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## *High-tech Sector*

### ***Government Panel Recommends Cut in Connection Charges***

A government advisory panel evaluating proposals for lowering connection charges by NTT came up with a suggested 10% reduction. There were two proposals on the table, one for a 10% cut and the other for a close to 20% cut. Connection charges are fees paid by other carriers for connecting their calls to the NTT network. The US had been asking for a higher cut claiming that the high level of connection charges puts other carriers at a disadvantage.

### ***Viable Rival to NTT Emerges***

With IIJ and Tokyo Electric Power affiliated telecommunications service firms planning to merge, a powerful rival capable of challenging NTT's monopoly may emerge. Tokyo Electric Power's extensive fiber cable network combined with IIJ's Internet technology will give plenty of competition to NTT. Tokyo Electric Power is also negotiating for the acquisition of Japan Telecom's fixed-line network. These moves could trigger restructuring in Japan's telecommunications sector.

### ***Softbank to Launch ADSL Digital Broadcasting Service***

The Softbank Group on July 24 said that it will launch the BB Cable TV service from September. The multi-channel digital broadcasting service will be available to Yahoo BB (Internet provider service) subscribers. This move signals a step toward the fusion of telecommunications and broadcasting. Instead of the CATV cable, users will use ADSL modems to connect the signal to their TV sets.

### ***Switch to Terrestrial TV Broadcasting to Cost ¥180 billion***

A recent report by the Terrestrial Digital Broadcasting Promotion Council to the Ministry of Public Management, Home Affairs, Posts and Telecommunications estimates the cost of switching to terrestrial digital broadcasting at ¥180 billion. The report also claims that a complete switch to terrestrial digital broadcasting and discontinuation of analog broadcasting can be completed as scheduled in 2011.

### ***Japan Mobile Phone Demand to Grow Steadily***

The demand for mobile phones in Japan will continue to grow at an average annual rate of 5.3% through 2006, according to a market report released recently by the Japan Gartner Group. While mobile phone sales in 2001 on the whole fell 2.3% year-on-year, sales of value-added terminals, including those supporting Java or featuring cameras, were up 15% in terms of value.

### ***Japan's Electronic Components Manufacturers Boosting Production in China***

Japan's electronic components manufacturers are rapidly expanding production in China, reflecting the rush of Western and Japanese assembly manufacturers into that country. Moreover, local assembly manufacturers are also rapidly increasing production. This is creating a strong demand for electronic components. At the same time, they are also moving production of components from other South East Asian countries to China. Among those planning to boost production in China are Nichicon, Toyo Communication Equipment, and Alps Electric. Similar moves can also be seen among Japanese manufacturers in other industries.

### ***Consolidation Starts in PC Manufacturing***

Japan's personal computer manufacturing is headed toward consolidation. Hitachi and Sharp on July 23 agreed to mutual OEM supply of personal computers. On the other hand, NEC has similar OEM arrangements with Mitsubishi Electric and Hitachi.

### ***Japan's Storage Service Provider Market Set for Solid Growth***

Japan's storage service provider market, that was just ¥2.3 billion in 2001, is expected to grow at an average annual rate of 45% and reach ¥14.5 billion in 2006, according to IDC, a high-tech market research firm. Major user industries at present are financial services, manufacturing and retailing. More growth is expected to come from public services, medical services, and educational service industries.

### ***Used SPE Market Set for Growth in 2002***

After a slowdown in 2001, the market for used semiconductor production equipment is set for growth in 2002. The US market is estimated at ¥250 billion, with the global market several times this figure. With device manufacturers scrapping idle equipment and manufacturers scrapping unsold units, much of the used SPE devices disappeared from the market. On the other hand, demand for such equipment from China is growing.



***Unauthorized Access Problem Spreading***

The problem of computer viruses affecting computer systems was so far largely limited to corporate users but now seems to be spreading to consumers also, according to the IPA/SEC Center. In 2001, only about 30% of unauthorized accesses reported were from individuals but the figure shot up to 73% in the second quarter of 2002. Last year much of the problem was related to computer viruses but this year unauthorized access accounts for a majority of complaints.

***Competition Heating Up Between Japan and Korean LCD Manufacturers***

Competition is heating up between Japanese and S. Korean LCD manufacturers, particularly in the 15" TFT LCD panel, which is expected to be the mainline panel for mobile computers. With Taiwanese manufacturers somewhat late in entering the market, competition for the time being will be between Japan and Korea.

***Record Production Down in First Half***

Aggregate production of records, including music CDs and DVDs, in the first half of 2002 declined 15% from the same period a year earlier. The decline in audio records could not be overcome by video despite brisk production of DVDs. This sector was affected by a decline in the production of videotapes. As a result, aggregate production, including audio and video, was down 9%.

***Clear Performance Differences Appear Among Electronic Mass Merchandisers***

Competition is increasing among leading electronic mass merchandiser chains and this is squeezing profit, a serious problem at a time when they must find funds to aggressively refurbish existing stores, open new ones and consolidate where necessary. Of the 26 listed chains, only eight reported higher sales in the fiscal year ended March 2002, with the rest reporting lower sales. Only six reported higher recurring profit, with 20 reporting profit declines and 10 recording losses. The six reporting profit gains were: Yamada Denki, Yodobashi Camera, Bic Camera, K's Denki, Mr Max, and Makiya.

**Basic Electronics Industry Statistics**

	Prod.	Ship.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices
April	118.5	121.0	122.0	83.1	2,261	2,202	18,136	1,503	8,552	8,081
May	118.1	121.9	126.2	82.2	2,007	2,180	18,217	1,623	8,877	7,717
June	112.9	118.2	122.4	88.9	2,150	2,407	18,758	1,718	9,334	7,706
July	106.8	110.7	118.0	83.1	2,044	2,353	17,229	1,707	8,085	7,436
Aug	104.2	109.1	116.6	67.0	1,898	1,588	15,348	1,460	7,445	4,174
Sept.	100.8	107.6	107.2	71.1	2,674	1,582	17,918	1,648	9,491	6,779
Oct	99.2	103.2	102.9	68.8	2,037	1,683	15,311	1,847	6,803	6,661
Nov	98.5	104.0	98.4	69.7	2,026	1,624	15,443	1,695	7,233	6,515
Dec.	101.6	105.6	95.8	66.3	2,010	1,601	15,310	1,411	7,488	6,411
Jan	100.0	106.3	92.3	65.0	1,920	1,358	13,562	1,093	6,342	6,127
Feb.	101.4	106.9	90.8	77.0	2,123	1,736	14,969	1,365	7,184	6,421
Mar.	104.8	110.3	85.6	91.7	3,009	1,887	19,197	1,582	10,386	7,228
Apr.	108.7	114.4	84.2	77.2	1,849	1,797	14,411	1,470	5,760	7,182
May	117.2	123.2	87.9	80.9	1,818	1,872				
YoY	-0.8	1.1	-30.3	-3.8	-8.1	-13.7	-19.4	-2.2	-31.4	-10.1

Base year 1995 = 100; 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations

