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Biweekly Newsletter of the Ministry of Internal Affairs and Communications, Japan

FY2005 ICT Policy Principles

-- Toward realization of ubiquitous society --

The Ministry of Internal Affairs and Communications (MIC) compiled the ICT policy Principles.

The outline of the Principles is as follows:

1. Phase I of IT Revolution

In Japan, since the liberalization of the telecommunications market in 1985, information and communications technology (ICT)-related markets have been developing steadily. In addition, ICT -- including the Internet, cellular telephones, e-mails, websites, e-commerce, etc. -- has, since the late 1990s, seen a rapid spread among corporations and households. As new driving forces have been generated by the successive emergence -- based upon use of the Internet, etc. -- of new ventures and services innovations in socioeconomic aspects and quality of life came to be recognized as the "IT Revolution."

However, after stock prices of companies dealing with such IT-related services peaked, they saw a catastrophic fall. Such a phenomenon -- called the

"IT bubble" -- led to the IT Revolution being relegated to a fad status, and nothing stable was created. For instance, the Japanese population coverage of access to the Internet in 1999 remained at a mere 13.4%, lagging behind Nordic and North American countries, including Sweden (33%) and the U.S. (30%). Taking a look at the number of subscribers to broadband platforms, that for DSL of Japan was 112,000 (April 2001) to some 0.95 million (June 2000) of the U.S. and 2.54 million (December 2000) of Korea; for cable Internet subscribers, Japan was 625,000, the U.S. 2.24 million and Korea 1.31 million. In addition, with regard to IT introduction to companies, while U.S. companies utilized IT as the driving force behind business process reengineering (BPR), it is pointed out that Japanese companies simply introduced IT without a sense of urgency. As such, during Phase I of the IT Revolution,

it can be said that Japan's IT environment has not kept up with the rest of the world.

2. Unified efforts of the government as a whole through implementation of "e-Japan Strategy" and "u-Japan Strategy"

Against such background, in November 2000, the Basic Law on the Formation of an Advanced Information and Telecommunications Network Society (IT Basic Law) was enacted as a fundamental rule for an IT nation; and in January 2001, the "e-Japan Strategy," aim-

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Notice

Dear readers,

We are pleased to inform you that on September 10, 2004, the name of the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT) has changed to the **Ministry of Internal Affairs and Communications (MIC)**. In line with this change, the name of this bi-weekly newsletter "MPHPT Communications News" has also changed to the "MIC Communications News." The Ministry has changed its English name, as follows, in order to make it shorter and easier to understand the Ministry's administrative function, that is, to oversee general affairs that make up the administrative framework of Japan and the communications administration which supports communications industries, including posts and telecommunications.

Best regards,
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ing to make Japan the world's most advanced IT nation by 2005, was compiled by the IT Strategic Headquarters of the government. In particular, as for network infrastructures, the "e-Japan" set forth clear goals, such as enabling 10 million households to have access to the ultrahigh-speed Internet and 30 million households to have access to the high-speed Internet.

In response to the "e-Japan Strategy," as a result of intensive and unified efforts of the government to take measures to address the priority areas, including construction of infrastructures, e-commerce, e-governments, human resources development and network environments have been rapidly prepared. Subsequently, the actual results of these efforts had temporarily surpassed the initial target figures, for instance, in 2003, the number of households having access to the ultrahigh-speed Internet reached 17.7 million, and households having access to the high-speed Internet numbered 35 million for DSL, 23 million for cable Internet.

As such, since the network environments have improved at an astonishing pace, it was recognized that Phase I of the IT policy had been completed and had entered Phase II. Thus, the government in July 2003 developed a new national IT strategy "e-Japan Strategy-II, emphasizing IT utilization and applications while setting forth goals for realizing an "energetic, worry-free, exciting and more convenient" society.

3. Efforts at MIC

MIC liberalized and introduced competition into the telecommunications

market in 1985. Since then, MIC has been implementing pro-competitive policies, promotion policy measures, technology policy measures, etc. in a comprehensive manner. In particular, MIC has prepared rules for opening DSL and dark fibers during 2000 through 2001, abolished business the classification of Type I and II telecommunications businesses in 2003 through the amendment to the Telecommunications Business Law, thereby promoting preparation of new competitive environments in response to the age of the Internet through flexible review of regulatory frameworks.

Furthermore, MIC has actively taken i) measures for preparing infrastructures, including support for construction of fiber-optic networks, promotion of projects for correcting differences among areas, promotion of terrestrial digital broadcasting, and ii) policy measures for supporting IT ventures, implementing various pilot projects and promoting IT introduction into local communities. In addition, MIC has been implementing priority leading-edge R&D and verification experiments by identifying IT as one of the priority areas in the science and technology field.

With respect to a mid- and long-term vision, the Minister for Internal Affairs and Communications inquired of the Telecommunications Council about the Inquiry No. 3 "desirable Internet policy in the 21st century" in 2001; and after receiving a report on the inquiry, MIC in line with the report has been setting forth directions of IT policies. In July 2003, the third report entitled "Toward a New IT Society originated from Japan"

was released. This report pointed out that a tidal wave for constructing a ubiquitous network is to occur, judging from trends that i) information has become indispensable for daily life, ii) information distribution in business has rapidly advanced and been diversifying, and iii) wireless broadband services have been realized.

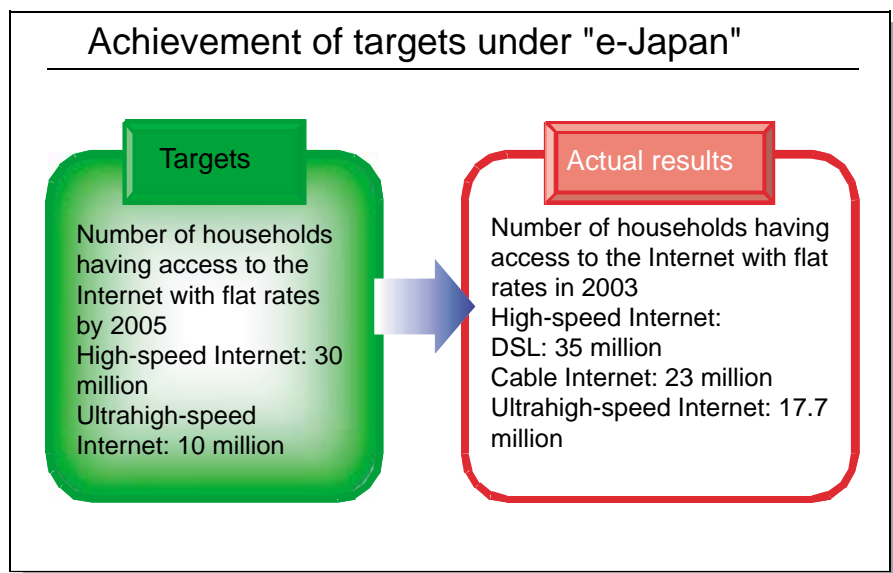
In addition, the report described that technologies comprising the ubiquitous network include internationally superior technologies, such as mobile terminals and information consumer electronics; thus, it is vital to create a new IT society originated from Japan based upon Japanese technological competitiveness through realization of a ubiquitous network society through the combined use of diversified infrastructures and content by the general public.

4. Promotion of Phase II of IT Revolution

After such efforts, the Internet user population in Japan has steadily increased to 77.3 million at the end of 2003, and the population coverage surpassed the 60% level. Specifically, with respect to the broadband environment, broadband services at the highest speed are available at the lowest prices in the world; the number of subscribers to broadband services reached 16.19 million as of the end of June 2004. Japan's infrastructures have attained the world's highest levels. In addition, in December 2003, terrestrial digital broadcasting was launched in the three major metropolitan areas of Tokyo, Nagoya and Osaka. Digital TV units that are expected to play the core role of information gateway are increasingly penetrating into households.

On the other hand, in aspects of usage, actual usage rates for DSL, cable Internet and fiber-optic cables are remain a mere 32.0%, 11.2% and 6.5% (as of the end of FY2003), respectively. It can be said that broadband platforms are not fully utilized. During the period of March 2001 through March 2004, however, there were steady achievements according to the field, for instance, the ratio of online procedures for filing electronic applications/notifications has increased from 1% to 96%; the ratio of Internet transactions to all stock transactions (on a basis of volume of trading) has increased from 6% to 23%.

Without saying, one of the keys to suc-



cess in preparing infrastructures in Phase I of IT policies including the "e-Japan Strategy" is the active effort of the private sector. Also, intensive support from the administration should be effective. MIC shall, in promoting Phase II of the IT Revolution, steadily implement adequate policy measures in a timely manner in accordance with the "e-Japan Strategy II."

5. Next-generation strategy: u-Japan Initiative

MIC will promote Phase II of the IT Revolution for ensuring that Japan would become the world's most advanced IT nation in 2005. Furthermore, acknowledging that it is to continue to be the world's most advanced nation after 2006, MIC has decided to develop a next-generation network strategy setting 2010 as a target year. Considering the promising future of ubiquitous network technologies, including RFID tags, MIC in March 2004 held the "Policy Roundtable for Realizing Ubiquitous Network Society," and in May 2004 the "Council on Economic and Fiscal Policy (CEFP)" released an outline of the "u-Japan Initiative."

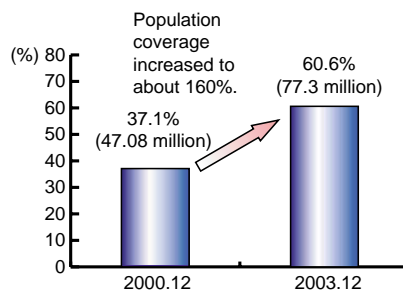
The "Basic Policies for Economic and Fiscal Management and Structural Reform 2004" of CEEF described that "in order to prepare a ubiquitous network environment and realize an IT society in which the elderly and the people with disabilities can actively participate, the Government will implement the "u-Japan Initiative" in its "Part 2 Priority policies for economic revitalization." The "u-Japan Initiative" was decided at the Cabinet meeting on June 4, 2004.

Under the "u-Japan Initiative," the goal is to realize a society in which "anyone, anything, anywhere and anytime" can be easily connected to networks by 2010. To this end, the government will compile a comprehensive policy package as well as develop a specific Action Plan by December 2004. The government will transmit a u-Japan concept through accumulation of successful business models, thereby actively promote

Infrastructure

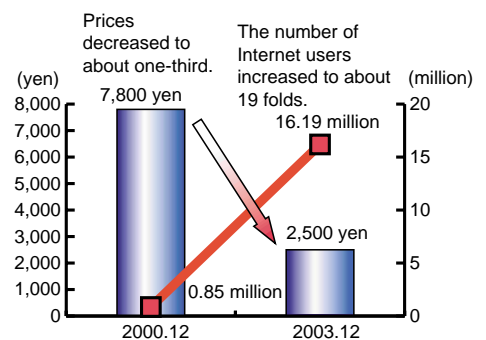
Internet

◆ Population coverage of Internet users



Broadband

◆ Prices for access to the high-speed Internet and number of Internet users

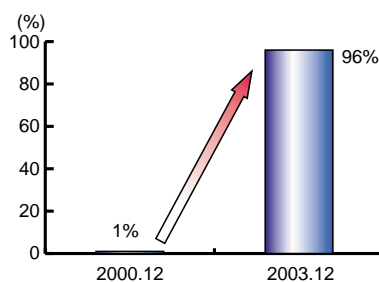


Note: Prices are monthly charges for DSL services. Number of Internet users: a total of DSL, cable TV

Utilization

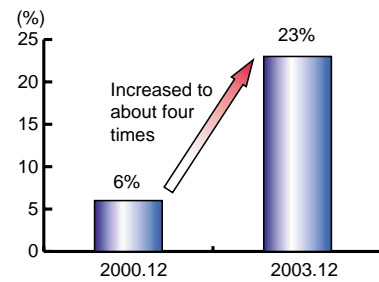
e-government

◆ Ratio of administrative procedures of the central government for electronic filing of applications/notifications



e-commerce

◆ Ratio of online transactions of stocks on the Internet to all volume of trading



Note: On a basis of volume of trading

international harmonization and contributions.

6. Economic effects of the ubiquitous network society

The real gross domestic product (GDP) for FY2003 increased by 3.2% over the previous fiscal year. The growth rate surpassed that of FY1996 (2.6%) and the forecast of the government (actual growth rate of 2.0%). The nominal GDP also increased by 0.7% over the previous fiscal year, a positive growth for the first time in two years, showing a steady economic recovery. The GDP deflator indicating comprehensive price fluctuation was -2.6% in the first quarter of FY2004 (compared to the same quarter of the previous fiscal year), recording a fall for 24 consecutive quarters. Although long-lasting deflation still remains, trends toward recovery in production and facilities investments in the business sector are generating prof-

erable effects on personal consumption occupying a 50% or more share in the real GDP, resulting in significant improvement in consumer confidence.

Steady personal consumption is founded upon favorable spending on digital consumer electronics, such as thin-display TV units, DVD recorders and digital cameras, the so-called "three sacred treasures." Performances in the business sector are supported by capital investment intention and strong demand for IT-related new production goods, exemplified by value-added semiconductors. Considering these circumstances, the economic recovery this time is called a "digital boom," indicating that IT is the most important driving force in the Japanese economy that requires value-added production.

Should the ubiquitous network society be realized, since any equipment and devices become part of digital consumer

electronics, markets relating to ubiquitous networks would include a variety of markets, such as those for infrastructures, networks, appliances, service content, cashless commerce, etc. The related industries would come to cover production, commerce, transportation, finance, insurance, etc. Accordingly, economic effects on related industries through demand for production goods, including parts and components, are expected to be a considerably huge scale.

According to the FY2004 WHITE PAPER "Information and Communications in Japan 2004," where promoting preparation of ubiquitous networks, direct economic effects on related markets would be approximately 87.6 trillion yen per annum in 2010, and the ripple effects on other markets approximately 120.5 trillion yen. Forecasts show that cumulative direct economic effects and economic ripple effects by 2010 would be 449 trillion yen and 611 trillion yen, respectively.

7. From IT policy to ICT policy

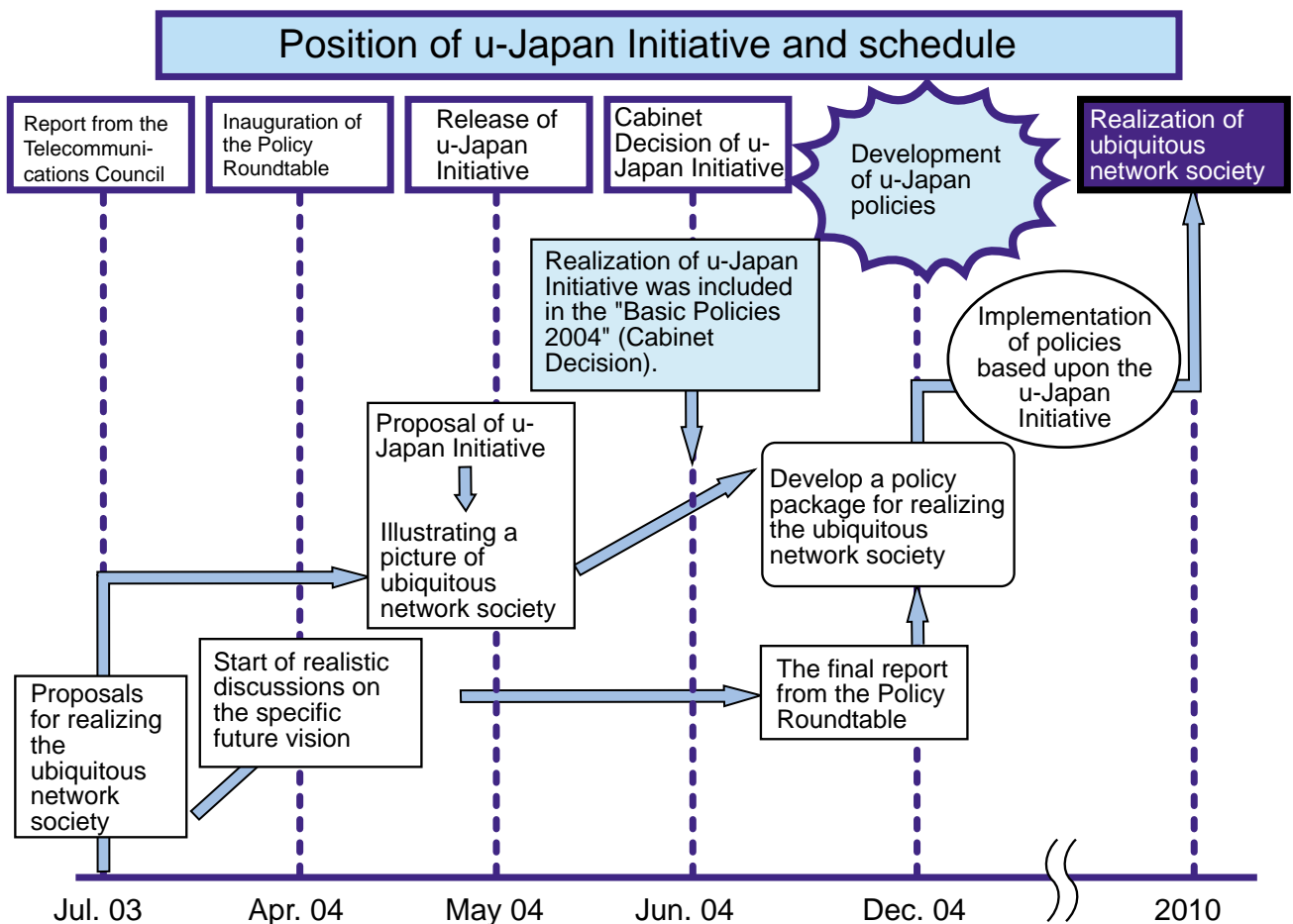
In Japan as well as in the U.S. and Korea, the term "IT," short for information technology, is widely used to refer to information and communications technology, including the Internet and cellular telephones. On the other hand, in Europe, Central/South Americas, Asia and at various international organizations, the term "ICT," short for information and communications technology, has been widely used.

In the ubiquitous network society to be realized, not only "person-to-person" communications but also "person-to-object" and "object-to-object" communications would become a reality. As such, the most significant concept is that diversified, free and convenient "communications" would be realized through easy connection of any person and objects. Taking this into account, in order to more expressly identify the significance of communications in "information and communications," the term "ICT" is used in the u-Japan Initiative.

In the FY2005 Policy Principles, the u-Japan Initiative is a main theme for compiling the policy principles. Thus, from now on, the title "FY2005 ICT Policy Principles" is employed from this fiscal year.

In this "FY2005 ICT Policy Principles," considering the outline of the "u-Japan Initiative" submitted to CEEF, FY2005 priority policy measures in the ICT field are compiled according to the following four pillars:

- 1) Realization of a society in which networks are comfortably used anytime, anywhere;
- 2) Realization of a society in which new businesses and services emerge one after another;
- 3) Realization of a society in which everyone can securely live in peace; and
- 4) Realization of a society in which individual power is fully nurtured.



Communications Industry Forecasts of Business Conditions Show Positive Growth

MIC compiled the results (prompt report) of the survey on "overall results of Japan's communications industry (telecommunications and broadcasting)," conducted in July 2004, for the second and third quarters (Q-II and Q-III) of FY2004. Fixed figures will be posted at the end of July 2004 at the URL: <http://www.johotsusintokei.soumu.go.jp/>

1. Sales forecasts

The Business Survey Indices (BSIs) in the second quarter (Q-II) and the third quarter (Q-III) of FY2004 indicate as follows:

- Telecommunications businesses (telecommunications carriers) are still in the "upward" tendencies of "19.5" for Q-II and "24.4" for Q-III of FY2004, respectively.
- Private broadcasting businesses (commercial broadcasters) maintain consecutive "plus" since Q-I of FY2004, "2.4" for Q-II and "14.3" for Q-III of FY2004, respectively.
- Cablecasting businesses (cable TV operators) are continuously in the tremendous "plus" tendencies of "52.9" for Q-II and Q-III of FY2004, respectively.

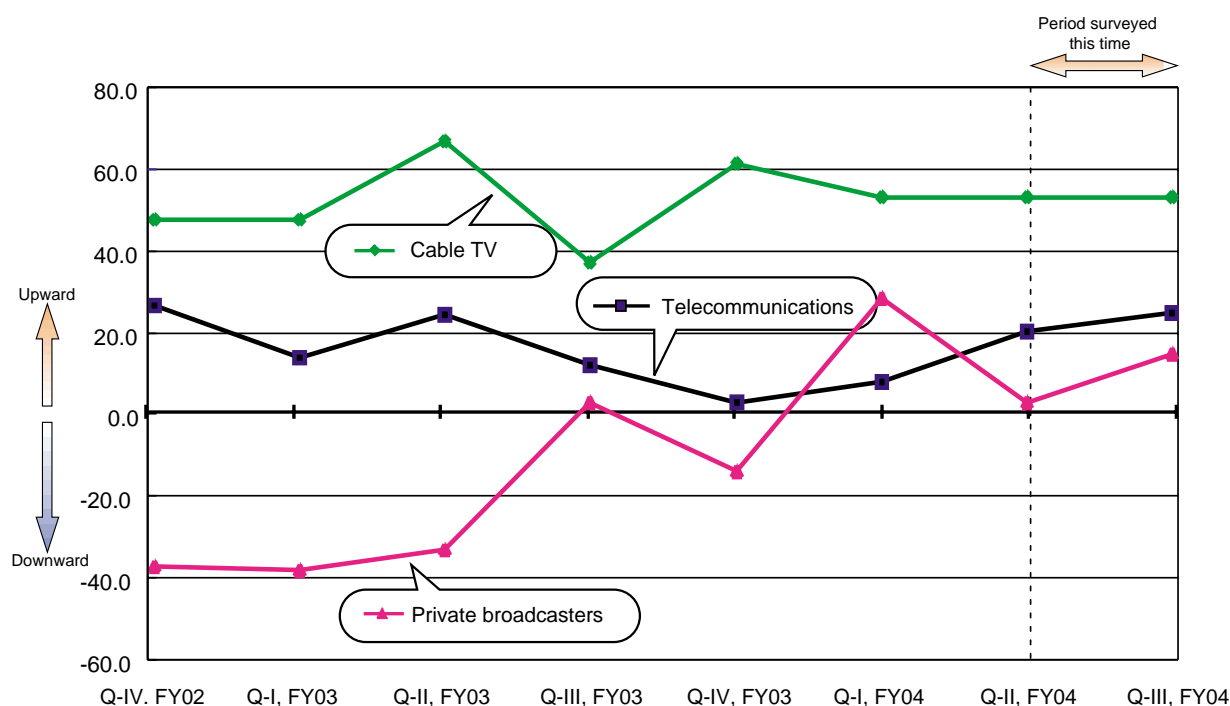
Table 1. Business survey index

(Unit: point)

Type of business	FY2002 Q-IV	FY2003 Q-I	FY2003 Q-II	FY2003 Q-III	FY2003 Q-IV	FY2004 Q-I	FY2004 Q-II	FY2004 Q-III
Telecommunications	26.0	13.0	23.9	11.4	2.4	7.1	19.5	24.4
Broadcasting	-13.6	-13.8	-6.2	13.1	6.2	35.0	16.9	25.4
Private broadcasting	-38.3	-39.1	-34.0	2.4	-14.9	27.9	2.4	14.3
Cablecasting	47.4	47.4	66.7	36.8	61.1	52.9	52.9	52.9
All industries	NA	NA	NA	NA	NA	2.6	18.9	15.1

- Notes: 1. DI: the "percentage points of companies saying that the sales amounts are increasing compared to the previous quarter" minus the "percentage points of companies saying that the sales amounts are decreasing compared to the previous quarter"
2. Basically, indices are estimated at the end of the previous quarter for each. However, indices for Q-II and Q-III in FY2004 are estimated at the end of Q-I in FY2004.
3. Figures for "all industries" are those for sales forecasts of large-scale corporations excerpted from the "Business Outlook Survey (April through June 2004)," the Cabinet Office and the Ministry of Finance.

Fig. 1. Trends in sales forecast diffusion index



2. Financial positions

The Financial Position Diffusion Indices (DI: The "percentage of companies saying that the financial position are easy compared with the previous quarter" minus the "percentage of companies saying that the financial position are tight compared with the previous quarter.") for FY2004 Q-II and Q-III show as follows:

- Telecommunications businesses and private broadcasting businesses continue to be the "easy" tendencies.
- Cablecasting businesses are to be the "tight" tendencies of "-5.9" and "-11.8."

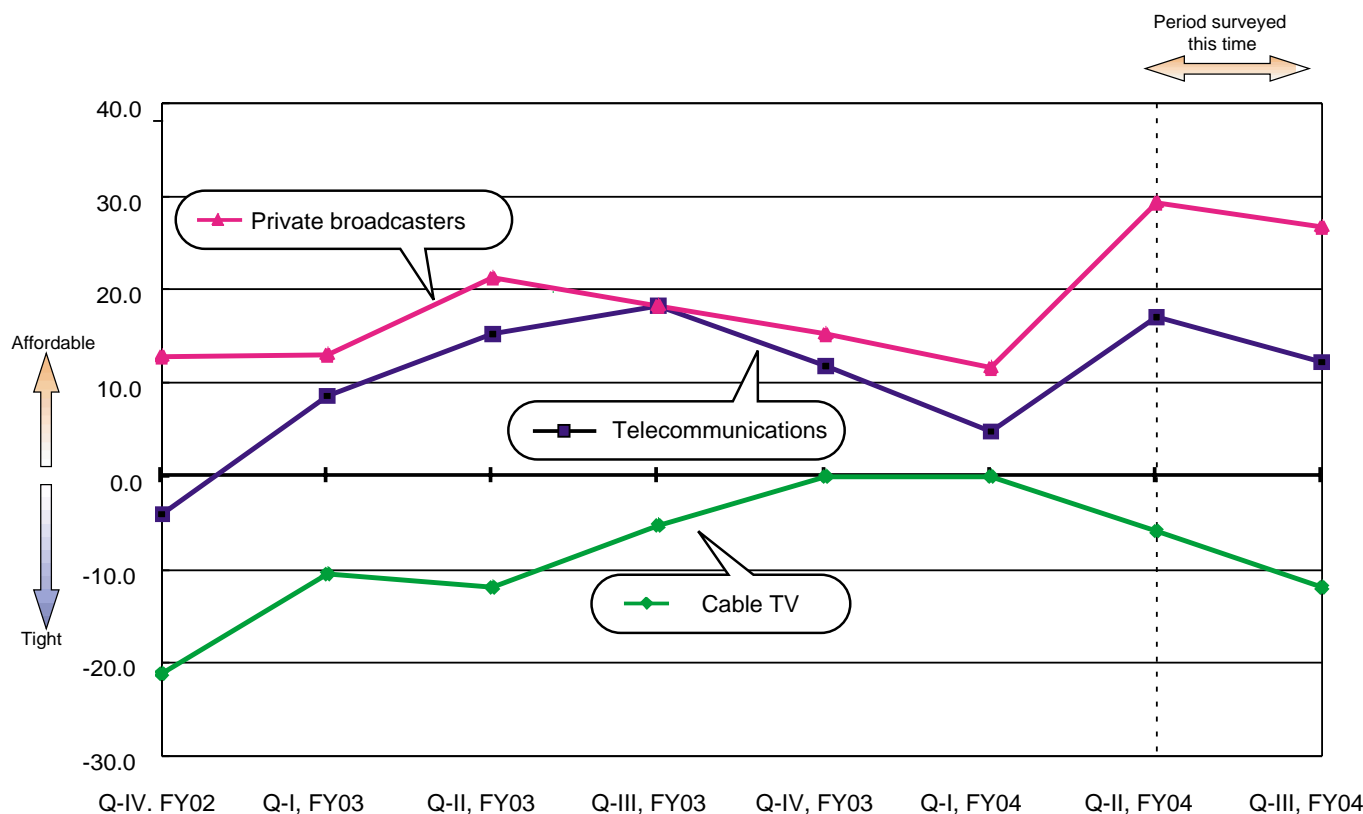
Table 2. Financial position diffusion index

(Unit: point)

Type of business	FY2002 Q-IV	FY2003 Q-I	FY2003 Q-II	FY2003 Q-III	FY2003 Q-IV	FY2004 Q-I	FY2004 Q-II	FY2004 Q-III
Telecommunications	-4.0	8.7	15.2	18.2	11.9	4.8	17.1	12.2
Broadcasting	3.0	6.2	12.5	11.1	10.9	8.3	19.0	15.5
Private broadcasting	12.8	13.0	21.3	18.2	15.2	11.6	29.3	26.8
Cablecasting	-21.1	-10.5	-11.8	-5.3	0.0	0.0	-5.9	-11.8
All industries	NA	NA	NA	NA	NA	6.6	4.9	4.7

Notes: 1. Basically, indices are estimated at the end of the previous quarter for each. However, indices for Q-II and Q-III in FY2004 are estimated at the end of Q-I in FY2004.
 2. Figures for "all industries" are those for sales forecasts of large-scale corporations excerpted from the "Business Outlook Survey (April through June 2004)," the Cabinet Office and the Ministry of Finance.

Fig. 2 Trends in financial position diffusion index



3. Forecasts on business conditions

The Business Survey Indices (BSI: the "percentage points of companies saying that the business conditions are improving compared to the previous quarter" minus the "percentage points of companies saying that the business conditions are worsening compared to the previous quarter.") for Q-II and Q-III in FY2004 show as follows:

- With respect to telecommunications businesses, the "upward" tendencies are strengthening, showing "9.8" and "14.6," respectively.
- With respect to private broadcasting companies and cablecasting companies continue to be the "upward" tendencies.

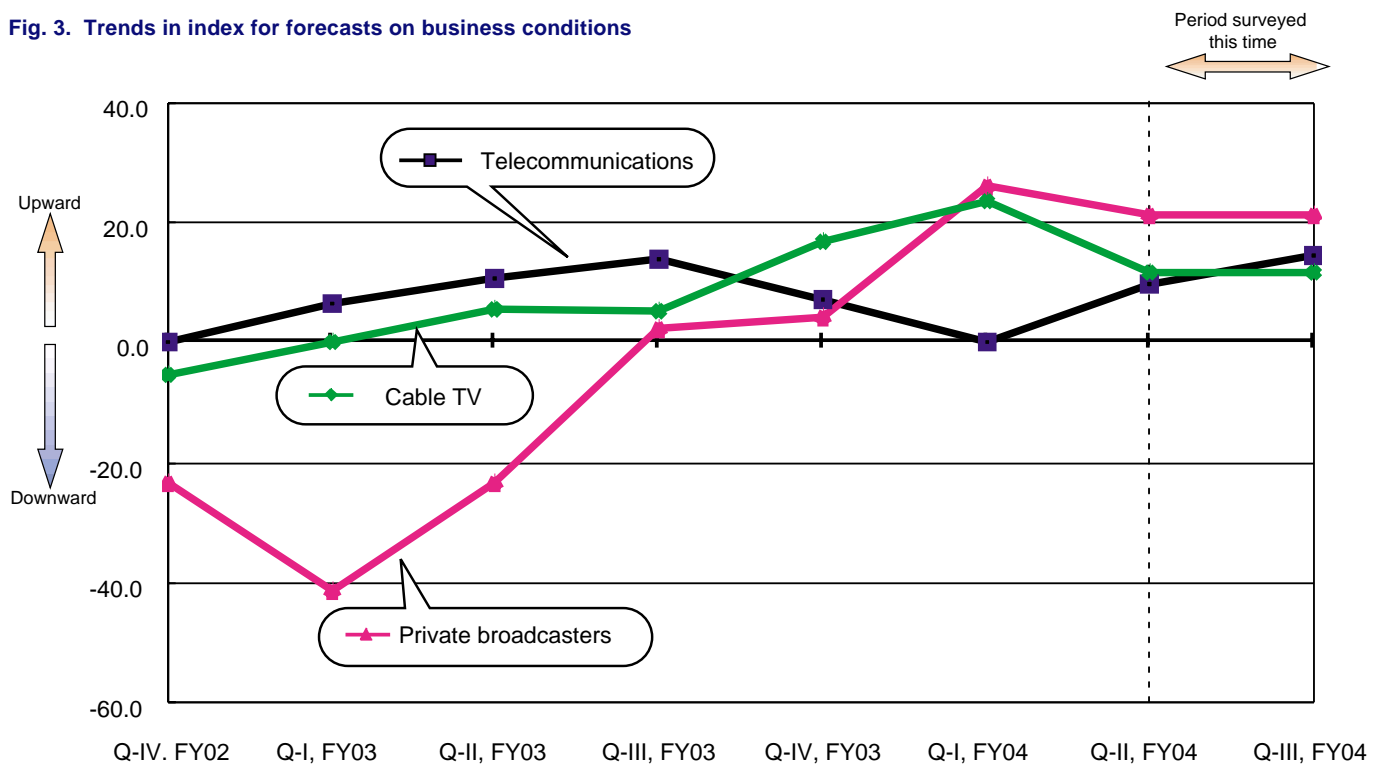
Table 3. Index for forecasts on business conditions

(Unit: point)

Type of business	FY2002 Q-IV	FY2003 Q-I	FY2003 Q-II	FY2003 Q-III	FY2003 Q-IV	FY2004 Q-I	FY2004 Q-II	FY2004 Q-III
Telecommunications	0.0	6.5	10.9	14.0	7.1	0.0	9.8	14.6
Broadcasting	-18.2	-29.2	-15.4	3.2	7.8	25.4	18.6	18.6
Private broadcasting	-23.4	-41.3	-23.4	2.3	4.3	26.2	21.4	21.4
Cablecasting	-5.3	0.0	5.6	5.3	16.7	23.5	11.8	11.8
All industries	NA	NA	NA	NA	NA	7.2	12.2	12.9

- Notes: 1. Basically, indices are estimated at the end of the previous quarter for each. However, indices for Q-II and Q-III in FY2004 are estimated at the end of Q-I in FY2004.
 2. Figures for "all industries" are those for sales forecasts of large-scale corporations excerpted from the "Business Outlook Survey (April through June 2004)," the Cabinet Office and the Ministry of Finance.

Fig. 3. Trends in index for forecasts on business conditions



"Action Plan for Radio Spectrum Reallocation" Formulated

The Ministry of Internal Affairs and Communications (MIC) has formulated an "Action Plan for Radio Spectrum Reallocation"; this plan aims to provide a smooth and steady follow-up to the radio spectrum reallocation, based upon the evaluation results of the survey on actual radio spectrum use in FY2003 (for the frequency bands above 3.4 GHz).

1. Background and purposes

MIC has formulated an "Action Plan for Radio Spectrum Reallocation" in order to provide a smooth and steady follow-up to the radio spectrum reallocation, based upon the evaluation results of the survey on actual radio spectrum use in FY2003.

2. Outline of "Action Plan for Radio Spectrum Reallocation"

1) Urgent matters to be deliberated upon
Upon implementation of radio spectrum reallocation henceforth, MIC will deliberate upon the following three matters and promote effective frequency use.

- i) Measures for effective frequency use for fixed wireless systems
- ii) Measures for effective frequency use for radiolocation systems
- iii) Measures for effective frequency use for satellite communications systems

2) Action Plan for follow-up of the evaluation results on the survey in FY2003
With regard to the frequency segments for which MIC is to address the effective frequency use by priority in the evaluation results of the FY2003 survey,

MIC will identify the current status and themes to be addressed, develop basic directions as well as specific measures in accordance with the basic directions.

3. Schedule

MIC will surely implement specific measures for each frequency segment. With respect to the three urgent matters to be deliberated upon, MIC will develop directions within FY2004.

MIC will sequentially review the "Action Plan" taking into consideration the evaluation results of the survey on actual radio spectrum use to be conducted every fiscal year and changes, etc. in the environment for the radio spectrum use.