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TELECOMMUNICATIONS POLICYMAKING IN JAPAN, 1970-1993: A CASE STUDY IN ELITE CONFLICT

Roya Akhavan-Majid

Introduction

Since the early 1970s, the term “Japan Inc.” has provided a familiar heuristic in the field to describe the prevailing mode of industrial policymaking in Japan. Based largely on the post-war studies of Japan’s rise to the status of an economic superpower, the “Japan Inc.” model depicts Japan’s industrial policymaking as a harmonious process of cooperation between the Japanese government (working through the Ministry of International Trade and Industry, MITI) and the country’s big business.

Despite its applicability to the dynamics of government-business cooperation in Japan during the country’s ascent to the status of an advanced industrialized society, however, the “Japan Inc.” model’s heuristic value in describing Japanese policymaking has been substantially diminished in the post-industrial era. The rapid shift, in recent years, of the primary economic base in Japan from heavy industry to information and telecommunications, has also led to an increasing diversification of interests among the Japanese power elites at all levels, political, bureaucratic, and business/industrial. Subsequently, far from reflecting the traditional traits of “harmony” and “consensus” implied by the “Japan Inc.” model, the Japanese policy process in the new information age has been characterized largely by conflict, deadlock, and partial compromise among competing elite power groups.

Against this backdrop, the purpose of this paper is to,

- 1) present an analysis of the conflicting interests which have emerged since the advent of the new technologies and
- 2) provide a case study of Japanese policymaking in the post-industrial era.

In so doing, this paper will focus on an analysis of the telecommunications policymaking process in Japan during the 1970-93 period.

From “Japan Inc.” to “Japan Disincorporated.”

There is little doubt that, despite its heuristic utility, the “Japan Inc.” model has always represented a gross oversimplification of the industrial policymaking process in Japan. As

pointed out by other studies¹, the process of state intervention in Japanese industrial policy has seldom, if ever, been free of major conflicts among vested bureaucratic, political, and industrial interests. Nevertheless, during the first two decades immediately following the Second World War, MITI's central and essentially unchallenged position as the country's primary industrial policymaker, coupled with the basic interest shared by Japan's major businesses in such issues as trade protection and economic subsidies, frequently enabled MITI to engineer a stable level of compromise among the vested elite interests.²

This is no longer so, however. Indeed, it may be argued that since about the same time that the model first emerged as a heuristic in the field in the early 1970s, a number of major forces have been at work to bring about the demise of "Japan's Inc." Among the most divisive of these forces has been the economic liberalization process which came to a head during what Leon Hollerman has called "the 1980-84 interregnum."³ During this "disincorporation" period "... when markets were being forced open, the world saw a spectacle of interministerial rivalry, bureaucratic infighting, and conflict between government and business that normally would be papered over and concealed from public view."⁴ Unlike Hollerman's projection of a "reincorporation phase" in the 1990s, however, the disincorporation process of the early 1980s has not ended. Rather, it has continued full force into the 1990s. The recent political disarray experienced by the Liberal Democratic Party (LDP), leading to its replacement after nearly forty years of uninterrupted rule by a coalition government made up of the Social Democratic Party and six other parties (three of them new), is only one among the many visible signs of this trend. As this paper seeks to demonstrate, the gradual shift, since the early 1970s, in Japan's economic base from heavy industry to information and telecommunications has been a major contributor to this disincorporation process.

The Primary Rift: MITI vs. MPT

One of the primary sources of the bureaucratic and political power struggle brewing in Japan for the last two decades has been the gradual emergence of the Ministry of Posts and Telecommunications (MPT) as a serious contender with MITI for the position of Japan's industrial policymaker.

As the postwar studies of Japan's rise to economic superpower status have clearly shown, throughout the 50s and 60s Japan's Ministry of Trade and Industry (MITI) acted as the leading bureaucratic body in charge of orchestrating the country's industrial policy. However, following the advent of new information technologies and the rise of telecommunications policy issues to the center of the industrial policymaking process in Japan, MITI began to face a completely new set of variables in its efforts to maintain its position as the country's leading industrial policymaker. Most important among these variables was the fact that, unlike the informal "administrative guidance" relationship it had long cultivated with Japan's private industry, MITI had no previous contact with, or legal authority over, Japan's telecommunications industry. That authority, along with the responsibility to supervise Japan's monopoly common carrier and

telecommunications R&D powerhouse, Nippon Telegraph and Telephone (NTT), and the country's broadcasting industry belonged to the Ministry of Posts and Telecommunications (MPT). Having recognized its new lease on power through its domination of Japan's telecommunications industry, on the other hand, the Ministry of Posts and Telecommunications appeared determined in the early 1970s to compete with MITI for the position of Japan's primary policymaker in the post-industrial era.

Throughout the 70s, 80s, and early 90s, therefore, Japan has been witness to an intense power struggle between the two ministries and their allied factions in the Liberal Democratic Party (LDP). Subsequently, the country's telecommunications policy has evolved largely as a series of precarious compromises among sharply polarized elite interests; compromises which have in turn spawned new conflicts of their own, leading to major deadlocks in Japan's telecommunications policy. This growing departure from the familiar heuristic of "Japan Inc." is clearly reflected in the telecommunications policymaking process in Japan during the 1970-1993 period.

The Telecommunications Policymaking Process

During the 1970s, at a time when the telecommunications market had yet to mature and vested commercial interests remained largely undefined, MITI and MPT comprised the primary actors in the elite power struggle which had begun to brew on Japan's political and economic scene. During this period, each of the two ministries tried to establish itself as the primary promoter of the use of new information technologies among the Japanese public.

Early in the 1970, each of the two ministries inaugurated an "advisory panel" to study the ways in which the use of the new information technologies may be accelerated in Japan. MITI's advisory panel consisted primarily of elite business interests, including the electronic manufacturers, while MPT's advisory panel consisted of elite interests traditionally associated with the ministry, including NTT and the public and commercial broadcasters.⁵

Upon receiving the reports of their respective panels in 1972, MITI and MPT each went on to establish an association to plan and carry out a series of experiments in the use of new information technology. MPT's Tama Coaxial Cable Information System (CCIS) project provided a range of CATV, pay TV, facsimile, teletext and videotext services to 500 volunteer households. MITI's Hi-Ovis experiment, on the other hand, offered a similar range of services, plus an interactive cable system, to 156 households and ten public buildings on a more advanced fiber optic cable network.⁶

Because of the similarities in the nature of the projects inaugurated by the two ministries, the Ministry of Finance (MOF) in reviewing the 1973 budget urged MITI and MPT to join efforts in carrying out their projected experiments. Under the weight of tradition and the cultural imperative of harmony, the two ministries obliged and subsequently formed the joint Living Visual Information System Association in June 1973.⁷ The essential divergence of interests between MITI and MPT, however, proved too strong to allow real cooperation in the project and,

despite the formal establishment of the joint association, the two ministries proceeded to carry out their experiments separately and competitively, each at its own designated site.

As it soon became clear in this process of bureaucratic competition, MPT's ready access to the vast resources of NTT proved to be an asset which MITI was unable to replace despite the cooperation it was receiving from the nation's electronic manufacturers.

As the Tama CCIS project neared completion in 1977, for example, the Ministry of Posts and telecommunications once again drew upon NTT's cooperation to develop a new videotext service, entitled Character and Pattern Telephone Access Information Network (CAPTAIN). The new system made use of existing technology (television and telephone lines) to provide Japanese households with a relatively economical videotext service. Soon after the inauguration of the CAPTAIN system in the late 1970s, MPT began to work with NTT on developing an Integrated Network System (INS), i.e., the Japanese version of the ISDN, a digital optical fiber network capable of integrating all modes of communication. And in yet another bold move, in August 1983, MPT began the promotion of a nation-wide plan called "Teletopia," (a name made up of the combination of the two words "telecommunications" and "utopia").⁸ A Teletopia city was envisioned as a futuristic communications model-city, the inhabitants of which make widespread use of new media technologies in almost every aspect of their daily lives. Along with CAPTAIN, the projected Integrated Network System (INS), was envisioned as the primary technological infrastructure in Teletopia model cities. Rivaling MITI's administrative guidance tradition, MPT provided a wide range of incentives and assistance, including low interest loans, investment tax exemptions, and free consulting services to the businesses and local governments participating in the project.⁹

MITI, on the other hand, began in 1984 to develop its own futuristic model city plans under the name of "New Media Community" project. While, because of its head-start with CAPTAIN and access to NTT facilities and R&D, MPT was able to begin to implement the teletopia projects on a commercial basis, MITI's plan was conceived of as an experimental endeavor, consisting of a need-assessment stage, after which information systems compatible with the needs and problems of each community were to be designed and implemented.¹⁰ Although MITI has been relatively successful in enlisting the assistance of Japan's major electronic manufacturers and prefectural governments in the project, MPT's continuing domination of NTT has provided it with a clear edge over MITI in implementing the model-city projects. As of 1990, seventy cities participated in the Teletopia plan, which since its inauguration in 1983 has been expanded to include the establishment of Telecom Plazas ("a high-level telecommunications center where individuals and businesses can experiment with the latest telecommunications technology"), Telecom Ports (intended to promote international links through the use of "a satellite earth station and a large-scale optical fiber network"), and Telecom Research Parks ("regional facilities that will allow corporations to engage in joint research and development projects in leading-edge telecommunications and other technology").¹¹

Privatization of NTT

Recognizing the need for taking NTT out of MPT's circle of influence, MITI began in the early 1980s to push for a complete privatization of NTT, an eventuality which would, in theory, eliminate MPT's supervisory authority over NTT, allowing MITI to bring NTT into the circle of private industries under its jurisdiction.

Shortly, thereafter, MITI was joined in its privatization and liberalization efforts by Japan's electronic manufacturers and other large business conglomerates who were anxious for an opportunity to enter the lucrative and rapidly expanding telecommunications and data communications market.¹² Subsequently, when the government of Prime Minister Suzuki first announced its policy of "administrative reform" aimed at trimming the fat and increasing the efficiency of Japan's public corporations, both MITI and the country's business elites, organized in the Japan Federation of Economic Organizations (Keidanren), seized the opportunity and lobbied for NTT's privatization and divestiture as part of the government's administrative reform policy. At the time when the campaign began NTT was, and still is, a highly profitable organization which not only did not rely on any government funds, but actually paid an average of 120 billion yen annually to the government in "excess profits."¹³ The economic rationale offered by the MITI/Keidanren coalition in favor of privatization, however, was that being a public corporation, NTT is susceptible to increasing inefficiency in operation and thus, despite its present profitability, could begin to tax the public budget at some future point in time.¹⁴

In March 1981, Prime Minister Suzuki established a formal advisory committee, entitled the Second Ad Hoc Council on Administrative Reform, charged with the task of reviewing the state of Japan's public corporations and advising the government on the necessary reforms.¹⁵ Despite its formal character as a governmental committee, however, the Second Ad Hoc Council was from the beginning under the direct influence of Keidanren. Among the most visible signs of this was the fact that the council, appointed by the Prime Minister, was headed by the then Keidanren President, Toshio Doko, the founder of Toshiba and one of Japan's most influential "zaikai" (business elite) members. Another sign of Keidanren influence was the concurrence of the Council, both chronologically and in terms of its final recommendations, with the Keidanren Committee on Information and Telecommunications Policy. In a detailed set of recommendations submitted to the Council in February 1982, Keidanren advocated complete liberalization of the use of telecommunications and NTT privatization and divestiture.¹⁶ A few months later, the Second Ad Hoc Council, in complete agreement with Keidanren policy recommended:¹⁷

- opening the telecommunications market to private competition,
- turning NTT into a 'special company' whose shares are initially held by the government and later gradually sold to the public, and
- divestiture of NTT within five years into a central company operating trunk lines, and several local companies operating local telephone services.

Aside from exercising direct influence over the Second Ad Hoc Council, the MITI/Keidanren coalition had already acted to insure the cooperation of NTT's top management in the privatization process by successfully lobbying Yasuhiro Nakasone, the then head of the Administrative Reform Management Agency, to help appoint Hisashi Shinto, a prominent businessman from the shipbuilding industry and a close friend of Toshio Doko, to the position of NTT president.¹⁸ (Despite MPT opposition to Shinto's appointment, and a later bid in 1985 to replace him with the then NTT Vice President, Yasusuda Kitahara,¹⁹ Shinto remained in office until the end of 1988.)

From the beginning the recommendations made by the Second Ad Hoc Council, particularly those urging privatization and divestiture of NTT, met with strong opposition from MPT and its supporters in the ruling Liberal Democratic Party (LDP).²⁰ Based upon the traditional tendency of similar institutions in Japan to compete with one another while joining with dissimilar groups to form self-sufficient heterogeneous coalitions,²¹ different ministries in Japan routinely coalesce with factions in the LDP, forming competing cluster-factions or "tribes" (zoku). Thus, after the Second Ad Hoc Council issued its report, conflict began to grow between the so-called "MPT tribe" (Yuseizoku) representing a coalition between MPT and the Tanaka faction in the LDP, and the "MITI tribe" (Tsusanzoku), representing a coalition between Keidanren, MITI, and the Miyazawa faction in the LDP.²²

As the first step toward achieving a possible compromise on the issue of market liberalization, MPT partially liberalized telecommunications lines in October 1982 to permit the establishment of small-scale value-added networks for business usage.²³ In the meantime conflict continued to rage on the question of NTT's privatization and divestiture, leading senior politicians outside the MITI and MPT tribes to take action later in 1983 to obtain a compromise between the two contending cluster-factions. In the course of the formal and informal negotiations that followed, the strong opposition of MPT and its allies succeeded in freezing the idea of NTT divestiture for the time being. In return, however, MPT agreed in principle to Keidanren/MITI demands for NTT's privatization.

A partial compromise was thus reached, based on the idea of privatizing NTT first and considering the desirability of its divestiture at some future date.²⁴ Subsequently, two laws passed the Diet in April 1984 (becoming effective in April 1985), the NTT Co. Law privatizing NTT, and the Telecommunications Business Law, providing for market liberalization measures.

Reflecting the contentious nature of the process and the precarious state of the compromise, a review clause was added to each of the two laws, requiring a formal review of the NTT Co. Law in five and the Telecommunications Business law in three years.

Although representing a partial victory for MITI and Keidanren, the NTT Co. Law contained major concessions to MPT interests. Not only did NTT remain intact as a giant company, but it was also given the go-ahead for unlimited expansion into all possible kinds of related businesses. And, despite privatization, almost all of the new company's business operations, including the appointment of top personnel and budgeting and investment, remained subject to MPT supervision and approval.

The ultimate enactment of the two laws in the April of 1984 created an ironic situation in which, while new telecommunications businesses were allowed to enter the market, they could scarcely hope to compete with the formidably powerful NTT. Not only NTT's efficiency and profits, but also its stature and overall domain in the field of information and telecommunications grew rapidly after its privatization. Unrestricted by the NTT Co. Law as to the range of businesses it would be allowed to enter, NTT rapidly diversified its activities by establishing more than 120 joint ventures with major national and international businesses within a five year period. By the time of the appointed review of the law, NTT stood as the largest business in Japan, with the largest number of employees (290,000), highest salary level, and one of the highest profit levels. By contrast, NTT's three competitors, Daini Denden Kaikaku, Nihon Kosoku Tsushin, and Nihon Telecom, collectively held less than 3% of the telecommunications market, making barely enough profits to stay afloat in their fourth year of operation.²⁵

Thus, as may be expected, during the two years preceding the scheduled review of the NTT Co. Law, pressure continued to build for NTT divestiture. Responding to the obvious need for action, in its interim report issued in October 89 the Telecommunications Council of MPT set forth three options for NTT's reorganization:

- keeping the present structure with necessary improvements
- breaking up NTT, or
- divesting NTT of certain forms of business.²⁶

As it happened, however, such economically rational factors as NTT's continuing domination of the market and the need for its reorganization to allow greater competition, were not the only factors shaping the outcome of the 1990 review. In the few months preceding the projected review, a number of other complex political and economic factors emerged on the scene, leading to further diversification of elite interests and a major deadlock in Japan's telecommunications policy.

To Divest or Not to Divest: The Political Deadlock

Among the most important events shaping the outcome of the 1990 review at the last minute was the Recruit scandal. Late in the Fall of 1988, it was revealed that NTT President, Hisashi Shinto, had accepted a substantial bribe from a major Japanese classified advertising company, Recruit, in return for giving the company illegal access to NTT's newly acquired American-built supercomputer for business purposes.²⁷ The investigation in the matter revealed that, not only Shinto, but several LDP politicians, including Nakasone, Abe, and Takeshita, had also received Recruit company shares as "gifts". The scandal led to the arrest of Shinto in 1989 and massive resignations in the Liberal Democratic Party. The "loss of face" experienced by the LDP had a major impact on the subsequent elections, during which the Japan Socialist Party (JSP) won several new seats in the Diet.

Because of the longstanding political links between the NTT workers union, the Socialist Party, and the Japan Federation of Labor Unions (Rengo), the weakening of the LDP and the rise of the Socialist Party to a visible level of power had a major effect on the outcome of the NTT Co. Law review. Despite their openness to NTT privatization, which gave them the right to strike and ask for higher wages, the NTT workers vehemently opposed the company's proposed divestiture. Although not a traditionally strong factor in the government's policy decisions, the NTT workers' voice found an exceptionally strong expression in the Fall of 1989, when the leader of the NTT workers Union, Mr. Yamanishi, became the leader of Japan Federation of Labor Unions (Rengo) and, as a major figure in the newly powerful Japan Socialist Party, began to agitate against NTT divestiture.²⁸ Thus, during the few months preceding the NTT Co. Law review, the NTT workers' opposition to divestiture became a major factor shaping the outcome of the review.

Aside from strengthening the voice of the NTT workers union through the Socialist Party, the Recruit Scandal led to another unexpected source of opposition to NTT divestiture. During the Fall of 1989, NTT share prices began to fall rapidly due largely to NTT's involvement in the Recruit scandal,²⁹ leaving the Ministry of Finance, the bureaucratic body responsible for selling the NTT shares to the public, with a large number of highly unpopular NTT shares. Subsequently, fearful that a NTT divestiture may be perceived as a "weakening" of NTT and further reduce the share prices, the Ministry of Finance strongly opposed divestiture for the time being.³⁰

Another major factor in the deadlock of 1990 was the opposition of NTT's new management to the proposed divestiture, a position which they were effectively able to push within Keidanren itself in the Fall of 1989. Since its privatization in 1985, NTT had become eligible to join the ranks of Keidanren as one of Japan's most profitable and powerful private companies. Soon thereafter, NTT's new President, Haruo Yamaguchi, began to climb the ranks of power in Keidanren, rising to the post of Keidanren vice chairman in 1989.³¹ Although unable to fundamentally change the organization's position, Yamaguchi's opposition created enough conflict within Keidanren to, at least temporarily, slow down the push toward NTT divestiture. Nonetheless, the overwhelming sentiment within Keidanren remained in favor of a radical reorganization for NTT, one which would include a break-up of NTT into one long distance and several smaller local telecommunications companies.

It was under such volatile circumstances of shifting and conflicting elite interests in the early March of 1990 that the Telecommunications Council of MPT presented the results of its review and its recommendations for NTT reorganization to the Minister of Posts and Telecommunications. In its report, the Council recommended that NTT be broken up into two parts, one long distance and one local telephone company.³²

Although representing a partial move toward divestiture, the reorganization proposed was far less radical than Keidanren had been seeking since the early 1980s (i.e., divestiture into one long distance and several regional companies).³³ From the Keidanren point of view, only such a radical divestiture would be able to level the field for other big businesses seeking entry into the

telecommunications market. Cognizant of the strong sentiment against full divestiture for the time being, and unwilling to settle for the less radical solution, however, in a surprise move Keidanren joined the ranks of those opposed to the Telecommunications Council's recommendations. Instead, Keidanren proposed a three-year waiting period, hoping that by that time the climate would be more conducive to the more radical reforms it was seeking.

Interestingly, throughout this period, MITI adopted a wait and see attitude and did not push for a radical divestiture of NTT. Although traditionally an ally of Keidanren, MITI's interests would be better served in this instance by avoiding moves which would alienate NTT, a company it was desperately trying to bring into its own circle of influence.³⁴

Given the general opposition to NTT divestiture arising from a diverse set of polarized elite interests, and the pragmatic "agreement" that a waiting period was necessary, the Minister of Posts and Telecommunications went on to reject the recommendations of the Telecommunications Council, proposing instead a number of minor reforms (e.g., divestiture of NTT's mobile communications department, and planning of a NTT "self-study.")³⁵ Once again, reflecting the precarious and temporary nature of the compromise, a further review of the NTT Co. Law was scheduled for 1995.

Thus, under highly unusual circumstances, both NTT and MPT were given five more years in which to try to consolidate their power. In the meantime, the competing bureaucratic, political, and business elite interests continue to clash in a highly volatile policy environment, characterized by conflict, deadlock, and partial compromise.

Conclusion

It is clear from this case study that the policymaking environment in the post-industrial Japan represents features radically different from the days of MITI-big business cooperation and dominance. The elite interests shaping the country's telecommunications policy in the new information age are shifting and diversifying and the policymaking process is increasingly characterized by conflicts which can no longer be contained within the traditional channels of elite consensus-building and compromise.

One of the major factors responsible for this diversification of interests is the emerging bifurcation in the nation's industrial policymaking authority in the hands of two competing bureaucratic bodies, MITI and MPT. Given the absence of a central coordinating body in Japan capable of designating the primary areas of responsibility under each ministry's jurisdiction, an ultimate resolution of this conflict remains unlikely, unless, and until, one of the two bodies emerges victorious in the competition. The recent fragmentation of power within the Japanese Diet and the progressive erosion in the LDP's political power have further reduced the chances of successful arbitration at the political level.

Indeed, even at the height of LDP's power as the nation's ruling party, the LDP politicians outside the MITI and MPT tribes appeared unable to resolve the basic territorial conflict between the two ministries. In one such effort in 1984, for example, the Japanese Diet

gave MPT the responsibility for “telecommunications networks” while charging MITI with guiding the “computer industry”.³⁶ This distinction failed to resolve the territorial conflict, however, partly because of the unwillingness of both parties to withdraw from the competition and partly because of the inevitable overlap of policy issues within the two broadly defined areas of responsibility.

Clearly, a continuing clash among a plurality of conflicting elite interests has come to replace the familiar pattern of government-business cooperation which had long characterized Japan’s industrial policymaking process. Whatever the ultimate outcome of this increasing pluralization and conflict, it is clear that the “Japan Inc.” model is no longer applicable to the current state of post-industrial policymaking in Japan. Future studies of Japanese industrial policymaking need to focus on further illuminating the causes of the current transition in Japanese policymaking toward an elite conflict paradigm.

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