

OPENING OF THE KOREAN TELECOM MARKET

Last December, the Korean Government announced its draft plan for the liberalization of the Korean telecom market. The Korean delegation, headed by the Vice Minister of Information and Communication presented the initial-offer list at the 10th meeting of the World Trade Organization's (WTO) Negotiating Group on Basic Telecommunications (NGBT) talks in Geneva, Switzerland.

The Progress of NGBT Talks

The WTO's NGBT talks in pursuit of the complete liberalization of basic telecom services in member countries were initiated in May 1994. The negotiations are scheduled to be completed by the end of April 1996.

The two major issues of the negotiations are the liberalization of foreign direct investment and the establishment of a pro-competitive regulation system in basic telecom services. The latter includes free and equal interconnection, the transparency of regulations, competition safeguards and the independence of regulators.

The United States, which advocates complete liberalization, has taken the lead in the negotiations. Contrary to general expectations, the EU also submitted an initial-offer list which was similar to that of the U.S. except for the timing of the market liberalization in some member countries. This has stepped up the pressure on Korea and other developing countries to open their telecommunications service markets wider to foreign competition.

As of the 10th meeting of the NGBT talks, only five countries including Japan had submitted conservative initial-offer lists. In its initial-offer list, Japan said that it would not permit foreign com-

panies to own more than 33 percent equity in Japanese wireless service companies, while foreign equity shares in NTT and KDD would be limited to less than 20 percent. Canada said it would limit foreign shareholdings to less than 20 percent in facility-based service companies, while Singapore would not allow foreign equity ownership of more than 49 percent in wired and wireless service.

Gradual Liberalization of the Telecom Market

Korea's initial-offer list guarantees that foreigners who set up a wired or wireless telecommunications company in a joint venture with Korean partners can hold up to 33 percent of the venture from January 1998. The current Korean law completely bans foreign equity participation in the wire communications field, but permits equity participation of up to 33 percent in the cellular and other wireless communications services. But foreigners' equity participation in the existing telecom service operators, such as Korea Mobile Telecom (KMT), Dacom and Shinsegi Telecom, will not be allowed to exceed 15 percent in consideration of Korea's financial market opening plans. The government will also put a 20 percent limit on foreign participation in the management of Korea Telecom in consideration of the company's tremendous weight in the country's basic telecom service market. In addition, the government will continue to prohibit foreign concerns from becoming the largest shareholder of a Korean-based telecom service operator.

Regardless of the 33-percent-limit on foreign equity participation, the current 33-percent-limit

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on the number of foreign executives will also be abolished in order to encourage the introduction of superior foreign management skills and telecom technologies.

In principle, the communications-line resale services, in which foreign facility owners lease communications lines from Korea's telecom service operators to resell their telecom service to third parties, will be fully liberalized from 1998. But the resale service which will be linked with the public switched telephone network (PSTN) will be gradually opened to foreign competition by the year 2001 in consideration of the time needed for Korean operators to prepare and the complementing institutional framework. Foreign call-back service operators who do not establish a local office in Korea will not be allowed to operate in Korea.

The Communications Commission will be given stronger authority over all aspects of telecom services to guarantee transparent regulations and fair competition, and almost every entry barrier will be abolished except for the shortage of frequencies. These measures are expected to promote the development of a pro-competitive regulation system in Korea.

Korea's initial-offer list can be characterized by "gradual liberalization," reflecting the government's willingness to introduce competition into all domestic telecom service sectors prior to full-scale liberalization. The restrictions on some line-resale services and the condition of a Korean company being the largest shareholder are aimed at giving domestic operators enough time to hone their competitive edge.

At present, Korea's telecom companies are no match for foreign multinational firms in terms of service development, service technology and marketing capabilities. Thus prior to full liberalization, the domestic market should be restructured through the introduction of domestic competition. According to the government's domestic market restructuring plan, some 30-odd new operators in the personal communication service (PCS) and six

other fields will be selected by June 1996.

Active Adaptation is Key

It is the Korean Government's negotiation strategy to stick with its December initial-offer list for the duration of the NGBT talks, scheduled to be completed by the end of April 1996. After that, the domestic laws will be amended, reflecting the results of the negotiations. Overall, Korea's initial-offer list is similar to those of Japan and Canada. Korea's is a little more conservative than the other two countries in regard to resale services. However, the Korean Government asserts that its initial-offer list embodies progress from the current state, unlike those of Japan and Canada.

Until public hearings were held on October 23, 1995, Korea had considered allowing foreign equity participation in local joint ventures of up to 50 percent from 1998 and full-scale liberalization from 2000. Partly for that reason, the Korean initial-offer list became the target of criticism from the U.S. and other NGBT partners. The character of Communications Commission can also hardly escape criticism, since it is under the jurisdiction of the Ministry of Information and Communication (MIC). Thus it will be hard to expect the independence of regulators. In addition, only Korea is taking the position that it will continue to prohibit foreign concerns from becoming the largest shareholder. Furthermore, the EU countries, which have a comparative advantage in TDMA (Time Division Multiple Access) technology, are likely to raise objections to single standard of CDMA (Code Division Multiple Access) in personal communication services (PCS).

It is hard to expect that Korea's initial offer-list will satisfy the NGBT partners, especially the U.S. and EU countries. In the course of the NGBT talks, the scope of liberalization is likely to be widened further than initial-offer list. In particular, the ceil-

Korea's initial offer is designed to restructure the domestic market before full-scale opening.

ing on foreign equity ownership will most likely be raised, and additional measures to secure more pro-competitive regulations seem inevitable.

The Korean economy can expect a lot of positive effects from the opening of the telecom market. The deregulation of foreign equity ownership is expected to expedite foreign investment in the construction of the domestic information super-highway infrastructure. The measure of allowing foreign shareholders to freely decide the number of foreign managers and executives in a joint venture will help revitalize strategic alliances between foreign and domestic operators. And through liberalization and free competition, the quality of telecom services will be improved and technological innovation promoted.

The liberalization of the telecom market is a trend of the times. What is required is not a passive reaction, but an active adaptation. This can then serve as a stepping stone for the realization of a 21st-century Information Society and the improved efficiency of the Korean economy as a whole.

Tasks From Now On

To maximize the positive effects of liberalization, the successful restructuring of domestic telecom market is needed. In this respect it is unfortunate that the selection of new entrants was postponed for political reasons. The telecom policy is too important to the future of Korean economy to fall victim to political forces. Already, there is little enough time for new entrants to strengthen their competitiveness within the domestic market. In light of this, we can point out several tasks to promote substantive competition in the domestic telecom service market.

The preconditions for fair and substantial competition between established and new operators must be secured. New entrants should not be discriminated against in gaining access to the basic

telecom networks, and access fees should be calculated on the basis of cost. Unbundling, number portability and dialing parity should be introduced. To allow regulators to identify the cost structure by services, a separated-accounts system should be introduced.

The independence and specialization of regulators should also be enhanced. Liberalization and the introduction of competition require profound changes in the role and function of regulators. At present, Korean regulation-related organizations do not adequately meet the ever-increasing needs for effective regulation. Institutional restructuring is needed for the transparency and fairness of regulation procedures. First of all, the function of regulation should be separated from that of policy. The Ministry of Information and Communication should be reorganized into policy-centered ministry, and the regulation-related function and right should be transferred to an independent Communications Commission. Accordingly, the resources and organization of the Commission should be expanded to be suitable for such new functions.

Public enterprises such as Korea Telecom, the nation's largest telecom service company, must be given greater freedom from government intervention and sufficient autonomy in its own management. In this period of liberalization and competition, the public interest can not be secured in basic telecom services without efficiency and competence. **VIP**

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