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New trends in the Latin American telecommunications market: Telefonica & Telmex[☆]

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Abstract

This paper illustrates how the telecommunications sector in Mexico has grown considerably but that it still lags behind in terms of access and prices, compared to other countries with similar economic conditions. This paper identifies the welfare costs that may be associated with a “National Champions” policy pursued in Mexico compared to that of Brazil. The policy outcomes of these national strategies appear to support the philosophy of competition leading to higher welfare gains. In terms of welfare gains, Brazil has lower tariffs and a higher penetration than Mexico. It is, however, important to consider the fact that some of the firms operating in Brazil faced bankruptcy and this may indicate weakness in the model. © 2005 Elsevier Ltd. All rights reserved.

Keywords: Mexico; Telecommunications; Internet; Privatization; Policy; Regulation

1. Introduction

It has been more than a decade since governments in Latin America implemented a profound transformation in their telecommunications sector. By 2005, 18 of the most important countries in the region, excluding Uruguay and Costa Rica, have privatized and liberalized this industry. Fiscal crisis, increasing capital mobility and technological innovation forced politicians to turn to

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pro-market policies that favored competition and deregulation. Instead of an open market with numerous players that compete for a share, the region today experiences the consolidation of the same two grand players that compete with one another in virtually every country. While the Spanish firm Telefónica consolidated a strong position after the acquisition of the mobile operations of Bellsouth in many countries of the region, the Mexican firm, Telmex and its sister firm America Mobile have recently developed an aggressive acquisition policy in local telephony as well as in the mobile sector. What went wrong? Did policy makers miscalculate market forces or implement ill-designed policies?

The argument in this paper is twofold. The consolidation of Telmex and Telefónica may be explained by the interaction between, on the one hand, the different policy reform programs that were implemented in the region and, on the other, the technological characteristics of the industry that conveyed to fixed telephone providers a strong advantage.

In terms of policy reform and in spite of the rapid diffusion of reforms in the sector, there was a policy divergence in the timing of policy adoption and in how these reforms were implemented across the countries in the region. The comparative literature on Latin American economic policy reform highlights the interaction between policy constraints, organization of interests and ideology as determining varying policy implementation. Policy makers designed privatization programs trying to minimize political friction and this attempt introduced policy constraints that increased the influence of interest groups as a relevant influencing variable. Following Murillo (2004), policymaker's beliefs were important in identifying their intentions within the narrower options given by market oriented policies. This paper will explore the role of policymakers' political beliefs in shaping the degree of competition and thus the policy outcomes Latin America faces today through the study of three national cases: Mexico, Spain and Brazil. Both the Mexican and the Spanish policymaker's intentions were to create National Champions from their privatized national telecommunications companies while the Brazilian government that implemented a reform in this sector in a later period chose not to support a vertically integrated firm. Brazil implemented a more competitive market structure and thus renounced to a Brazilian National Champion. Today, the Mexican firm, Telmex and the Spanish company, Telefónica are significantly increasing their participation in the Brazilian telecommunications sector.

In terms of technology, the Latin American experience shows that those companies that competed in the fixed telephone segment of the market acquired a significant advantage that allowed them to consolidate a very strong position in the competitive arena. The control of the incumbent position in Spain, Mexico, Argentina and Chile, for example, established important advantages versus its competitors to the consolidation of competitors. The US-based companies that entered the Latin American telecommunications market in what appeared to be dynamic sectors at the beginning of the last decade, such as mobile and long distance, were not able to secure their position and today have lost all significant shares of the Latin American market. Even pro-competitive regulatory policies were not enough to create a real level-playing field that would counteract these initial strong positions.

After more than a decade of the first wave of reforms it is important to understand and evaluate the policy process and its outcomes. The first results of these reforms have been unexpected; the transformation of carriers, that were far from being the strongest in the world, into central actors in the international telecommunications sector. Key questions are what are the welfare gains to

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