

3rd GLOBAL CONFERENCE on BUSINESS, ECONOMICS, MANAGEMENT and TOURISM,
26-28 November 2015, Rome, Italy

Macroeconomic facts for Telecom Industry in MINT Countries

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Abstract

This paper proposes an overview of macroeconomic correlation between telecom investments and the GDP of MINT countries. MINT countries are Mexico, Indonesia, Nigeria and Turkey and the term has populated by Goldman Sachs, who has also created a relatively more referred term BRICS. The paper holds a specialized literature for each of MINT countries and then proposes a statistical model for correlation analysis, which is built on three well-known correlation coefficient calculation, Kendall's Tau, Spearman's Rho and Pearson's Product Moment Correlation. The results show a high correlation between the telecom investment and the GDP for each of the countries, but the correlation coefficient differs from country to country. For example the highest correlation monitored is in Nigeria with about 70% and the lowest correlation is in Indonesia with about 44%.

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Peer-review under responsibility of the Organizing Committee of BEMTUR- 2015

Keywords: Telecom Investments, MINT Countries, Macroeconomical Correlation

1. Introduction

In this paper, we propose a methodology to reveal the significant correlation between macroeconomic facts and the investments on telecom sector for Mexico, Indonesia, Nigeria and Turkey (MINT countries). Although each of the countries has their own characteristic market structure and requires a specialized management approach, it is possible to model a cross boundary analysis neutralized via the macroeconomic facts (Chircu & Mahajan, 2009). For example in their study, (Koski & Kretschmer, 2005) propose a three-dimensional model based on the entry time, service price and diffusion of the mobile telephony sector. There are also other studies with multiple-countries and

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single-equation approach (Doganoglu & Grzybowski, 2007). The telecom operators in a country are a part of information and communication technology (ICT) sector and we propose a statistical model for the correlation between the telecom industry and the gross domestic product (GDP) of the country. Also, the correlation function can be utilized for any formulation, far away from the market/industry differences or prediction purposes.

Companies use strategic investments for expanding their strategic position and being flexible to dynamic environments (Smit & Trigeorgis, 2004). Strategic investments help companies to gain competitive advantage by cost reduction and product differentiation, which contribute the created value of the companies (Porter, 1980). Strategic investments can be made by mergers or acquisitions according to market growth potential and market share of the company or product (Davidson, 1985). While deciding about strategic investments, companies try to analyze uncertainty about the environment and reflect the effects of macroeconomic parameters to the companies. For instance, oil price volatility can be an important effect on investment decisions of the firms and decrease the investment level to a certain point (Henriques & Sadorsky, 2011). However, after a certain level of uncertainty, some firms can generate higher income in their investments during the financial crisis. China, Brazil and India are the examples for being resilient to global financial crisis after 2008. These countries sustained to develop their inward and outward foreign direct investments (FDI) (Nayyar, 2011).

The rest of the paper will introduce the details of each MINT countries in the first chapter. In the second chapter the methodology and the background of the methodology will be introduced and also the application of methodology on real data for all four countries of MINT will be demonstrated. Finally the conclusion and interpretation of the outcomes will be presented.

1.1. Mexico

Since 1985, the role of telecommunications sector in Mexico's GDP has increased. But this ratio has stayed less than OECD average. The telecommunications sector in Mexico has been accepted as inefficient and functionless. This problem is related with lack of competition and transparency. These reasons lead to high prices, low market penetration, and insufficient infrastructure. Mexico has some of the highest consumer prices among members of OECD (OECD, 2012). Hausman and Ros (2012) demonstrate that the OECD study on Mexican telecommunications sector was incorrect when it concluded a lack of competition caused a loss of over US \$129 billion between 2005 and 2009. They argue that there have been significant gains in consumer surplus, not the loss.

The consensus of several studies on Mexican telecommunications is that the performance of sector in Mexico, while improving, falls short of the standards that are accepted very important for the performance of industry. According to this view, the causes of this deficiency are insufficient competition and weak regulation (Noll, 2013).

Mexico is very successful to attract FDI inflows. During the first half of the 1980s, Mexico has received 10% of all FDI to developing countries. The trade and investment liberalization process started in 1985, by the establishment of North American Free Trade Agreement (NAFTA) between Mexico, USA and Canada. The agreement has a major impact for the market liberalization of Mexico since NAFTA requires trade and FDI liberalization. After the liberalization process, Mexico is still an attractive country to raise FDI (Love & Lage-Hidalgo, 2000).

After 1990, the government has reformed telecommunications industry by allowing private ownership and promoting competition. The government has determined some goals like telephone penetration, service modernization, and cost reductions (Gonzalez, Gupta, & Deshpande, 1998).

Telefonos de Mexico (Telmex) was privatized on May 1991 with a value of 2,170 million USD (Bortolotti, D'Souza, Fantini, & Megginson, 2002). Privatization has been really important to improve the performance of companies. Bortolotti, D'Souza, Fantini, and Megginson (2002) examine the financial and operational performance of 31 national telecommunication companies. They find both of the performances for companies improve significantly after privatization.

One of the first milestones of Mexican telecom industry was in 1996, when an independent regulator was established. One of the mobile operators still dominates over 75% of the market. The telecom reform law passed by Congress in the summer of 2014, is the most significant step to construct the legal framework. Today America Movil, Axtel, Cablemas, Carso Global Telecom, Lusacell, Satmex and Telmex are operating in Mexican

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