
The Comparative Study of The Early Process of Privatization in Telecommunication

— The Case Study of Japan's NTT and Argentina's ENTel —

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I. Introduction

The privatization of state-owned telecommunication companies has taken place mainly in 1980s and including the regulatory scheme of postprivatization, this phenomenon seems to be becoming more and more important in both developed and developing countries.

The comparison of Japan's NTT⁽¹⁾ case with Argentina's ENTel⁽²⁾ case may lead to useful contrasts and lessons of the privatization both in developed and, in developing countries, although the backgrounds and processes were different each other.

II. The objective of the study

The objective of the study is to examine and analyze the processes both in NTT and ENTel's privatizations and changes before and after the privatization. This study deals with the following questions:

- a. What were the motivations for the privatizations ?
- b. What conflicts were experienced during the process, and how they were overcome ?
- c. What changes have occurred during the privatization ?

a. Motivations

In the case of NTT

In Japan, Nippon Telegraph and Telephone Public Corporation (NTTPC) was founded in 1952 as a 100 percent state-owned enterprise and the telecommunication business had been operated by the government.

Due to the impact of the first oil crisis, Japan's economy began to decline sharply at the end of fiscal 1973,

and recorded its first post war negative growth rate in 1974. The slowdown in growth reduced tax revenues, and the government found it necessary to turn to deficit-financing bonds for the first time in its supplemental budget for fiscal 1975. By fiscal 1979, deficit-financing bond issues comprised 34.7 percent of the budget, and the restoration of public finances had become one of the most pressing issue facing the Japanese government.

The basic plan for the telephone network was made in 1956 to promote the realization of nationwide direct dialing. This comprehensive plan required improving both hardware and software capabilities.

NTTTPC constructed telephone offices in urban districts and medium and small sized cities in order to meet the huge telephone demand.

In the 1970s, in the field of telecommunications, rapid progress was made in digital communication technology, as well as in optical fiber and satlite-communication technologies. In the light of this technological progress, the conditions that had formerly been the traditional rationale for monopolistic operations in telecommunications, that began to gradually change. Technological progress made lower the costs necessary to provide telecommunication services and opened up new areas in which the economies of the scale of a unified operating structure could no longer be justified. Japanese government began to recognize that the full benefits to consumers could not be realized if new participation intelecommunications continued to be prohibited.

Since fiscal 1973, personnel expenses had been accounted for over 30% of total expenses, and also, had played big pressure on management aspects.

Until the latter half of the 1970s, NTTTPC's R&D policy had been those technologies which aimed at achieving two purposes of eliminating order backlogs and providing nationwide direct dialing.

In March 1981, the government founded the second Provisional Commission on Administrative Reform (PCAR) in order to study the problem of fiscal deficits.

In the case of ENTel

The motivation of ENTel's privatization was very peculiar. Decades of destructive competition between political factions have undermined Argentina's economic and political development. Argentina's political instability resulted from the interaction between three underlying conditions.

The first is Argentine economy, which is centered on export-oriented agriculture. The policies of Argentine government were not necessarily those that benefited to the agricultural sector, but benefited to other sectors of economy. So that the government led to a decline of economic growth, and that made the tensions between the urban working classes and the agrarian elite and the urban middle class.

In the second, Argentine economy is split into Buenos Aires area, industrial area, and the rest of the agrarian country area. This economic split has produced a political gap.

Thirdly, because of the deficiency of the system of the national election, the political unification is always

unstable.

Nowadays, in Argentina, the two large parties are very important, which are the Radicals and the Peronists. The Radicals represent the middle class, while the Peronists are based on urban, unionized working class.

After the restoration of democracy, the elections, which held in 1983, resulted in a divided government; the Radicals dominated the presidency and the Deputy, while the Peronists⁽³⁾ controlled the Senate. President Alfonsin could not secure any cooperation of the Senate that allowed Argentina to improve the economy. The situation changed with the elections of 1989 in which the Peronists won both the presidency and the Congress. The Argentine constitution gives a long transition period between the elections in May and the establishment of a new government in December. During this period in 1989, Argentine economy showed rapid recessions, and caused never experienced hyper-inflation in its history.

President Menem took office in July, five months ahead of schedule. His administration acted quickly to institute an emergency program and a privatization program. On August 17, 1989, the Argentine Congress passed the administration's "Reforma del Estado" (State Reform) Law⁽⁴⁾. ENTel was the first enterprise on the list of the candidates for privatization.

In September 1989, Presidente of Argentina, Carlos Menem⁽⁵⁾ announced that ENTel would be the first large public utility to be privatized. He appointed Maria Julia Alsogaray as ENTel's interventor. Ms. Alsogaray is one of the most active representatives of Union de Centro Democratico (The Union of Democratic Center). Ms. Alsogaray took the initiative and controlled the process of privatization in the telecommunication sector. They became the principal crafters in the sale of ENTel.

By completing the first process of the privatization of ENTel which took place in Argentine, the government could demonstrate its ability of changing its role of governance. The momentum for the privatization was driven from the economic crisis and a rare political opportunity.

b. Conflicts

In the case of NTT

The second Provisional Commission on Administrative Reform (PCAR), a private consultative adviser body for the Prime Minister, played a major role in the privatization of NTTPC. The commission was chaired by Toshio Doko who was selected because of his special personal integrity and he had gained a wellregarded reputation for rebuilding the fortunes of the deficit-plagued Ishikawajima-Harima Heavy Industries. Prime Minister Zenko Suzuki placed enough confidence in Toshio Doko and also put great expectation on the commission and promised that the PCAR report would be implemented. When the commission declared NTTPC as a target for privatization, personnel within the company questioned whether it was necessary to privatize it. Moreover, former NTTPC president Hisashi Shinto argued that hidden problems existed within

the company, asking PCAR to confirm its recommendation that NTTPC should be targeted not for privatization, but for administrative reform.

Discussions on the reform began among Liberal Democratic Party (dominant party, LDP), the Ministry of Posts and Telecommunications (MPT), and the Federation of Economic Organization (FEO), the largest and influential business group.

Initially, within the Liberal Democratic Party, majority were opposed to NTTPC's privatization. The Yasuhiro Nakasone Cabinet which had been started in November 1982, left the issue entirely in the hands of Ryutaro Hashimoto, chairman of the Administrative and Financial Matters Investigation Commission.

In August 1983, Ryutaro Hashimoto presented a proposal that endorsed the PCAR report on privatization and the introduction of competition. The MPT was separated from ex-Ministry of Postal Services in 1949, and at that time, the telecommunication sectors were combined and founded as the Ministry of Telecommunications (later transformed as NTTPC). Many elite bureaucrats of ex-Ministry of Postal Services had moved towards the Ministry of Telecommunication and Know-How, also, had flowed out into the Ministry of Telecommunication, so that the NTTPC was more powerful than the MPT, although the MPT was the competent authority. And now, many young elite bureaucrats of the MPT wanted to use that opportunity of the privatization in order to take back authority from the NTTPC, for example, the right of nomination of constructor or communication equipments.

The MPT was cautious about NTTPC solutions that appeared to stress the interests of management and labor. And the MPT was criticizing those reform proposals such as (1) completely privatized company, (2) a special company with joint government-user investment, (3) continuing to be a public corporation with flexibility structure. In February 1982, FEO announced its position proposal that called for turning NTTPC into a pure joint-stock company and opposed to any partial government ownership because such ownership may inevitably introduce government intervention in the entire management field.

In the case of ENTel

The opposition to ENTel's privatization was mainly demonstrated by Argentina's unions. The unions opposed the plan of privatization and succeeded in worsening the ENTel's financial and service quality indicators.

In December 1990, ENTel's debt increased to US\$2.14 billion. The privatization was necessary to show the credible results to investors in order to succeed in attracting foreign private investment.

If investors perceive that the risk of expropriation are high, they will demand high risk premiums or if premiums are not available, they will not invest at all. When embarking on the privatization of ENTel, the government faced the challenge of changing the country's reputation and credibility.

For one country, a capacity to develop a regulatory system that can provide a credibility should derive from arbitrary behavior: informal norms of behavior, independent judiciary, structure of legislative and

executive institutions. But, in case of Argentina, there is little credence to informal norms. And the confidence in the judicial system is, also, relatively low. Similarly, the structure of Argentine legislative and executive institutions did not work well.

The previous administration under Alfonsin⁽⁶⁾ had attempted drastic reform, but had failed because of the strong opposition in Congress and labor organization.

President Menem did not use ordinary way to embark on the first stage of state reform. He relied on the powers to act by executive decree given to him by the Economic Emergency Law and the State Reform Law. He took advantages of divisions within Peronists and Radicals and with the support of UCD.

c. Changes

Although many aspects of the changes must be analyzed about the “before and after” of two privatizations, some common elements will be treated.

1) Changes in NTT

In 1985, the Nippon Telegraph and Telegraph Corporation (NTT) was incorporated into a joint-stock company and after that in 1986, 1.95 million shares were placed in the market. NTT is a private company that operates domestic telecommunication, with the scope of its operations authorized by the Ministry of Posts and Telecommunications. The NTT Corporation Law has controlled the operations with the restriction that the government continues to hold at least one third of issued stock and that stock ownership is prohibited by foreign corporations.

Table 1 shows some changes (budget, wages, procedures, etc.) which were brought by the privatization.

Table 1 the major element comparison of “before and after” the privatization

	NTTPC	NTT
budget	decision of Diet	approval of Minister of P&T
wages	control under Diet	-----
price decision	decision by the law	approval of Minister of P&T
investment	approval of Minister of P&T	-----
personnel change of executive	Cabinet appointment for president and vice-president	approval of Minister of P&T
application of labor law	The Law of Public Service Personnel	The three Labor Laws

Source: Nakamura (1996) p. 38

The privatization has helped heighten profit-consciousness among all employees, it contributed to making

a base on which improvements in managerial efficiency can be introduced for the rational business plans. Efficiency promoting measures were carried, in which included the centralization of business operations, the development of computerized plant tools. One of the big result was the reduction of the numbers of employees by 6,000~10,000 every year. But, sales per employee have risen from US\$127,000 in 1985 to US\$175,000 in 1990. With regard to liabilities, interest-bearing debts and financial cost reduced. Interest-bearing debts were reduced from US\$36.9 billion in 1985 to US\$27.7 billion in 1990. And the deficit in non-operating profits fell from US\$2.9 billion in 1985 to US\$1.2 billion in 1990⁽⁷⁾. NTT became a joint-stock company under the NTT Corporation Law and the Telecommunication Business Law. These laws allow competitors to participate not only in long-distance and cellular services, but also in local telephone service. Japanese government- the Ministry of Finance (MOF), initially, held all the shares (15.6 million issued shares) and in September 1985 under the leadership of Michio Takeuchi, at that time he was chairman of the Tokyo Stock Exchange, the way for selling shares began to be studied in the private advisory group of MOF and it recommended selling 7.8 million shares, that was the half of the total. But, finally, the competitive bidding for NTT shares was taken place between October 1 and 7, 1986 and ,also, was decided that the bulk of the 1.95 million shares would be scheduled for selling.

The highlighted feature of the privatization of NTTPC was its unified structure. The proposal of NTT's division into central long-distance company and regional-local company was not adopted.

Because of retaining a strong public nature, NTT does not keep total management independence. And NTT Corporate Law restricts NTT to MPT approval for its business plan, appropriation of surplus, and dismissal of directors.

2) Changes in ENTel

The division of ENTel into two regional companies, firstly, and led to the formation of four new companies. The division process was as following figure 1.

The introduction of competition

About the bidding process, there was uncertainty whether the transparent procedure was taken or not. The winner consortia may have had certain access to inside information in the bidding process, or the successful consortia may have gotten higher discount rates than those estimated. Finally, it may not be correct to classify the bidding process as sufficiently competitive. Originally, the basic procedures of the bidding process were straight-forward. However, some of the terms of the bid were modified in the course of the bidding process without showing any clear reason.

ENTel was divided into two companies (Northern Company, Southern Company) and the first 60% of the shares in these companies was to be sold by competitive international bid. The 25% was for public

Table 2 Major management indices "before and after" the privatization

Fiscal Year	82	83	84	85 Inauguration of Joint Stock Company	86 Listing of Stock	87	88	89	90	91 half of the year
(1) Operating Revenues (Sales) (\$Million)	33,418	35,018	36,586	39,165	41,182	43,554	43,482 (44,937)	44,378 (46,326)	45,834 (48,089)	22,804
(2) Operating Income (\$Million)	5,725	5,733	5,125	5,264	5,945	6,313	5,421	5,119	4,453	1,635
(3) Non-Operating Income (\$Million)	-2,882	-2,778	-2,605	-2,832	-2,806	-2,492	-2,145	-1,390	-1,266	-595
(4) Pre-Tax Profits (\$Million)	2,842	2,955	2,520	2,432	2,754	3,821	3,276	3,728	3,187	1,039
(5) Balance of Interest Beaning Liabilities (\$Million)	40,538	39,615 -923	38,692 -923	37,052 -1,640	35,493 -1,559	33,918 -1,575	30,617 -3,301	29,126 -1,491	27,875 -1,251	
(6) Number of Employee	323,300 -5,800	317,500 -3,900	313,600 -9,600	304,000 -6,400	297,600 -6,500	291,100 -14,500	276,600 -10,600	266,000 -8,400	257,600	
(7) Personnel Expenses (\$Million)	10,642	11,264 +5.8%	11,967 +6.2%	13,451 +12.4%	14,132 +5.1%	14,441 +2.2%	15,298 +5.9%	15,674 +2.5%	16,316 +4.1%	
(8) Ratio of Personnel Expenses to All Expeenses (%)	34.8	35.1	35.1	36.3	36.4	36.0	37.7	38.0	37.7	
(9) Operating Revenues per Employee (\$Thousand)	102	108	114	127	137	148	153	164	175	
(10) Plant Investment (\$Million)	13,409	12,939	13,251	12,158	12,409	13,821	13,175	13,351	14,039	
Ratio to Sales (%)	40.1	36.9	36.2	31.0	30.1	31.7	30.3	30.1	30.6	
Adjusted Plant Investment (\$Million)	13,409	12,939	13,251	13,538	14,462	16,308	16,385	17,000	17,846	
Adjusted Ratio to Sales (%)	40.1	36.9	36.2	34.6	35.1	37.4	36.5	36.7	37.1	
(11) R&D Expenses (\$Million)	-	731 2.09	962 2.63	1,231 3.14	1,369 3.32	1,546 3.55	1,660 3.82	1,833 4.13	2,013 4.39	
Ratio to Sales (%)										

(1\$ = ¥130)

- (Note) • Operating revenue figures in parentheses represent consolidated totals with NTT Data Communications Systems Corporation.
 • Figures through fiscal 1984 indicate operating and business revenues per employee: from fiscal 1985, figures indicate operating revenues per employee.
 • Adjusted plant investment calculated by adding the sales of terminal equipment and data communications facilities to plant investment.

Source: Takano (1992) p. 48

floatation, 5% for sale to telephone cooperatives, and 10% for ENTel employees. The distribution of shares of the two privatized companies (Telecom Argentina and Telefónica de Argentina) was like the following table.

According to an initial plan, it called for the division of ENTel into five separate companies. But, in order to meet the 14 months deadline which was recommended by the Alsogary group and, also, to complete immediate sales, the privatization team decided to divide ENTel into two regions.

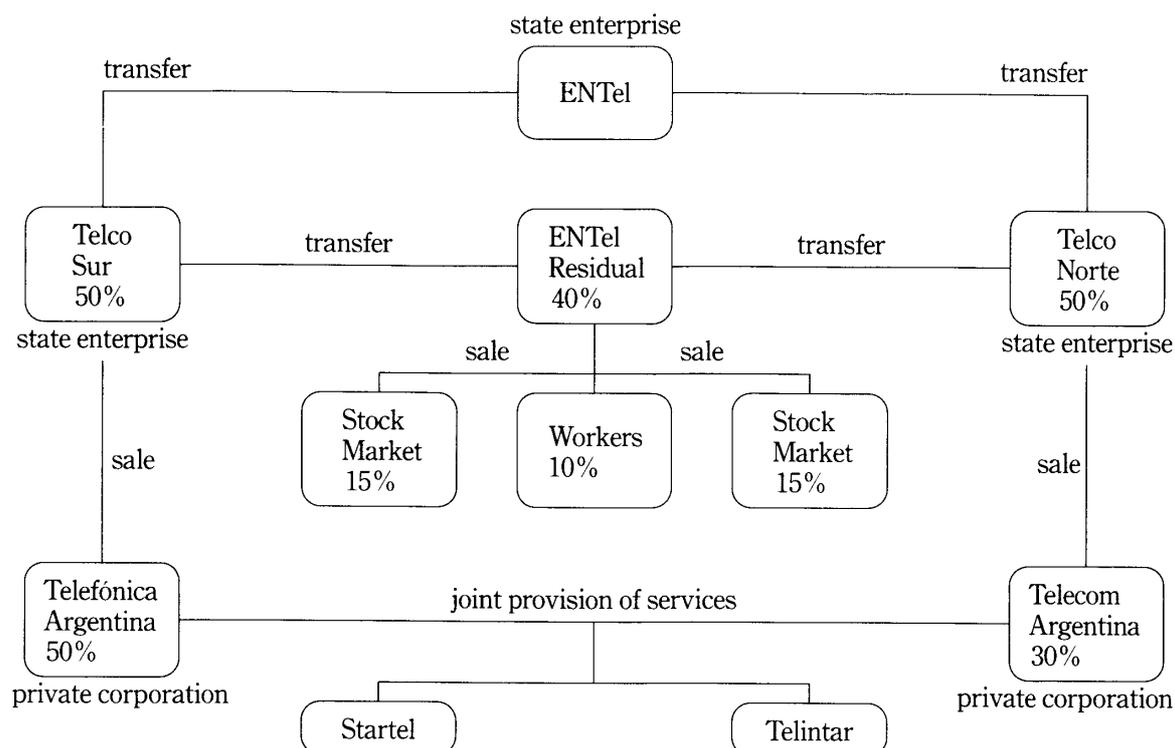


Figure 1 ENTel's Divestiture Scheme

Source: Petrazzini (1996) p. 122

Table 3 Telecom Argentina and Telefónica de Argentina, Distribution of Shares (percentage)

Company	Percentage of Shares	Company	Percentage of Shares
<i>Initial distribution, Telecom Argentina</i>			
France Cables et Radio	30	Telefónica International Holding	10.00
STET	30	Techint	8.31
Compañía Naviera Pérez Companc	30	Banco Central, S. A. (Spain)	7.04
J. P. Morgan Bank	10	Comercial del Plata	5.00
		Banco Hispano Americano	5.00
		Manufacturers Hanover	4.33
		Bank of Tokyo	4.16
<i>Initial distribution, Telefónica de Argentina</i>			
Citibank	57	Bank of New York	4.16
Telefónica de España	33	Zurich Ltd.	4.16
Techint	10	APDT	4.03
<i>Redistribution of Telefónica de Argentina's shares after privatization</i>			
Citicorp Venture Capital	20.00	Arab Banking Co.	3.41
Banco Rio (Cayman)	14.56	Republic New York Financiera	1.50
		Centrobanco (Panama)	1.42
		Vanegas Ltd.	1.25
		Banco Atlantico, S. A.	0.75
		Bank of Nova Scotia	0.60
		BFG	0.30

Source: Telefónica de Argentina

Table 4 Telecom Argentina and Telefónica de Argentina, 1988–1990 Achievements, 1991–1996 Goals

Criterion	1988	1990	1991	1992	1993	1994	1995	1996
Annual network growth (%)	11.9	1.8	4.2	8.2	7.7	6.2	3.7	2.8
Number of additional lines	347,000	63,000	150,052	209,962	306,636	264,274	167,094	135,102
Number of additional public phones	—	—	2,360	3,708	5,962	5,632	4,218	3,924
Local call completion rate (%)	47	49	53	63	70	74	78	85
Long-distance call completion rate (%)	23	30	36	47	60	64	72	80
International call completion rate (%)	—	40	41	42	45	47	50	55
Failure rate/100 lines (%)	—	47	45	43	41	39	35	30
Days to repair faulty line	10	11	10	8.5	7	6	5	3
Installation delay (months)	—	48	36	24	12	8	6	4

↑ privatization

Source: Petrazzini (1996) p. 130

In June 22, 1990 regulatory decree provided a regulatory agency and regime.

On the basis of the decree, the Comisión Nacional de Telecomunicaciones (CNT) was created. Five commissioners of CNT are appointed by the executive, and all of them could be removed by the president of Republic. CNT's function was defined to be i) administrative and technical regulation and ii) control, supervision, and verification consistent with applicable and government policy.

However, although a well-defined regulatory framework was legally in place, regulatory practice did not conform to the framework. CNT did not work, practically, between November 1990 and the end of 1991. It was mainly because of an absence of experienced staff.

Table 4 is the “before and after” performance of ENTel (divided into two companies), and observing the Table, after the turning point year (1990), many achievements appeared.

III. Conclusion

The motivation of the privatization of NTTPC to NTT was basically economical, but also was the one of political reason. But consequently, this dynamic change introduced many effective results. Japanese government decided to complete structural reforms in 1985 to privatize NTTPC and introduce competition. The main purpose of the privatization was to increase the variety of lower cost services by introducing competition among companies and offering users freedom of choice.

However, NTT still has a public nature aspect and virtual monopolies in many fields, which come from those regulations of the Telecommunication Business Law, the Nippon Telegraph & Telephone Corporation Law and the Commercial Code. In Japan, the several regulatory, financial, procedural restrictions, above stated, have impeded the progress of NTT toward implementing privatization fully.

On the other hand, ENTel's privatization was derived from the Argentina's economic crisis. And the most remarkable feature of ENTel's privatization was its haste. Argentina's experience points to the fact if

privatization should happen it must be under conditions of high concentration of power and the policymaking process should be protected from political pressure. The failure to prepare ENTel adequately influenced its lowest sale price which had never seen in any other developing country's telecommunication firms. The lowest price was the consequence derived from two causes. The one was the inadequate corporate coordination that happened from limited term of the privatization. And the other was the lack of transparency during the bidding process.

Notes

- (1) The abbreviation of Nippon Telegraph and Telephone, which started to be privatized in 1985.
- (2) The abbreviation of Argentina's Empresa Nacional Telecomunicaciones (National Enterprise of Telecommunication).
- (3) Argentina's populist party which is supported by working classes, the name was derived from President of the Republic, Juan Domingo Perón (1895–1974).
- (4) This law consists of 70 articles and was a fundamental law of the State reform, more detailed, see Takeuchi (1998) p. 186
- (5) At that time, Carlos Menem was the most powerful leader in the Peronist Party supported by working classes of many state owned companies, so that he could persuade the necessity of the State Reform to the labors.
- (6) He was the leader of Radical Party, opponent party to Peronist, who had taken the initiative in starting the privatization process, but failed because of the intense opposition of working class of the public sector.
- (7) Takano (1992) pp. 84–85

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Key Word: privatization, NTT, ENTel