephone and Telegraph (NTT), opened previ-

ously restricted markets to greater competition, established new and competitive market niches, and reduced a range of prices charged to companies and consumers, e.g. on international accounting and settlements, interconnection, broadband, and leased circuits. And they recognize that there have been some notable successes of late, e.g. that NTT DoCoMo has set a new standard for subscriber growth and innovation in the mobile wireless market, and that the growing availability of 3G and digital subscriber line services have contributed to a substantial increase in Internet access and use.

More broadly, Americans perceive that there are some noteworthy intellectual and cultural shifts underway that are reducing the wide and deeply rooted gaps between two sides. As is well known, Americans like to see themselves as being very open, spontaneous, individualistic, free-thinking, flexible, independent, innovative, irreverent, and opposed to centralized or top-down authority structures. In contrast, rightly or wrongly, most Americans have tended to see the dominant Japanese mindset as embodying precisely the opposite characteristics.¹⁷ From the U.S. point of view, these inter-cultural differences often have confounded efforts to collaborate or reach real and effective mutual understandings. But now, a growing number of American telecommunications experts report that many of their Japanese counterparts---especially the younger, Internet-oriented ones---seem more open minded, critical of inward-looking Japanese policies, aware of developments abroad, and hence reform-oriented than ever before.

If however, the baseline comparison is framed differently, the tone and substance of the answers one gets are less encouraging. For example, if asked to compare the Japanese ICT environment to conditions in other industrialized countries, or to conditions that ought to prevail in an economy the size of Japan's, the answers received are less positive. On the one hand, some Americans suggest that in a few cases like unbundling, Japan has gone further than many other countries. But on the other hand, Americans generally believe that in many other cases like interconnection charges or the regulatory treatment of dominant carriers and competitors, Japan continues to lag behind the evolving norm for industrialized countries. Indeed, a theme one repeatedly encounters in U.S. policy circles is that there is no good reason for Japan to be less open to competition and less vigorous in implementing WTO rules than other rich nations. Another, equally widespread view is that Japan is simply incapable of undertaking the bold steps necessary to set it permanently on a path toward a vigorous and competitive information economy.

Undoubtedly, these concerns are influenced by perceptions of the broader contours of Japanese and bilateral affairs. U.S. policymakers, stakeholders, and analysts generally evince serious macro-level concerns about Japan's "lost decade" and the government's apparent inability to enact the sort of sweeping reforms in banking and other arenas that would be necessary to turn things around. Many Americans fear

that Japan just cannot adopt economic reforms that would threaten any politically entrenched interest groups, and that in consequence continuing drift, recession, and perhaps even financial disaster looms ahead.^{*18} They also worry that in this troubled environment, it becomes easier for certain voices and factions to attack "foreigner meddling," which can raise the political risks to reformers and impede bilateral problem solving.

While these general concerns color perceptions, a more direct source of U.S. views is the long track record of interactions and experiences within the telecommunications field. In conversation with U.S. experts, three overarching concerns in particular consistently come up.

First, Americans generally believe that Japan remains wedded to an overly state-centric approach that is not practiced in other industrialized countries. For example, they suggest that the government still clings to an outdated "national champion" model by retaining a large ownership share in NTT and by failing to adopt a strong "dominant carrier" regulatory approach with substantial competitive safeguards. Some also point to Japan's propensity to adopt grand-sounding national strategies and five-year plans (which Americans tend to associate more with state socialism), and to spend public funds in areas like broadband that they believe should be market driven. They were a bit disappointed when the IT Strategy was promoted as an effort to become a "high-speed Internet superpower" that would "overtake the United States in five years." As one person suggested, Japan should focus on catching up with South Korea and stop comparing itself to the United States. In general, this sort of rhetoric, while perhaps useful for domestic political purposes in Japan, seems archaic, neo-mercantilist, and divisive to Americans.

Second, Americans uniformly regard NTT's overwhelming control of the Japanese market to be a major stumbling block that affects many aspects of the bilateral relationship. As the USTR summarizes the problem, "NTT companies control access to greater than 98 percent of the local telephone network, giving them the ability to inhibit new competitors and services while promoting their own products and technologies."^{*19} While other countries, including the United States, also have well entrenched incumbents that control local networks, U.S. experts maintain that these firms are subject to greater legislative, regulatory, and competitive disciplines. They do not accept in particular the often heard objection that greater competition would unduly damage NTT's financial position and thereby make it impossible for the country to maintain universal service obligations and transition to a broadband world. They maintain that no carrier has a "natural" right to given a market share or group of customers, and that open competition would lead to a more optimal deployment of new network of services.

Third, Americans tend to believe that Japanese policy and business practices are

somewhat skewed against users. Relative to other industrialized countries, the Japanese economy is viewed as being more "supplier dominated" than user-driven. American business likes to say, "the customer is king." While Japan has an even stronger maxim---"the customer is god"---Americans tend to think that such sentiments are not evident in the telecommunications environment, and that this has broad and negative consequences. In the United States, the 1990s witnessed a transition to a more "distributed" stage of the information revolution, in which users' capacity to flexibly utilize digital information resources led not only to "bottom up" technological innovation, but also to a measure of progressive social, economic, and political change.^{*20} Many American experts believe that by sticking with a comparatively "top down" approach to the social organization of information resources, Japan has missed out on some the benefits of the information age.

The Internet's developmental trajectory in Japan is often cited as a key example. Americans typically argue that it was a combination of light-handed government involvement, unregulated and inexpensive leased circuits, multi-provider competition and cheap dial-up access, open technical standards, and "bottom up" user empowerment that made the Internet take off so quickly in the United States. Japan, they argue, was slow to embrace these elements and hence impeded the Internet's diffusion until the recent broadband and mobile booms.

Moreover, while Internet infrastructure is now growing rapidly in Japan, a number of Americans suggest that the approaches being followed may not be optimal. For example, they suggest that the IT Strategy's model for broadband deployment is too reliant on NTT and government support, rather than on open competition. Similarly, with regard to the mobile Internet, many would concur with this assessment:

The mobile-access Internet emerging in Japan differs substantially from the PC-accessed Internet that predominates in the United States. While the PC-based Internet is open and is not dominated by a single entity, the mobile Internet is a "walled garden," separated from the PC-based Internet by an array of technological and commercial elements reflecting the dominance of NTT DoCoMo and Japan's two other mobile Internet service providers.^{*21}

Indeed, many analysts question whether the DoCoMo approach is not only sub-optimal, but unsustainable as well. As two leading observers recently argued,

DoCoMo has prospered in an insulated market with an assured position, and DoCoMo itself---rather than the users---has driven innovation...In the end, DoCoMo may not be able to supersede....Wintel logic, and it may

have to loosen control over both technical standards and network content in order to expand.*²²

American concerns about the underlying institutional structures and dynamics of the Japanese telecommunications environment also translate into a series of specific concerns about the conduct of bilateral relations. A surprising observation heard several times is that American and other foreign firms that are established within the Japanese market are reluctant to criticize government policies or NTT practices too openly or aggressively. Their fear is that the sort of candor that is deemed to be entirely appropriate in the U.S. setting could lead to subtle forms of retaliation, e.g., lost contracts or slow service. In consequence, companies---including non-American multinationals---frequently approach the U.S. government or U.S. trade associations and ask that they voice these complaints for them. Of course, if the latter agrees to such requests for ventriloquism, this increases the possibility that Japanese opponents of reform will assert that, "Washington is always meddling in our affairs but nobody else is complaining about such things."

In parallel, pro-reform elements of the Japanese government sometimes ask the U.S. government to voice their concerns for them so that they may avoid local problems. As a result, the United States has to worry about not getting caught in the middle of Japan's internal dynamics by upsetting one party or another. Of course, actors in many countries around the world use the U.S. government in this manner, but in the industrialized world at least U.S. pressure usually does not give rise to similarly nationalistic reactions.

Relatedly, despite the perceived cultural changes mentioned above, some---not all---Americans say that they often do not have the sort of mature, open, and mutually trustful working relations with their Japanese counterparts that they have with colleagues from other industrialized countries. This is a source of frustration because, the Americans invariably say, they believe such relations would remove undue tensions and misunderstandings from the inevitable differences over policy matters. They are not sure how to build on the gains made thus far in order to move the partnership to a higher plateau and lock it in there, in part because of constraints on their own time and resources.

Some Americans also argue that there are inter-organizational barriers to establishing diversified working relationships with Japanese colleagues. Government agencies interact primarily with their direct counterparts and lack opportunities to cultivate relations with non-dominant Japanese stakeholders and analysts. Similarly, some US-based businesses lament the absence of productive, on-going dialogue and cooperation with Japanese peers, especially in the Internet environment. They suggest that it has been difficult to promote reform in Japan precisely because the domestic compa-

nies who would benefit from it are not well organized and plugged into the dialogue. And civil societal organizations and scholarly institution with interests in ICT policy issues do not have well institutionalized relations with government, business, or the third sector across the ocean, either. In the 1990s, the U.S. government made a few efforts to bridge these gaps via roundtable style meetings in Washington D.C. and at the American embassy in Tokyo, but these were not sustained efforts. The net effect of these limited contact points may be to narrowly channel discussions in directions that fit the agendas of leading organizations more than the requirements of a fully multi-dimensional relationship.

Key Americans also raise concerns about the conduct of bilateral consultations and negotiations. It may be that at times the two sides are operating on different assumptions and organizational models. Three points are salient here: First, the U.S. view is that both sides have made commitments bilaterally and under the GATS that require the mutual examination and adjustment of detailed rules and procedures behind borders. Many Americans also believe that because of the infrastructural character of ICTs, a holistic approach is required to promote meaningful economic liberalization, i.e. by pursuing interrelated reforms in both supplier and user industries throughout the e-commerce value chain. Hence, in their bilateral regulatory dialogues, the Clinton and Bush II administrations have provided long lists of interrelated reforms sought in both telecommunications and related technology and service sectors.

Second, most American insiders believe that the implementation of such reforms would be first and foremost to the benefit of Japan. Accordingly, the U.S. government in recent years has attempted to "take the high road" and cast its suggestions in this broad light. And third, most Americans believe history demonstrates that strong external pressure is a necessary condition for significant economic reform in Japan. (Of course, thoughtful observers recognize external pressure is not a sufficient condition; significant pro-reform constituencies within Japan generally are also required, and when these have been absent or weak foreign pressure has produced more conflict than accommodation.)

Some Americans worry that their intentions on these three scores may be misunderstood or even deliberately misconstrued within Japan. They note that opponents of reform may argue that the detailed analysis of domestic rules and practices is simply unwelcome meddling in Japan's internal affairs; that far from trying to help Japan, the Americans are just trying to use state power to win market shares that American firms were unable to obtain through normal business practices; and that the consistent nature of the external pressure justifies a somewhat nationalistic, "us versus them" orientation.

Another concern pertains to an alleged gap between form and substance. Some in the United States argue that Japan often does not follow through by fully imple-

menting its domestic reforms and international agreements. They claim that the result has been a pattern of "paper liberalization," in which the right words appear on policy documents but industrial practices and market shares do not change significantly.^{*23} In consequence, for example, the same lists of items remain on the bilateral agenda year in and year out without substantial progress, thereby increasing the appearance of "meddling."^{*24} Americans have endeavored to address these concerns by proposing increasingly specific language that cannot be said later on to have been misunderstood to mean one thing rather than another, but absent common understandings this specificity may only increase the strains in the relationship.

In sum then, there is a view in Washington D.C. that Japan is a highly valued friend, but can also be a demanding partner with which to work and a difficult market in which to enter. Some seem to feel that the amount of effort that must be expended does not yield commensurate progress and rewards, so a measure of weariness and routine has set in. Meanwhile, enticing, dynamic international relationships and easily penetrated markets are increasingly available elsewhere, especially in Asia.

What would it take to really change these perceptions? As we have noted above, the answer a number of Americans offer is a "big bang" set of reforms that would rapidly and irrevocably throw the Japanese market open to competition, domestic and foreign. In this context, those U.S. insiders who have seen it have been encouraged by the MPHPT's recent proposals of a new and more market-driven, layered policy framework.^{*25} These experts believe that the proposal contains a lot of interesting ideas that will merit further study, but that it is far too early to know whether and how they will be implemented.

Given the uncertainty about Japan's next moves, the Americans interviewed for this report invariably cited a familiar set of issues when asked to name their top near-term priorities. The five most pressing issues they identified were as follows:

Transparency and Public Participation. Americans generally maintain that the Japanese government has not done enough to make its decision-making transparent. The mechanics of transparency are well known and have been studied at length in the WTO, the Organization for Economic Cooperation and Development, and other forums in which Japan participates. Japan is emphasizing the need for transparency in its Three-Year Program for Promoting Regulatory Reform, but critics argue that inadequate progress has already imposed significant costs and lost opportunities on businesses. The complaints are familiar: the basic information firms need to formulate strategies is difficult to obtain;^{*26} decisions are often taken (or not taken) without adequate explanation; rulings are made so slowly that business planning is impeded; the documents needed to follow the process are not translated into common international languages; and so on. As two observers have summarized the problem, "Countless business executives who want to sell their products to Japanese customers report

the same stories of endless battles with bureaucratic red tape, with Japanese interlocutors, with laws and practices and customs and unwritten rules, all seemingly designed to prevent competition from imports."²⁷ Putting an end to such reports would require not only changing formal government rules, but also some unwritten rules and customs as well---not an undemanding task.

Similarly, Americans believe that policies and regulations should be crafted through procedures that allow interested parties to offer input in the development phase and to seek redress when adverse decisions are adopted. Japan has taken some steps to facilitate such actions, e.g. through the Telecommunications Dispute Resolution Commission, which is widely regarded as an important step in the right direction that already has proven helpful. But even here, concerns remain. As the USTR puts it, "Whether this panel, which addresses problems as they arise rather than minimizing the occurrence of disputes, has the independence, full-time expertise, and enforcement powers necessary to ensure a competitive telecommunications market in Japan is yet unclear."²⁸ And as a general matter, while preferred parties may be invited to participate in MPHPT study groups and other mechanisms, Americans argue that other stakeholders and experts should be able to participate too and have a realistic chance of influencing decisions. The task here may be not simply to remove any formal limitations on public participation, but rather to actively promote it through solicitations etc.

Regulatory Independence. While some leading U.S. actors say they have good working relations with the MPHPT, there is nevertheless universal agreement on the American side that the ministry's regulatory functions need to be institutionally separated from the elected administration in power. As one U.S. expert put it, while the Minister is a party member subject to political pressures from the Cabinet and the Diet, FCC commissioners "don't have to worry about getting fired for making pro-competitive decisions." Moreover, there is a widespread conviction among Americans that MPHPT is in a structurally contradictory role because it supposed to referee competition in a neutral manner while also offering industrial policy support to selected firms in order to promote broadband deployment and other objectives.

Interconnection. Many people on both sides of Pacific wanted to believe that the 2000 agreement on interconnection meant that the issue would no longer be a central and divisive item on the bilateral agenda. Some U.S.-based companies expressed satisfaction with the resulting rate reductions, and the American side generally hoped that more would ensue until the charges were comparable with levels found in other OECD countries. But in the end, the agreement did not reflect a stable equilibrium, as NTT is chafing at the application of LRIC and seeks to change costing models in order to raise rates. Accordingly, MPHPT reconstituted its LRIC study group in September 2001, and in March 2002 the group released a new report proposing, inter alia, a rebal-

ancing between zone center and group center costs.^{*29} In parallel, the Diet has issued detailed resolutions, presumably of NTT origin, calling on the Ministry to abandon its commitment to use LRIC in accordance with the 2000 deal. Unfortunately, such actions call into question the ability of the Ministry to act as a neutral and independent regulator.

The details of these deliberations presumably are accessible to a Japanese audience and hence need not be recounted here. What merits emphasis are the reactions they have generated in the realm of international politics. It is safe to say that the overwhelming majority of U.S. experts still regard interconnection to be a top-priority issue that has a substantial negative impact on the bilateral relationship.^{*30} American policymakers and stakeholders are very concerned that NTT may well succeed in abandoning LRIC and raising its rates. They suggest that while Japan's current LRIC model is flawed and has yet to result in truly cost-based interconnection, the proposed changes to it are based on questionable assumptions and practices and would reverse the progress that has been made. As the U.S. government summarizes this view,

Interconnection rates in Japan remain substantially higher than those of other markets subject to similar levels of competition. Other than to unduly favor NTT, there is no compelling reason why Japan should not implement significant interconnection rate cuts, retroactive to April 2002, consistent with "Case B" of the LRIC model, as envisioned in the 2000 U.S.-Japan Third Joint Status Report. The Telecommunications Council's rationale for delaying such a measure---that it would lead to a "disruption in plans"---is not persuasive: there is no evidence that competitive carriers could not easily adapt to lower rates (as could consumers).^{*31}

Some in Japan may wonder why the United States is so insistent on the use of LRIC, especially since its application has proven to be troublesome and uneven within the United States. American insiders variously offer four points in response. First, while some analysts have raised problems with certain aspects of the LRIC methodology, years of study in the ITU and other forums have not yielded other models that are more compelling in terms of economic logic or more pro-competitive in terms of actual market outcomes. If there were other models that would lead to substantially lower rates comparable to those of other leading industrialized economies, that would be a different story. LRIC is not an irrational fetish Americans cannot live without; it is simply a means to an ends.

Second, that the United States has not consistently applied LRIC in all its market segments does not invalidate or render hypocritical its call for Japan to use LRIC. U.S. incumbents' opposition to LRIC and their ability to score some victories in this cam-

paign merely demonstrates that the model can be a potent tool with which to open closed markets. Moreover, the possibility that LRIC-based solutions might be imposed if negotiations broke down spurred the local incumbents and long distance carriers to agree on access charges that are broadly in keeping with the model. Hence, it has been effective even where it has not been applied.

Third, LRIC models are being adopted elsewhere. As Britain's Oftel summarizes, "Interconnection rates in the majority of developed countries in Europe and further afield use a version of LRIC methodologies in order to determine interconnection rates for the fixed networks of dominant operators."³² Similarly, LRIC is in use in such places as Singapore, Hong Kong, Australia, Korea, Chile, Mexico, and potentially even the Dominican Republic. Accordingly, Americans argue that there is nothing so special about NTT's circumstances that would make its application any less valid in Japan than it is in these diverse markets. And fourth, the United States is not singling out Japan; it is pursuing the same objectives with other leading trade partners. For example, the USTR has just lodged the first telecommunications complaint to the WTO dispute resolution systems. At issue are Mexico's international rates, and while the fight does not revolve around LRIC computations, the underlying issue remains the same, i.e. that interconnection rates should be cost-based.³³

Moreover, Americans point out that "The United States is not alone in advocating rapid, steep cuts in interconnection rates as a requirement for promoting greater competition. In fact, all parties, which commented on MPT's proposals, joined in support of implementing MPT's 'Case B' interconnection rates this year. Not a single commenting party, apart from NTT, supported anything but this approach."³⁴ Indeed, the British government, Vodophone and Cable and Wireless have submitted comments to MPHPT that criticize the revised model and call for lower rates.³⁵ The latter also disputes NTT's claims that lower rates will bring financial hardship and impede the deployment of networks and services, and argues that in fact NTT is in much better shape than most dominant carriers in other OECD countries.

Most telling of all to Americans, it is no longer just foreign companies and governments that are objecting to NTT's proposed backtracking on interconnection rates. Reform-oriented domestic constituencies are also concerned about the issue. In their submission to the Ministry, the United Housewives Association has voiced opposition to shifting costs to consumers. Similarly, the Osaka Consumer Association has argued that NTT should be able to live with reduced interconnection rates and increased competition, and that it the company's financial management needs to become more transparent.³⁶

Relatedly, views appear to differ across the ocean with respect to mobile interconnection. The Japanese government notes that these rates have fallen significantly over the last five years, and that the rates filed in March 2002 are about fourteen per-

cent lower than the previous fiscal year.^{*37} Nevertheless, American experts say that new entrants have been discouraged by extremely high, non-transparent, and discriminatory mobile interconnection rates.

Dominant Carrier Regulation and Competitive Safeguards. American experts note that Japan has taken a number of steps in recent years to redefine key features of its regulatory regime. The enhanced asymmetric regulations in its June 2001 amendments to the Telecommunications Business Law; the three-year Regulatory Reform Promotion Program adopted in March 2002; the abovementioned layered model currently under consideration---these and related moves are seen as indicative of a very welcome and more pro-competitive policy direction. Even so, many U.S. analysts seem uncertain as to precisely how pro-competitive these moves really will prove to be in practice; as one remarked to the author, "we have been burned before by what seemed like promising reforms." Eliminating such concerns probably will require not only vigorous implementation of disciplines on pricing, access, accounting reporting, and so on, but also actual results in the market.

Relatedly, almost all Americans interviewed believed that it would be impossible to move toward truly fair and open competition as long as the government holds a (substantial) share of NTT stock.

Deregulation of Competitive Carriers. Many American stakeholders argue that action is needed to leave unfettered the operations of non-dominant carriers. They suggest that MPHPT should have and should exercise the legislative authority to forbear applying old regulatory rules in markets where there are no risks of anti-competitive practices. Similarly, they believe that Japan should replace the Type I/II distinction with a classification system based on market power, and that non-dominant carriers should be treated with maximum feasible flexibility with respect to filing requirements and so on.

Other Issues. The items listed above comprise the "top five" problems that American experts have raised the most often or in the greatest depth. However, it should be noted that a number of other familiar items have been mentioned to varying degrees in my interviews and in print, including: rights of way and access to incumbent facilities; building on the progress made thus far with unbundling; competitive co-location with NTT facilities; deformalization of the tariff notification process; the lack of foreign participation in the IT Strategy's broadband deployment plans; and---still, after all these years---expanding NTT and governmental procurement of foreign telecommunications equipment in a post-NTT Agreement environment. In parallel, some experts briefly mentioned the array of market access and regulatory issues related to electronic commerce; their comments essentially echo the USTR's concern "that Japan's progress in building a vibrant information technology sector may be seriously hindered by the lack of progress in such areas as intellectual property rights protection,

on-line privacy, paperless transactions and laws that either continue to or would hinder electronic commerce in the future."³⁸

There is little new or surprising about the priorities mentioned above. They are the same issues the United States has repeatedly raised for years in bilateral consultations and in the various annual exercises, e.g. USTR National Trade Estimate (NTE), the Section 1377 review, and the Regulatory Reform and Competition Policy Initiative. Eliciting more innovative, far-reaching, "out of the box" responses probably would require a significantly higher level of bilateral dialogue and knowledge sharing than we have today.

If the American charges seem familiar, so do the Japanese government's counter-charges. Consider for example this reply the USTR's 2002 NTE:

The Government of Japan has been steadily promoting regulatory reform and competition in the telecommunications sector. These efforts have led to significant increase of new entry into the market, resulting in substantial progress such as rate reductions and diversified and advanced services.... Nevertheless, the NTE report includes unfounded and one-sided views with regard to such areas as interconnection and price regulation policy, which is very inappropriate in view of the fact that the Government of Japan has repeatedly given full explanation on these issues to the U.S. Government. In particular, the U.S. Government makes a groundless argument in the report that mobile-carrier interconnection rates in Japan are "exorbitant." It is highly inappropriate, however, to compare them with the rates in the U.S. where fees are collected not only from the calling party, but also from the receiving party. As for the interconnection rates of fixed networks, there is no such thing as a "price squeeze" because they are set solely to recover appropriate costs. Furthermore, the U.S. Government should refrain from easily making single company issues into a government-to-government level issue, without having the relevant companies exhaust transparent procedures such as arbitration and submission of opinions under the Telecommunications Business Law.³⁹

It would seem desirable, at a minimum, to reach a mutual understanding of why the two sides are unable to reach a mutual understanding about the same facts.

III. Improving the Relationship

It is the nature of deep integration that achieving progressively more open and competitive markets in telecommunications and related services markets would require increasingly extensive and detailed coordination to examine and discipline a wide array of "behind the borders" measures. Complex decisions would have to be rendered as to the necessity and trade-restrictiveness of policies and procedures that were not designed with trade in mind. This in turn would require a much greater degree of mutual surveillance and evaluation than either side seems prepared for at present. Unless they are prepared to choose another path, e.g. by learning to live with constant trade tensions or, conversely, by agreeing that the information economy of Japan is simply to remain less open and dynamic than those of other OECD countries, the two governments will need to establish a better framework for their interaction. What is needed is a full, multi-dimensional, and mature relationship within which digital differences can be dealt with in the same manner as applies between other leading industrialized countries---in short, a full normalization of bilateral e-diplomacy.

What steps would be necessary to construct a framework to better manage the challenges of deep integration? In truth, it is difficult to imagine a menu of options that in the current context would not seem overly idealistic. With the much of the telecommunications and Internet-related sectors in varying degrees of distress, scarce resources and attention being diverted to other bilateral relationships, and political conditions on both sides not quite ripe, this is not an easy time in which to envision bold new initiatives. However, with enough encouragement, perhaps some incremental steps in the right direction can be taken.

Clearly, the two countries could undertake many useful steps independently. Concerning the American side, the telecom and dotcom collapses suggest that at least some caution is merited when it comes to prescribing detailed policy models to Japan and other countries. One could argue that since the United States so obviously has not "gotten it right" at home, it behooves American officials, stakeholders, and analysts to consider with an open mind alternative approaches to the implementation of GATS and other commitments.

At the same time, such a view should not be taken too far or used to justify regressive policies and industrial structures. For example, in the United States, conservative friends of the incumbent local telcos oppose interconnection and other policies that require facilities sharing on the grounds that these constitute "regulatory takings" of the incumbents' God-given property. In accordance with this ideology, takings were to blame for the industry's crisis because, inter alia, supposedly below cost and unfair interconnection charges drew in competitors that lacked viable business plans and the resources needed to survive. But it is more likely that the competitors

failed because the incumbents manipulated their control of essential facilities to prevent effective entry---practices that should have led to greater government oversight. Moreover, excessive government interference can hardly be blamed for the rampant corruption in the industry's finances; here too, more "interference" was needed. Hence, the American experience does not suggest that vigorous pro-competitive policies are foolhardy, but it does suggest that now is a good time for fresh and more expansive thinking about the best ways forward.

Concerning the Japanese side, my personal view is that in broad terms, the core positions of the Washington consensus about Japan are sensible. Greater transparency and public participation, an independent regulator, cost-based interconnection, effective dominant carrier regulation and competition policy, the deregulation of non-dominant carriers---these would seem necessary to ensure a vigorous and user-driven transition to the world of IP-based networking. Moreover, without significant progress on these fronts, it seems highly unlikely that the bilateral relationship will become any easier or less "meddlesome" in the years ahead. But it may be that there are more means to these ends than those currently under discussion in the bilateral and multi-lateral dialogues on regulation---this is the terrain that merits much greater exploration.

Individual actions aside, what might the two countries do together to improve the management of their increasing economic integration? Here are just a few suggestions that embody a mix of near-term possibilities and longer-term objectives:

Establish High-Level Vision and "Buy-In". As we have seen with the change of administrations in the United States, whether or not high-level officials give priority to telecommunications and ICT-related issues does have an impact on the resources and energy that will be committed. Absent this sort of engagement, agency staff are left to carrying on under standard operating procedures and mandates without the tools to even consider more ambitious efforts. While nobody would expect President Bush or Prime Minister Koizumi to become ICT experts or to divert a great deal of their attention from more pressing matters, it would seem reasonable to expect high-level political appointees whose jobs it should be to manage such policies to "get up to speed" on the issues and craft a guiding vision that their superiors can endorse. Bilateral dialogue could contribute much to initiating this sort of process, on both sides. In the current context, Japan would have to take the lead by laying down proposals enticing enough to make even the most disinterested leaders in the Bush Administration sit up and take notice. But this would take some concerted effort; for example, to date neither Japanese proposals for broadband summits nor U.S. industry's expressions of interest in such work with Japan have stimulated much of a response from the Bush Administration.

Build Intellectual and Organizational Capacity. Whether telecommunications

move up leaders' agendas or remains where it is, it is important that both sides have the human and institutional resources needed to tackle the issues effectively. For a start, these include such mundane items as a proper budget and adequate facilities and staff. Moreover, experts are needed that have both independent research and analysis capabilities and an open interface with wider intellectual and professional circles; that have language skills and knowledge of the other side's culture and policy environment; and that remain in positions long enough to build expertise and bilateral relationships, rather than circulating out quickly and taking the institutional memory with them.

Deepen Channels of Contact. It would obviously help if the two governments had more settings in which to routinely interact on issues of common concern other than trade conflicts. Of course, some informal working relations exist across ministries and agencies, the regulatory dialogue has a Telecommunications Working Group, and staffers periodically visit each other's capitals to "make the rounds" and have brief meetings with a range of counterparts. But especially if both sides had the resources and mandate needed to handle it, some more institutionalized and intellectually intensive forms of interaction undoubtedly would prove useful. The kind of collegial knowledge sharing that build up through ongoing work programs in multilateral setting like the ITU and WTO should not be impossible in a bilateral context. They would however have to be very well structured and supported and have well defined missions and outputs in order to avoid dissolution. Learning from prior, failed efforts also would be key; for example, personnel exchanges between NTIA and MPHPT's predecessor did not work well due to high costs, short stays, and limited language skills.

Diversify Channels of Contact. Almost more than anything else, Japan and America must endeavor to broaden the range of contact points between the two countries. Much of the contemporary debate about global governance emphasizes the need to transcend the limitations of traditional intergovernmental organizations and regimes, e.g. via industry "self-regulation," co-regulation, and hybrid or tri-sectoral government-business-civil society partnerships. A more inclusive architecture would be as useful in bilateral relations as in multilateral institutions. All three sectors on each side need institutionalized opportunities to engage all the others in order to pursue creative knowledge sharing and problem solving. Occasional events organized by embassies or industry associations are not enough to sustain broad-minded, multi-stakeholder dialogues about reform.

Perhaps one place to start would be the proposals set out two years ago by a Ministry of Foreign Affairs-sponsored Study Group on Japan-U.S. Economic Relations. Among other things, it recommended that the governments establish a framework for regular dialogue on the governance of "frontier science and technology" between the

top-level intellectuals of both countries. The group also suggested institutionalizing an exchange of views on the social changes that have been brought about by globalization, and establishing a "Friends of the Japan-U.S. Economic Relations on the Net" mechanism that would link intellectuals and interested people to exchange views on the web regarding U.S.-Japan economic relations.^{*40} In addition to such expert interactions, it also would be good if each side had more direct access to the other's legislative branches and mass publics.

Benchmark Progress. The United States and Japan often have been unable to agree on what would seem to be basic empirical questions, e.g. concerning the degree of competition that exists in a given market. Interesting work has already been done in the OECD and other forums on the development of benchmarks for reform processes. While the two sides probably would end up arguing about the efficacy and interpretation of any metrics they choose to devise, this still might provide a clearer focal point for some aspects of the dialogue and could free up energies to move on to more productive discussions.

Shift Paradigms. Improving the relationship may also require some creative re-imagination of the fundamental contours of the telecommunications policy environment. MPHPT's proposed layered model is an intriguing building block, but more will be needed to invigorate the industry on both an individual and bilateral basis. Movement on two fronts in particular would be useful. First, the two sides should strive to transcend the imaginative and discursive boundaries of the traditional telephony environment and begin focusing on the coming transition to an IP-based network. While both have devoted attention to the issues, their national discussions have differed in notable ways. Further, the collapse of the U.S. telecommunications industry has led to retrenchment, and in any event the transition has not been central to the bilateral dialogue. Obviously, it does not make sense to move forward with an agenda rooted firmly in the past. In its just released reform recommendations to Japan, the U.S. government suggests that Japan "Consider transitioning to a bill-and-keep cost-recovery mechanism for a range of network access functions;" the same presumably is recommended for the United States.^{*41} Perhaps over time a discussion of Internet costing arrangements could be built out to address some of the broader issues.

Second, the dialogue could be refocused on bottom-up, user-empowered models of information age development. After all, telecommunications is just an infrastructural means to an end, so the question is what do users---whether businesses, non-profit organizations, or individual customers---want and how we create environments in which they can get it (which is a different question from how can we give it to them)? From the early Internet boom to the open source movement of today, the importance of disruptive technologies and distributed empowerment has been demon-

strated quite clearly. But much of that energy is dissipating as entrenched powers struggle to take command in a variety of relevant market segments and contexts in order to impose top-down controls. At this important turning point in the evolution of information infrastructure, a forward-looking bilateral dialogue on ways to preserve a more socially and economically desirable balance could be rewarding. Success might require ensuring that neither side's major carriers control the agenda.

"De-Nationalize" the Liberalization Debate. Over the years, frustration and acrimony at times have led the protagonists to descend into unfortunate habits of caricaturizing their opponents based on nationality. Luckily, most of this happens when the other side is not around, but even so it has the effect of establishing unhelpful binary divisions in peoples' minds, e.g. us vs. them, locals vs. foreigners, etc. And for a long time, the fact that the debate involved the United States pushing for concessions and Japan pushing back made the situation easy to misinterpret or even misrepresent. Of course, the reality is that open and dynamics markets and citizen empowerment are very much in Japan's own self-interests. There are now many domestic Japanese proponents of reform in government, business, and civil society who recognize this and are arguing for many of the same things that the Americans advocate. As such, effort should be made to shift perceptions among policy insiders and mass public on both sides of the ocean by de-linking causes from the national identities of their proponents; the issue is reformers vs. conservatives and competitors vs. incumbents, not Americans vs. Japanese.

Consider Multilateral Approaches to Trade Liberalization. As a recent think tank report points out, "Japan represents an anomaly for the United States: It is the only country toward which the United States, more or less consistently, has adopted a country-specific foreign economic policy...[they should] shift the resolution of their trade and investment conflicts away from bilateral channels and toward multilateral forums, such as the WTO and the OECD."⁴² Dealing with at least some trade and investment problems in multilateral forums could help to clear some of the bad air that has accumulated through continuous and often difficult bilateral negotiations. However, in reality there may be limits to how far this could go with respect to complex telecommunications and ICT-related issues. Would it be better if the United States and Japan tackled their differences over interconnection rates in the WTO setting? Might discussions of regulatory independence and transparency be better suited to the OECD? The various issues on the agenda would need to be carefully assessed in both technical and political terms to determine under what circumstances a shift in venues would be advantageous. Even so, perhaps it would be healthy and productive to think of multilateralism as the baseline from which departures need to be justified rather than as a threat to be resorted to when bilateralism breaks down. Departing from a different starting point might yield a new and better balance between approaches

and move the relationship to a more mature and normal status.

Lead Together Internationally. The last point leads to our next one. While both governments commit significant resources to regional and multilateral institutions, they do not have as productive a partnership in these settings as one would want from the world's two largest economies. Instead, it is commonly the case that the main action---constructive or otherwise---in the ITU, WTO, OECD, World Intellectual Property Organization, ICANN, and other forums takes place between the United States and the European Union. If Japan can seize the opportunities inherent in the Internet era and make a decisive move toward a dynamic, pro-competitive, user-oriented orientation stance at home, then it could become an extremely helpful partner to the United States on global information infrastructure matters. This is especially the case in situations where the United States and Europe or the global North and South are experiencing debilitating disagreements, such as is currently the case with efforts to address global electronic commerce in the WTO.^{*43} Rather than standing to the side and hedging its bets, Japan could play important intermediary and leadership roles, especially if it could garner Asian support for a progressive global agenda.

Enhance Non-Trade Collaboration. Finally, while recognizing that times and governments have changed in the past few years, it should be noted that the two sides should be able to find some constructive avenues for collaboration on matters other than market liberalization. Whether it be in bilateral settings or regional bodies like the Asian-Pacific Economic Cooperation (where Japan has proposed some good initiatives), and whether it involves test beds for broadband applications or tackling the global digital divide, there are many creative opportunities for collaboration that have gone wanting for lack of political will. In most cases, these would not require very substantial commitments of time or money, but rather just the exercise of some leadership in mobilizing the business community and civil society organizations. Even in these sluggish economic times and amidst threats to national security and other pre-occupations, there is useful work that could be done without inordinate difficulty.

Conclusion

Is the glass half empty, or half full? Are the United States and Japan approaching a sort of digital divergence between distinctly different preferences, traditions, and institutions for managing the information age? Or are they instead going through a process of contentious convergence, in which both sides are simply doomed to engage in painful and protracted interactions about the mutual incremental adjustment of their governance systems? There are analysts and stakeholders in both countries who

could fervently argue either side of the coin, and each could muster a good deal of evidence to support their respective positions. Given the larger linkages between the two countries outside the arcane world of telecommunications policy, divorce is impossible. Nevertheless, it is not clear how happy this part of the marriage can be. The telecommunications dimension is in what anthropologists call a liminal state, a condition in which fundamental questions of identity and outlook are in flux. Deciding together what balance can be struck between divergence and convergence requires, as a first step, an open airing of differences of perspective. If nothing else, this paper has hopefully contributed to that process.

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Endnotes

- *1 For an early overview, see, U.S. General Accounting Office, "Assessment of Bilateral Telecommunications Agreements with Japan GAO/NSIAD-84-2" (Washington, D.C.: GAO, October 7, 1983). For a broader view of equipment issues, see, "The Titans of High Technology: A Survey of Japan and the United States," The Economist, August 23, 1986.
- *2 See for example the essays in, Meheroo Jussawalla, ed., United States-Japan Trade in Telecommunications: Conflict and Compromise (Westport, CT: Greenwood Press, 1993); and, Ikuo Ohashi, "The Effects of Telecommunications Deregulation," in, U.S.-Japan Relations: New Attitudes for a New Era--Annual Review 1983-84 (Cambridge, MA: Center for International Affairs, Harvard University, 1984): 85-97.
- *3 A useful overview is provided in, Pamela Samuelson and Hal R. Varian, "Information Policy in the Clinton Years," in, Jeffrey A. Frankel and Peter R. Orszag, eds., American Economic Policy in the 1990s (Cambridge, MA: MIT Press, 2002).
- *4 For example, see, William J. Drake, From the Global Digital Divide to the Global Digital Opportunity: Proposals Submitted to the G-8 Kyushu-Okinawa Summit 2000---Report of the World Economic Forum Task Force on the Global Digital Divide (Geneva: World Economic Forum, July 19, 2000).
- *5 For an example of this thinking, see Laura D'Andrea Tyson, Who's Bashing Whom? Trade Conflict in High-Technology Industries, Second Edition (Washington, D.C.: Institute For International Economics, 1992).
- *6 As is often the case in U.S.-Japan relations, the two sides may have understood the shift very differently. The Americans thought the change in tone would be welcomed, but, "Believing that the U.S. government no longer cared as much about economic issues, the Japanese government was prepared to slow down its response to American requests on measures to make Japanese markets more open." Edward J. Lincoln, Troubled Times: U.S.-Japan Trade Relations in the 1990s, (Washington, D.C.: Brookings Institution Press, 1999): p.122.
- *7 On the fruits of these Clinton-era efforts, see, "Fourth Joint Status Report of the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy" (Washington, D.C.: USTR, June 30, 2001); and, "Third Joint Status Report on Deregulation and Competition Policy" (Washington D.C.: USTR, 2000).
- *8 For further discussion of these developments, see, William J. Drake and Eli M. Noam, "Assessing the WTO Agreement on Basic Telecommunications," in Gary Clyde Hufbauer and Erika Wada, eds., Unfinished Business: Telecommunications After the Uruguay Round (Washington, D.C.: Institute for International Economics, 1998): 27-61; and Drake, Toward Sustainable Competition in Global Telecommunications: From Principle to Practice (Washington D.C.: Aspen Institute, 1999).
- *9 For a classic overview of the politics of trade policy, including vis-a-vis Japan, see, I.M. Destler, American Trade Politics, (Washington D.C. and New York, Institute For International Economics and the Twentieth Century Fund, June 1992). Also useful for understanding the dynamics of Executive Branch-Congressional interaction in this arena is, James Shoch, Trading Blows: Party Competition and U.S. Trade Policy in a Globalizing Era, (Chapel Hill: University of North Carolina Press, 2001).
- *10 See, for example, "Testimony of Ambassador Michael Kantor on Trade with Japan and Efforts to Open Foreign Telecommunications Markets," United States Trade Rep-

representative, Before the Subcommittee on Commerce, Consumer Protection, and competitiveness and the Subcommittee on Telecommunications and Finance, August 3, 1993; and, Hearing of the Commerce on U.S.-Japan Framework Talks on Trade, Consumer and Monetary Affairs Subcommittee of the House, Government Operations Committee, March 23, 1994.

*11 See, Senate Resolution 207--Expressing the Sense of the Senate Regarding Fair Access To Japanese Telecommunications Facilities and Services, Congressional Record, October 27, 1999, 106th Congress, 1st Session, S 13288, Vol. 145, No. 148.; and Senate Resolution 275--Expressing the Sense of the Senate Regarding Fair Access To Japanese Telecommunications Facilities and Services, Congressional Record, March 20, 2000, 106th Congress, 2nd Session, S 1468, Vol. 146, No. 31.

*12 Of course, Powell and like-minded persons maintain that inaction is a principled political position. See, Nicholas Lemann, "The Chairman," The New Yorker, October 7, 2002.

*13 Annual Reform Recommendations from the Government of the United States to the Government of Japan under the U.S.-Japan Regulatory Reform and Competition Policy Initiative, October 14, 2001, p. 2. For a status report, see, First Report to the Leaders on the U.S.-Japan Regulatory Reform and Competition Policy Initiative, (Washington D.C.: USTR, 2002).

*14 In the early 1980s, the Reagan Administration endowed it with a Bureau of International Communications and Information Policy (CIP) led by an Ambassador-level appointee who was to coordinate the international telecommunications policy activities of all relevant agencies. However, dissatisfaction with its performance and challenges to its authority led CIP to be downgraded within the bureaucracy from a "bureau" to an "office" in the Clinton Administration. In the Bush Administration, it is now just a "group" within a bureau.

*15 In addition, the department provides the Congress with annual reports on economic and policy trends in foreign countries, including Japanese telecommunications. For an example see, State Department, 2000 Country Reports on Economic Policy and Trade Practices, 107th Congress, 1st Session, July 2001, 2001 H-426-6, 2001 CIS H. Print 4626.

*16 See, for example, United States Council for International Business, "A Reply to USTR Section 1377 Request for Comments Concerning Compliance with Telecommunications Trade Agreements" (New York: February 1, 2002); Telecommunications Industry Association, "A Reply to USTR Section 1377 Request for Comments Concerning Compliance with Telecommunications Trade Agreements," (Washington, D.C.: February 1, 2002); and, CompTel, "A Reply to USTR Section 1377 Request for Comments Concerning Compliance with Telecommunications Trade Agreements," (Washington D.C.: February 1, 2002).

*17 For a well argued view of the roots of this orientation, see, Sheldon Garon, Molding Japanese Minds: The State in Everyday Life (Princeton: Princeton University Press, 1997).

*18 In this regard, most Americans would find much to agree with in The Economist's recent assessment. See, "What Ails Japan? A Survey of Japan," The Economist, April 20th, 2002.

*19 USTR, The National Trade Estimates Report on Foreign Trade Barriers, (Washington D.C.: USTR, 2002), p. 215.

- *20 For a general discussion of the political consequences of the distributed revolution, see, William J. Drake, "Introduction: The Turning Point," in, Drake, ed., The New Information Infrastructure: Strategies for US Policy (New York: The Twentieth Century Fund Press, 1995): 1-27.
- *21 Dewey Ballantine LLP and Cyberworks Japan, "The Internet in Japan: Catalyst for Change?," (Washington D.C.: Dewey Ballantine, 2001), p. 10.
- *22 Steven K. Vogel and John Zysman, "Technology," in, Vogel, ed., U.S.-Japan Relations in a Changing World (Washington D.C.: Brookings Institution, 2002), pp. 256-257.
- *23 For a wider discussion of this issue, see, Lonny E. Carlile and Mark C. Tilton, eds., Is Japan Really Changing its Ways? Regulatory Reform and the Japanese Economy (Washington, D.C.: The Brookings Institution, 1998).
- *24 Note, for example, the continuity in the lists of outstanding issues contained in the following reports released by the Office of the U.S. Trade Representative: The National Trade Estimates Report on Foreign Trade Barriers, (Washington D.C.: USTR, 1999); The National Trade Estimates Report on Foreign Trade Barriers, (Washington D.C.: USTR, 2000); The National Trade Estimates Report on Foreign Trade Barriers, (Washington D.C.: USTR, 2002).
- *25 See, for example, MPHPT, "Summary of Final Report on How Competitive Environments in the Telecommunications Business Field Should be Established in the Broadband Age," by Study Group on New Business Models and Grand Design of Competitive Environments for the New Information and Communications Era, June 6, 2002.
- *26 In this context, singled out as containing useful but incomplete information was, MPHPT, "Manual for Market Entry into Japanese Telecommunications Business" (Tokyo: MPHPT, March 2002). http://www.soumu.go.jp/joho_tsusin/eng/index.html
- *27 Ronald A. Cass and John Haring, International Trade in Telecommunications (Washington, D.C.: AEI Press, 1998), p. 176.
- *28 USTR, The National Trade Estimates Report on Foreign Trade Barriers, (Washington D.C.: USTR, 2002), p. 205.
- *29 In addition, the Study Group on Interconnection Rules in the IT Age released a draft report in June 2002 dealing in particular with Operations Support Systems (OSSs) and the relationship between interconnection charges and user charges. Discussions of these and related developments are available in the MPHPT's biweekly newsletter, MPHPT Communications News, http://www.soumu.go.jp/joho_tsusin/eng/Releases/.
- *30 For a notable exception to this generalization, see, Jeffrey H. Rohlfs and J. Gregory Sidak, "Exporting Telecommunications Regulation: The US-Japan Negotiations on Interconnection Pricing," American Enterprise Institute-Brookings Institution Joint Center for Regulation Series, Working Paper 02-3, February 2002. The authors, who have been advisors to NTT, maintain that LRIC is a deeply flawed model that is not working within the United States and that the U.S. government therefore has no business pressuring Japan to employ it.
- *31 "Comments of the United States Government on the Telecommunications Council's Draft Report, 'Policy on Calculation of Interconnection Charges Based on the Revised LRIC Model,'" August 30, 2002, p.1, http://www.soumu.go.jp/s-news/2002/pdf/020904_1_21.pdf. See also, USTR, "United States Comments on MPT Study Group LRIC Model for Interconnection," undated, <http://www.ustr.gov/pdf/dftcmnt.pdf>.

- *32 Oftel, "The Use of Long Run Incremental Cost (LRIC) as a Costing Methodology in Regulation," February 12, 2002, p. 4. http://www.oftel.gov.uk/publications/mobile/ctm_2002/lric120202.pdf
- *33 See, "Mexico: Measures Affecting Telecommunications Services--- First Written Submission of the United States of America," WT/DS204 (Geneva: World Trade Organization, October 3, 2002). <http://www.ustr.gov/enforcement/2002-10-03-mextelecom-first.pdf>
- *34 "Frequently Asked Questions About Japan Telecommunications Issues," U.S. Embassy, Tokyo, January 2000. <http://usembassy.state.gov/japan/www2329.html>
- *35 See for example, "UK Government Response to Japanese Consultation on LRIC Implementation," undated, http://www.soumu.go.jp/snews/2002/pdf/020904_1_20.pdf
- *36 These and other comments are reproduced in Japanese only at, http://www.soumu.go.jp/joho_tsusin/eng/index.html
- *37 First Report to the Leaders on the U.S.-Japan Regulatory Reform and Competition Policy Initiative, (Washington D.C.: USTR, 2002), p. 5.
- *38 USTR, The National Trade Estimates Report on Foreign Trade Barriers, (Washington D.C.: USTR, 2002), pp. 207-208.
- *39 Ministry of Foreign Affairs, "Comments of the Government of Japan on 2002 National Trade Estimate (NTE) Report," April 17, 2002. <http://www.mofa.go.jp/region/n-america/us/economy/date/nte2002/>
- *40 Ministry of Foreign Affairs, "A Roadmap for Greater Opportunities through further Competition, Cooperation and Integration: Report of a Study Group on Japan-U.S. Economic Relations in a New Era, December 2000. <http://www.mofa.go.jp/region/n-america/us/map0012.html>
- *41 "Annual Reform Recommendations from the Government of the United States to the Government of Japan Under the U.S.-Japan Regulatory Reform and Competition Policy Initiative, October 23, 2002, Annex p. 4. http://www.ustr.gov/regions/japan/2002-10-23_reformrec.PDF
- *42 C. Fred Bergsten, Takatoshi Ito, and Marcus Noland, No More Bashing: Building a New Japan-United States Economic Relationship (Washington D.C.: Institute for International Economics, 2001), pp. 233 and 242. But a different view can be found across the street from the IIE, at the Brookings Institution. Edward Lincoln cautions against believing that the WTO provides an effective means to foster market opening dialogues; indeed, "the Japanese government views the WTO as a buffer or mechanism to slow down or obstruct pressures to make its markets more open." Lincoln, Troubled Times, 1999, p. 228.
- *43 For an overview of the issues, see, William J. Drake and Kalypso Nicolaidis, "Global Electronic Commerce and the General Agreement on Trade in Services: The 'Millennium Round' and Beyond," in, Pierre Sauve and Robert M. Stern, eds., GATS 2000: New Directions in Services Trade Liberalization (Washington D.C.: The Brookings Institution Press, 2000): 399-437.