

**REVIEW OF 'GLOBAL BROADBAND BATTLES' BY  
SIR GEOFFREY OWEN, FORMER EDITOR OF THE FINANCIAL TIMES,  
EDITORIAL PAGE, FINANCIAL TIMES, MONDAY JUNE 5<sup>TH</sup> 2006**

**<http://news.ft.com/cms/s/c5381008-f3e2-11da-9dab-0000779e2340.html>**

Book review: America lags on the superhighway

By Geoffrey Owen

Published: June 4 2006 18:13 | Last updated: June 4 2006 18:13

When countries are ranked by their ability to exploit new technologies, the US is almost always at the top of the list. In most cases the impetus has come from entrepreneurial newcomers, such as Intel in semiconductors or Amgen in biotechnology, not from established companies. This distinctively American phenomenon is usually attributed to a combination of two factors: a large and competitive domestic market and a set of institutions, including the financial system, that supports new ventures.

Yet there is one recently developed technology in which the US has been a notable laggard. Broadband, which provides high-speed access to the internet, was invented in the US, as was the internet itself. Since most of the hardware suppliers are based in the US, one would expect the market to expand more rapidly there than elsewhere. Yet the leaders in the diffusion of broadband are South Korea and Japan, with the US trailing a long way behind. Moreover, the growth of broadband in these countries is due in part to the activities of mould-breaking entrepreneurs, just the kind of competitor that one normally associates with the US.

How did this come about? As **Martin Fransman points out in his introduction to this admirable collection of country-based essays**, telecommunications is a very different business from, say, personal computers. It is a network-based industry characterised by economies of scale and high barriers to entry. Although the sector has been privatised and partially deregulated in most industrial countries, the old incumbents, such as BT Group in the UK and the successor companies to AT&T in the US, still retain, by virtue of their past investments in infrastructure, a good deal of monopoly power.

To break this power requires two things: forceful intervention by governments to prise open the bottlenecks that inhibit competition in new services, and the willingness of entrepreneurs to take advantage of the opportunities thus created.

A country that scores well on both fronts – in spite of its reputation for close ties between government and big business – is Japan. NTT, former telecoms monopolist, has come under intense pressure in broadband from new entrants, including the entrepreneur Masayoshi Son, who started a broadband service in partnership with Yahoo in 2002. His unconventional sales methods quickly won him a sizeable share of the market. But his move into broadband, and that of other new entrants, was helped by the Japanese government, which ordered NTT to open up its local

exchanges for use by outsiders (“local loop unbundling”) and to charge very low prices for access.

NTT is still a powerful company but competition has forced it to cut prices and improve its service. In South Korea – the world leader in broadband diffusion – the first mover was Thrunet, a new entrant based on cable; although it ran into financial problems it set a pattern of low prices to which the incumbent, Korea Telecom, had to respond.

In these two countries the regulators took a tougher line with the old monopolists than their counterparts in Europe. In the UK, for example, Oftel (now part of Ofcom) was too soft on BT in the early days of broadband, although recent regulatory changes should ease the path for new entrants. A far worse case is Germany, where Deutsche Telekom has faced little competition either from cable-based operators or via the unbundling route. The authorities seem to want to preserve it as a national champion, making sufficient profits at home to support its international ambitions.

France is also addicted to national champions, yet in a surprisingly liberal move in 2002 the authorities introduced aggressive policies to unbundle the local loop. Ambitious newcomers such as Iliad have been able to challenge France Telecom, and to make France’s broadband performance one of the best in Europe.

What is striking about France is that it drew on Korean and Japanese experience, not that of the US. The break-up of AT&T in 1984 was meant to usher in a new competitive era in US telecoms, but fragmented regulation affords ample scope for lobbying, and the telephone companies have been remarkably astute in holding on to their local monopolies. In broadband, the bulk of the market is in the hands of two sets of incumbents: the regional telephone operators and the cable networks. They do compete against each other but, as Fransman remarks, “this is oligopolistic competition where neither side has an interest in rocking the boat through disruptive activities”.

There is an encouraging lesson from the broadband story. Disruptive innovation gives the capitalist system its vitality, but it does not have to be confined to the US. Other countries can create the conditions in which innovators can flourish, as long as governments have the will to create appropriate incentives. Get policies and institutions right, and the entrepreneurial response should follow, even in old Europe.

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