

## Government Changes NTT Strategy

The Ministry of Public Management, Home Affairs, and Post and Telecommunications, up to now bent on splitting up NTT, seems to have changed its strategy somewhat. The ministry had been insisting that NTT reduce its equity interest in NTT Docomo and NTT Communications to less than 50%, as a means of promoting competition. Instead of setting a deadline, the ministry had been urging NTT to come up with a voluntary plan. However, in a reply filed with the ministry, NTT said simply that it will require at least a year to come up with a final answer, which is seen as a rejection of the government's request, at least for the time being. However, competition in the telecommunications industry is, in fact, intensifying and profit at NTT is under extreme pressure. NTT'S stock price has also plunged by about 40% from May. The government sees these changes as a sign of increasing competition, which was its preliminary goal.

## Government Changes Its Tune on Postal System Deregulation

The Ministry of Public Management, Home Affairs, and Post and Telecommunications, up to now opposed to deregulation of postal services seems to be changing its mind, and now says complete deregulation, but in stages, is inevitable. The government was concerned that uniform high-quality service throughout the country would be unsustainable if mail services were completely deregulated. Now, the government takes the stance that adequate services can be maintained by the private sector. Two major parcel delivery firms, Yamato Transportation and Nipon Express had been stepping up pressure for complete deregulation. Given their extensive nationwide networks, they stand to benefit the most.

## Yahoo Moves Up to Third Place in ADSL Service

Yahoo has moved up to the third place in terms of the number of subscribers to the ADSL service, according to Multimedia Research Center. NTT continues to stay in first place with a market share topping 50%. NTT East had a share of 33.6% and NTT West 25.9%. Yahoo's share is estimated at 16%. NTT's strength, despite its relatively higher charges, lies in its broad service area.

## Japan's Semiconductor Manufacturers Lose Competitiveness

Japan's DRAM manufacturers are clearly losing out to overseas competitors as suggested by the four Japanese manufacturers' plans to apply for protection, citing dumping of DRAMs from S. Korea and Taiwan. It is also a clear sign that Japanese manufacturers cannot expect to restore competitiveness through cost-cutting anymore. Prices are falling. DRAM (128MB) priced at ¥1,300 last year goes for ¥300 now, a figure well below Japanese manufacturers' production costs. Japanese manufacturers



claim that S. Korean and Taiwanese suppliers, supported by government and public financial institutions are resorting to predatory marketing practices.

### Hitachi to Step Up Investment in China

Hitachi's president, speaking to the press in China, said that the company will invest more than ¥100 billion in China over the next five years. The company expects sales in China to quadruple (from FY2000) by fiscal year 2005 to \$4.5 billion. Investment will focus on 3<sup>rd</sup>-generation telecommunications services, e-govt projects, cell phone chips, and consumer electrical good.

### Shape of Software Industry

According to JISA, an industry body, Japan's software industry will continue to grow at an annual average rate of 14% for the next five years. By segment, custom software development will decline but demand for system integration services will rise. A survey of computer system users found that strategic applications would be first priority, followed by applications for core businesses, collaboration tools and e-commerce systems.

### Personal Computer Sales Continue to be Sluggish

Personal computer sales in September fell 16.3% year-on-year and sales of PC peripherals were off 12.7%, according to NEBA, an association of large consumer electrical goods retail chains. Nevertheless, the year-on-year drop in monthly sales narrowed somewhat from October, contrary to fears after the Sept. 11 coordinated terrorist attacks on New York and Washington that sales would plunge sharply. Sales are probably being underpinned by aggressive marketing with incentives such as free installation of the new OS X.

### PC Makers Looking to XP for Demand Revival

Betting on the XP to revive demand, Japan's PC manufacturers are introducing PC models with pre-installed XP, nearly three weeks ahead of the official launch (in Japan) on Nov. 16 of the new Microsoft operating system. Microsoft's Japan subsidiary is making extra efforts to push the new OS. Bulls in the market expect the XP to restore double-digit growth to the market.

### PC Makers Slash Shipment Plans

Major Japanese PC manufacturers have slashed shipment figures for the current fiscal year. NEC now expects to ship only 3 million units, down from the beginning-of-year forecast of 3.82 million (3.48 million last fiscal year). Fujitsu's plans see shipments falling from an initial projection of 3.4 million units to 2.8 million units. The only company bullish on shipments is Sony, which has left its shipment projections unchanged.

### Consumer Electric Goods Sales for September

Sales of consumer electric products in September fell 5.5% to ¥192.5 billion, according to NEBA, an

association of large consumer electrical goods retail chains operating a total of 3,166 stores. Although consumer demand in general is weak, consumers continue to snap up products with innovative features, the association remarked. Among the best selling items were DVD (up 73%), space heaters (up 56%), and cell phones (up 30%). PDP and LCD televisions are selling well but the demand for conventional CRT TVs is plunging.

### Korean Electronics Industry Senses a Turnaround

Although demand is still in the doldrums, signs of recovery have started to appear. The industry there hopes that new models of cell phones, and the launching of terrestrial digital television broadcasting may revive demand for PDA and other state-of-the-art gadgets.

### 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 |                       |                    |                  |                    |                   |                        |            |
| YoY   | -27.4 | -25.4 | 8.0   | -22.5                 | -11.7              | -0.8             | -21.0              | -13.5             | -15.7                  | -27.4      |

*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*