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The neoliberal networking drive in Latin America

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According to the ITU, privatization and competition were the two critical factors for the growth of the telecommunications industry. Until 2005, in Latin America 18 of the most important countries in the region had privatized or liberalized their telecommunications industries. Now the Latin American telecommunications market is dominated by two groups: the Spanish *Telefónica* and Mexico's *Telmex*. Obviously, the neoliberal networking drive has missed in Latin America the universalization goal of telecommunications. This gives not only Bolivia and Venezuela occasion to reconsider their previous universalization policies.

Key words: Telecommunications, Latin America, neoliberal networking drive, universalization.

At a historical point of view, since the Second World War, the telecommunications industry shows for most of the period network growth rates of between five to seven per cent per annum. But around the mid-1990s network growth rates began to increase more and more, reaching a peak value of 28 per cent in 2000. Therefore we have to record in 2007 1.279.357.800 fixed telephone lines and 3.285.304.200 mobile phones world wide. In the course of this development the gap between developed and developing countries - in 1984 called the missing link by the Maitland Commission of the International Telecommunication Union (ITU) of the United Nations – was supposed to have closed. In 1994 the fixed-line telephone density (telephones per 100 inhabitants) of the developed countries was 11 times greater than that of developing countries, in 2004, this factor was only 4. For mobile commu-

nications these factors are 27 and 4 respectively. As impressive this development is, in 2007 still more than four-fifths of the world's population lack access to own telephone (ITU. World Telecommunication/ICT Indicators Database, ITU 2002:18 a. ITU 2006: 1).

According to the ITU, privatization and competition were the two critical factors for the growth of the telecommunications industry. The world-wide process of reform started in the United States. AT & T's - at that time the largest telecommunications company in the world - consent to its demerger in 1982 marked the lengthy transition to neoliberal policies of telecommunications development in the U.S.A. This initiated a world-wide wave of liberalizations - the neoliberal networking drive (Schiller 1999) –, which arrived in Britain and Japan first.

Until 2005, in Latin America 18 of the most important countries in the region had privatized or liberalized their telecommunications industries. The largest country of Latin America, Brazil, reformed the sector fundamentally in 1998. In fact, the Latin American telecommunications market is dominated by two groups: the Spanish *Telefónica* and Mexico's *Telmex* (Mariscal/Rivera 2005).

Even Cuba could not resist the neoliberal networking drive and opened the telecommunications sector to foreign capital. At the beginning of 1995 a joint venture between the Mexican *Domos group* (49% of the shares) and the *Cuban Ministry of Communications* (51% of the shares) was founded. Via a 25 percent stake in the Mexican telecommunications company, still in 1995 the Italian telecommunications group *Telecom Italia* got involved in the newly formed Cuban telephone company ETECSA (*Empresa de Telecomunicaciones de Cuba, SA*). Currently the Cuban government holds 51 and Telecom Italia 27 percent of the shares of the monopoly ETECSA. Furthermore, 4 other Cuban shareholders have shares in ETECSA.

A shareholder agreement gives Telecom Italia International the right to appoint certain senior executive officers and a majority of the board of directors of ETECSA on alternate years. Moreover, there are agreements to provide certain technical assistance to ETECSA for which ETECSA pays annual fees in return. These technical agreements for fixed line and wireless services will expire at the end of 2009 (Hoffmann 2002b; Telecom Italia 2006a:103 a. Telecom Italia 2006: 66f.).

In contrast to Cuba, Costa Rica and Uruguay have resisted the liberalization and privatization pressures for a long time. The government of Costa Rica withdrew its telecommunications "reform" law in April 2000, so that the energy and telecom company *Instituto Costarricense de Electricidad* (ICE) remained in 100% state ownership (Hoffmann 2002a). In Uru-

guay the intended partial privatization of the monopoly by the government has been rejected via a referendum in 1992. But at the beginning of the 21st Century the state monopoly for the provision of telecommunications services ended. While the telecommunications market in the sectors of mobile, long distance and value added services has been opened to competition, the fixed network remained in the hands of the state telephone company, ANTEL (Zapata 2008 a. Gómez/Mahan 2007: 7-9).

Uruguay and Costa Rica, whose operators have not been taken over by foreign (European) telecommunications companies, remained exceptions in Latin America for a long time. But in 2007 the neoliberal (networking) drive ran into obstacles in some Latin American countries. So *Telefónica* dominating the Latin American telecommunications market warned in its annual report 2006 for the Securities and Exchange Commission (SEC) of growing political risks which are linked in the majority of cases to the discretional nature of the presidencies in power. In the case of Venezuela, Telefónica feared a substantial regulatory change with notable harmful implications for business development. Publicly announced proposals of the President of Ecuador as a possible default on external debts, a probable reconsideration of government participation in economic activities and a possible renegotiation of key contracts - including the telecommunications sector - or a possible exit from the current exchange rate mechanism also unsettled *Telefónica.*

Venezuela and Bolivia did not put in announcements and realized their respective nationalization program in the telecommunications sector. In January 2007 the government Chavez announced, as part of its nationalization policy, to buy back strategic corporations. This included the 1991 privatized *Anónomia Compañía Nacional de Teléfonos de Venezuela* (CANTV), which at the end of 2006 covered 79 % of the fixed line market, and (via *Movilnet*) 42 % of the mobile market. In February 2007, the Venezuelan government reached an agreement with the U.S. telecommunications company, *Verizon*[1], the largest shareholder CANTVs, to sell its shares. In May 2007, the government finally took control of CANTV (Rodríguez/Cáceres 2008, World Bank 1994: 66 a. Telefónica 2007: 33 a. 351).

In the same year the Bolivian government accused ENTEL Bolivia the former state telecommunications enterprise company and *Euro Telecom International* (ETI), also a subsidiary of *Telecom Italia* and dominating ENTEL since 1996, of a number of serious administrative and financial irregularities and established a Ministerial Commission to recover ENTEL Bolivia for the state. Because ETI appealed to the *International Center for Settlement of Investment Disputes* (ICSID), which Bolivia since May 2007 no longer belongs to, the ne-

[1] At the end of 2006 Telefónica had 6.92% of CANTVs shares.

gotiations with the Bolivian government, initiated in 2006, stagnated so that the acquisition of ENTEL was announced with the Decree of May 1 2008. In April 2007, the government had already taken over 47% of the ENTEL shares administered by the two groups BBVA (Spain) and Zurich (Switzerland) (Calzada/Dávalos 2005, *Telecom Italia* 2006b: 25 a. 60f; Süddeutsche Zeitung 3./4.5.2008: 25 a. 30.6.2008: 8).

Comparing the mentioned countries by the number of fixed lines per 100 inhabitants which was for a long time the crucial indicator it is striking that exactly the long time privatization-resistant countries have a higher network density than the now renationalizing countries. This does not mean that a simple causal relationship between the kind of ownership of telecommunications companies (state-owned or private) and the penetration rate of telephones exists, but that liberalization is no guarantee for success in the sense of universalization. In the observation period, Venezuela has made the most dynamic growth, but remains below the 19-percent mark in 2007. Bolivia at an annual growth of 2.8% could just exceed the 7-percent mark. Also, the telephone density of Cuba lies at this level, despite rapid growth in recent times.

Table I: Basic indicators of selected countries of Latin America

	Population		GDP		Total Telephone Subscribers	
	Total (M)	Density (per km2)	(B US$)	Per capita (US$)	(000s)	per 100 inhabitants
	2007	2007	2006	2006	2007	2007
Bolivia	9,52	9	11,16	1.193	3.932,6	41,29
Brazil	191,79	23	1.065,51	5.641	160.379,7	83,62
Costa Rica	4,47	88	22,15	5.034	2.794,9	63,54
Ecuador	13,34	29	41,40	3.085	11.890,5	89,13
Cuba	11,27	98	18,82	1.674	1.125,6	9,97
Uruguay	3,34	18	19,31	5.538	3.969,0	118,84
Venezuela	27,66	30	108,98	4.164	28.902,3	104,50
Americas	909,85	23	17.345,8	19.364	918.980,1	101,75
World	6.691,53	49	49.472,7	7.696	4.476.669,8	67,53

Source: ITU World Telecommunication/ICT Indicators Database. Own compilation.

Table II: The development of fixed networks of selected countries of Latin America

	Main (fixed) telephone lines (000s)		CAGR (%)	Main (fixed) telephone lines per 100		CAGR (%)
	2002	2007	2002-2007	2002	2007	2002-07
Bolivia	590,6	678.2	2,8	6,82	7,12	0,9
Brazil	38.810,7	39.399.6	0,3	21,69	20,54	-1,1
Costa Rica	1.038.0	1.436.7	6,7	25,82	32,16	4,5
Ecuador	1.426.2	1.804.8	4,8	10,97	13,53	4,3

Cuba	665.6	972.9	10,0	5,94	8,61	9,7
Uruguay	946.5	965.0	0,4	29,38	28,89	-0,3
Venezuela	2.841.8	5.082.2	12,3	11,27	18,38	10,3
Americas	298.310,9	294.384,8	-0,3	34,95	32,59	-1,4
World	1.082.590,5	1.279.357,8	3,4	17,45	19,23	2,0

Source: ITU World Telecommunication/ICT Indicators Database. Own compilation.

Obviously, the neoliberal networking drive has missed in Latin America the universalization goal of telecommunications. All Latin American area countries are under the American and many well below the world average. Despite the expansion of Latin American telecommunications networks, exists a large gap between the most populous countries of Latin America Brazil (20.54), Mexico (18.54), Colombia (17.19) and Argentina (24.03) on the one hand and the U.S. (57.15) and Canada (64.49) on the other hand, even though it may have reduced in the past decades.

With the global success of mobile telephony in this decade, the telephone density of the so-called developed countries as well as of some developing countries in America decreased. In a few countries of America has, indeed, the absolute number of fixed lines diminished too. In contrast, mobile communications worldwide as well as in Latin America developed very dynamically, as the chart below shows. Statistically, almost every second citizen of the world had a mobile phone in 2007. Very high growth rates, above the world average, have led to that in Bolivia the absolute number of mobile subscribers from 2002 to 2007 has more than tripled. In Brazil, this increase was nearly three times and a half, in Costa Rica about three times, in Ecuador six times and a half and in Cuba eleven-fold. For Uruguay, this factor was 5.85 and for Venezuela 3.6. In these countries, except Cuba, the mobile density is higher than that of fixed lines. Especially if fixed and mobile lines are simply added, there seems to exist no telecommunications issue in relation to universalization for the here selected Latin American countries except Cuba.

Table III: The development of mobile communications in selected Latin American countries

	Mobile cellular subscribers					
	2002 (000s)	2007 (000s)	CAGR (%) 2002-2007	per 100 inhabitants	% Digital 2007	As % of total telephone subscribers 2007
Bolivia	1.023,3	3.254,4	26,0	34,17	100,0	82.8
Brazil	34.881,0	120.980,1	28,2	63,08	...	75.4
Costa Rica	502,5	1.443,7	30,2	32,82	100,0	51.7
Ecuador	1.560,9	10.085,7	45,2	75,60	...	84.8
Cuba	17,9	198,2	61,8	1,76	...	13.6
Uruguay	513,5	3.004,0	42,4	89,95	...	75.7

Venezuela	6.541,9	23.820,1	29,5	86,13	...	82.4
Americas	255.456,3	652.565,1	20,6	71,74	9,4	68.0
World	1.157.383,6	3.285.304,2	23,2	49.32	65,9	71,5

Source: ITU World Telecommunication/ICT Indicators Database. Own compilation.

As the mobile telephone system represents in many countries the largest telecommunications network, particularly in lower income countries, it seems justified for the ITU to include mobile phones in the determination of universalization. Furthermore, mobile communications would have the additional feature to measure the network accessibility easily. This could be defined as the percentage of the population within the reach of a terrestrial mobile cellular signal, irrespective of whether people are actually subscribers. This would be the first comparable measure to continue to pursue the Maitland Report recommendation to bring all of humanity into reach of a telephone (ITU 2002: 20).

Apart from the fact that the penetration rates of fixed and mobile telephony are highly aggregated indicators for the measurement of universalization, which say nothing about the spatial and social distribution of telecommunications facilities and that these different telecommunications densities certainly should not be summarized to a single indicator, because this supposes different users, there exists no complete substitutability between fixed and mobile lines. Concerning voice communication the wireless line can substitute the fixed, but the broadband Internet access based on the fixed network, especially the world's dominant DSL technology, enjoys over its mobile alternative a big development lead (BMWi 2008). Thus, by a high cellular density it can not to be concluded that the technical and infrastructural conditions for the development of an information society are given, when, with the rapid spread of mobile telephony of course, the conditions for voice communications have improved considerably.

By no means was the missing link found with mobile communications making fixed lines unnecessary, as the ITU concludes. Rather, these long-standing divisions are superimposed by the so-called digital divide. In general this refers to the differences in terms of Internet access, which is distributed more uneven than the telephone access. Old and new divisions still exist between countries with different levels of development, within a country, e.g. between urban and rural areas, between genders, between educated and untrained, or between young and old (ITU 2002).

Even if the global divide with regard to Internet users has decreased, the corresponding penetration rates of the here selected Latin American countries lag on the one hand behind their own fixed and mobile densities already reached and on the other hand, there are still sig-

nificant disparities compared to the developed countries (see Table IV*).* For comparison, here are mentioned the relevant indicators (penetration rates for Internet subscribers or users), Canada (26.72 or 85.17) and USA (21, 32 or 71.94). For the advanced communication technologies these differences continue. For example, the share of all broadband subscribers of the selected Latin American countries, was 2007 under the 5 percent mark, while this indicator amounted 22.91 for Canada and 19.79 for the U.S. (Germany: 23.97).

Table IV: Internet and broadband in selected Latin American countries (2007)

Country	Internet				Broadband Subscribers	
	Subscribers (000s)	Subscribers per 100 inhabitants	Users (000s)	Users per 100 inhabitants	Total (000s)	Per 100 Subscribers
Bolivia	198,4	2,08	198,4	2,08	34,0	0,36
Brazil	16.525,0	8,87	50.000,0	26,07	8.100,0	4,22
Costa Rica	236,0	5,28	1.500,0	33,57	147,6	3,30
Ecuador	206,0	1,54	1.549,0	11,54	319,0	2,39
Cuba	16,0	0,14	240,0	2,13	-	-
Uruguay	242,0	7,25	968,0	28,98	165,0	4,94
Venezuela	1.005,8	3,64	5.719,7	20,68	858,0	3,10
Americas	102.734	11.80	375.085,0	41,23	88.408	9,74
World	521.771	8.34	1.467.040,1	22,04	335.747	5,18

Source: ITU World Telecommunication/ICT Indicators Database. Own compilation.

Venezuela and Bolivia want to overcome the many (digital) divisions in their own countries and have started with their nationalizations of the dominant telecommunications company a new telecommunications policy, which aims to transform telecommunications from a product of the market to a tool of development, oriented to the human and social needs. The overall objective is to socialize the use of all ICT and democratize the access to them. Through the unfolding of the (broadband) infrastructure at a national scale, they want to create a new territorial balance. Accordingly, the telecommunication networks, particularly in rural areas, should be expanded. In the two renationalizing countries Bolivia and Venezuela are again reinforced investments and the tariffs are lowered.

Agreeing Periu (2005), who leads to the result that from the foreign direct investment by Spanish Telefónica, the largest investor in Latin American telecommunications sector, both investors and consumers in the concerned countries have benefited, it would not need such drastic measures in the other Latin American countries. But the neoliberal networking drive, which makes a public service, formerly provided by the state for the population, a commodity, has not really universalized the phone in Latin America, regardless of whether the agreed universalization objectives between the respective governments and telecommunications companies dominated by foreign capital have been met or not. Still applies: the less money the citizens of a country have, the more unlikely it is that the so-called information and communication technologies are used.

The balance of the telecommunications development in the Latin American countries, touched here, gives not only Bolivia and Venezuela occasion to reconsider their previous universalization policies (ITU undated). In particular, how can be created the infrastructure prerequisites for the information society and can this be done with foreign telecommunications companies? Can foreign direct investment serve sustainable (telecommunications) development, or necessary investment in the universalization of telecommunications and the fulfilment of foreign (or any) claims of shareholders exclude themselves ultimately from each other? Are these questions answered negatively other countries in Latin America have reasons to halt the neoliberal networking drive.

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