

## ABSTRACT

The pressure to commercialise the Internet led to the creation of private networks, which adds competition to the once-duopoly market. To string their networks together, these companies have different degree of nationwide connectivity. JARING, TMNet, TIME dotNet and Fiberail possess extensive networks including fibre optic cables, while companies like Maxis, Celcom and Digi have smaller networks with varying levels of coverage using microwave, fibre optic and satellite links.

Despite the liberalisation efforts by the relevant authorities, effective competition in several segments of the market is still not seen. In particular, in residential markets, the level of competition is very limited due to high up-front costs to build infrastructure and low profit in the local residential market. As a result, until there is effective competition in the local loop, regulatory measures such as the requirement for cost-orientation of interconnection charges, and establishment of interconnection terms and conditions are critical to resolving this universal problem by ensuring effective competition in the local market.

This paper seeks to investigate the underlying economics of certain facets of the Internet, particularly those related to the Internet Service Providers (ISPs) and Internet Backbone Providers (IBPs). In addition to Internet-related economic matters, this paper attempts to address some of the interconnection, competition and regulatory issues concerning the ISPs and IBPs in Malaysia. Specifically, the research will look into the issues surrounding interconnection arrangements and competition such as the Internet backbone market power issues, and the “Internet Balkanisation” issue, and evaluate the recent changes in the regulatory framework that is seen to be pro-competitive.