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Risks and Rewards in the Globalization of Telecommunications in Emerging Economies

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The telecommunications industry in emerging markets has been transformed from a collection of mostly state-owned, national companies to one with many privately owned, multinational corporations (MNCs). Using examples from Latin America, this dramatic reconfiguration is explained as resulting from the dynamic interplay between country and firm strategies. It is further argued that first-mover MNCs reaped greater profits than late-mover MNCs, whereas timing had the opposite consequence for host countries. First-mover MNCs had the advantage of buying the incumbent state enterprise, enjoying monopoly privileges, making preemptive investments, leveraging political connections, and adopting entry-deterring policies to minimize competition. But early-reforming countries had to contend with the region's lack of credibility with investors by deeply discounting sale price, offering special privileges and protections, and absorbing risks that late-reforming countries were able to pass on to MNCs. The paper concludes that telecommunications no longer offers foreign investors easy riches like those enjoyed by first-moving MNCs in first-reforming countries. Late-moving firms, especially in late-reforming countries, are exposed not only to governments with higher bargaining power but also to greater regulatory and competitive risks.

This paper considers the risks and rewards for firms and countries that take advantage of newly arising opportunities in the telecommunications industry in emerging markets. The three trends sweeping across this industry are (1) the privatization of state-owned enterprises; (2) deregulation of the sector; and (3) globalization of the sector occurring through the participation of foreign capital in privatizations and in new entry after deregulation. Although these trends are occurring in a number of countries, the examples in this paper are drawn from Latin America, which was first among the emerging economies to embrace these trends. Therefore, the Latin America experience may portend things to come in telecommunications in other emerging economies (EEs).

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There is no widely accepted definition of "emerging economies," although the term is generally used to refer to both developing and transitional economies, each of which, in turn, is a heterogeneous set. Yet, these disparate countries are different from industrialized countries in two important respects: First, their market-supporting institutions are relatively underdeveloped (Alston et al., 1996), even though many of them embraced market-friendly policies, such as deregulation and privatization, in the 1990s. Second, their credibility with private investors, especially foreign investors, was quite low when they began to open up their economies in the late 1980s or early 1990s (Sader, 1995). Weak market-supporting institutions and low credibility made it hard for these countries to privatize activities previously reserved for state-owned enterprises. Transitional economies were much worse off on these dimensions, because state ownership accounted for 70–100% of their GDP, compared to the modal value of only 15% of GDP in mixed-economy developing countries (World Bank, 1995, p. 268–270). However, even in the latter, the privatization of monopolistic firms posed serious challenges of competition policy and regulation after privatization.

Compared to many other emerging economies, Latin American nations' market-supporting institutions were stronger, because their private sectors, their capital markets, and their labor markets were relatively well developed; after all, Latin America was home to middle-income rather than low-income countries. Yet, in the late 1980s, the credibility of Latin American governments with local and foreign investors was at its nadir, in the aftermath of the debt crisis of 1982, and the recessions, inflation, and expansion of state control that ensued.

How well, then, did telecommunications deregulation and privatization work in the region? Our conclusion is that some host countries and MNCs have profited more than others from the reforms in this sector, depending on the timing of reform (in the case of countries) and the timing of entry (in the case of firms). In Latin America, first-mover status created substantial advantages for *firms*, but it seems to have created significant disadvantages for *host countries*. The opposite impact of timing on firms and countries in Latin America arose principally because telecommunications reform was initiated in the early-reforming Latin American nations in the midst of high economic and political uncertainty. We would argue that the basic framework proposed in this article can be applied to other infrastructure sectors and to other emerging economies, especially transitional economies.

Technological and Institutional Changes in Telecommunications

In the last decade the telecommunications industry has been turned topsy-turvy by the confluence of two revolutions that have fed upon one another. The first is technological change, which led to the explosion of cellular telephony, digital wireless telephony, digital satellite service, fiber optic technology, and so forth These technical