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Telecommunications Policy 27 (2003) 267–282

TELECOMMUNICATIONS POLICY

www.elsevier.com/locate/telpol

# Foreign investment policies, sovereignty and growth

Georgette Wang*

*School of Communication, Hong Kong Baptist University, Kowloon Tong, Hong Kong*

**Abstract**

Policies on foreign investment in the communications sector have often been regarded as an indicator of a government's stance on sovereignty vis-a-vis economic growth. Since some of the poorest members of the World Trade Organization agreed to open basic telecommunications services to foreign investment in 1998, many more had followed suit. Are these nations surrendering sovereign control for foreign investment, and hopefully, economic growth?

Despite an overall trend towards the open market ideal, this study has found significant differences among Third World countries regarding foreign investment policies related to telecommunications services. From the analyses a pattern of regulatory control over foreign ownership in basic services emerges when the key determinants of policy decisions are taken into consideration: the size of domestic market, the competitiveness of national industries, the quality of policy design and decision making, and the urgency of needs and availability of different options.

The key to the issue is perhaps that control is not the best representation of sovereignty, but rather the autonomy in making decisions regarding the retention or surrender of control in the interests of the state and the public, through a commonly accepted procedure. In other words, surrendering control does not necessarily lead to the erosion of sovereignty, yet having to surrender control for reasons of sheer survival.


*Keywords:* Economic growth; Sovereignty; Telecommunications policy

## 1. Introduction

In 2001 when the world was watching China negotiating its terms for WTO membership, in a move that perhaps only made headlines in regional newspapers, the Nigerian government announced the \$1.3 billion sale of a controlling stake in Nitel, Nigeria's state telecommunications company. The deal was noteworthy, however, not only because of the amount of money that was involved—the largest in Sub-Saharan Africa's telecommunications sector, but also for the

*Tel.: +852-3411-7481; fax: +852-3411-7375.
*E-mail address:* telgw@hkbu.edu.hk (G. Wang).

0308-5961/03/\$ - see front matter 
doi:10.1016/S0308-5961(02)00103-9

message it carried: with sovereignty and security as the primary reasons for keeping Nitel under state control in the past, decision makers in Nigeria, like those in China, have changed their attitude toward foreign investment.[1]

This policy change in Nigeria was by no means an isolated case. In 1998, 72 members of the World Trade Organization (WTO) signed an agreement to open basic telecommunications services to foreign investment. Of the 41 signatories that chose to forego restrictions on foreign ownership, 15 had a per capita income of under $2000. As the WTO negotiations continue, more developing nations are expected to follow suit.

This development drastically differed from what was seen as typical of a third-world stance on issues regarding communications and information. With scarce resources and few competitive advantages, these poorer countries fought bitter battles to defend their sovereign rights when issues regarding transborder data flows and direct satellite television broadcasting emerged on the agenda of international negotiations (Wang, 2001).

Sovereignty, like patriotism, has frequently been utilized as a grand cause to shroud the complicated workings of forces and interests (Mueller & Lovelock, 2000). However, in this age of globalization, it has not ceased to be an issue of major concern, and policies on foreign investment in basic services—services that make the backbone of a nation's communications and information infrastructure—are often regarded as the indicator of a government's position on sovereignty vis-a-vis trade opportunities and economic growth. What, then, is the significance of a developing nation's open-door policy? Is exploitation by transnationals no longer a concern; or is it perhaps the choice between sovereignty and growth not an issue anymore?

Using country cases as examples, this paper examines national policies—primarily those of third world nations—on foreign investment in telecommunications, and the factors involved in related decision-making. The discussion is focused on, but not limited to, telecommunications, since convergence has made it increasingly difficult to separate media communications from telecommunications. It would be a mistake to equate restrictions on foreign ownership with sovereign control in telecommunications. However, it is hoped that the endeavor will provide a clearer picture of the ways in which sovereignty is defined through policy measures and trade agreements, and the role and function of the nation-state in this age of global communications.

## 2. The golden alliance: economic growth and telecommunications

Telecommunications has long been regarded as an important economic sector not only because of its size, but also because of its indispensable role in communication and information dissemination that, in turn, is the key to market competitiveness and socioeconomic development either within a national, regional, or global context.

Empirical evidence showing the link between telecommunications and economic growth appeared as early as the 1970s, and continued to emerge beyond the 1990s (Butler, 1983; Cronin et al., 1993; Saunders, Warford, & Wellenius, 1994). In the US, one of the major driving forces

[1] See further http://www.vii.org/papers/nigeria.htm. The preferred bidder, Investors International of London Limited, was Nigerian-financed but Portuguese-backed, while the reserve bidder, Telnet Consortium, was formed by a subsidiary of Sweden's Telia and Korea Telecom.