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Taking Control: Transforming Telecommunications in Mexico

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Introduction

The establishment and expansion of utility networks laid the foundations – literally, in the form of physical networks of transport, communications, energy and water – for socioeconomic development in modern Mexico, playing a central role throughout each different historical period of development. Continually there was a trade-off between the aim of developing network services to promote national business, on the one hand, and the need to attract technological and business capabilities to sustain higher rates of growth through Foreign Direct Investment (FDI), on the other. During the Porfiriato (1876–1910) network services were essential for the emerging export-led growth strategy, financed in large measure through the accumulation of foreign debt (particularly Mexican National Railways). They were also key during the so-called ‘economic miracle’ between the 1940s and the late 1960s. From the 1970s to the 1980s Mexico’s accumulating debt, headed by some of the largest networks – including oil and gas giant state-owned enterprise (SOE) *Petróleos Mexicanos* (PEMEX) – contributed significantly to highly cyclical economic trends and also generated what would be the deepest and most prolonged debt crisis in Latin American history. Networks were important also during the 1990s in the passage from a relatively inward-looking economic strategy to a more open, privatised economy, particularly the former national telephone monopoly *Teléfonos de México* (TELMEX), which was used as a symbol to increase the visibility and attractiveness of the privatisation programme to foreign investors.¹ As the newly privatised TELMEX exploited its privileges, becoming a ‘national champion’, strategic shareholder Mexican entrepreneur Carlos Slim consolidated his business activities to become a leading force in the internationalising ambitions of Mexican enterprise from the end of the 1990s.

This chapter focuses on the transformation of the telecommunications sector in Mexico during the twentieth century, selected because of its emergence from the 1970s at the heart of a new technological paradigm,² which provides the architecture for the information society³ and is increasingly

subject to intensified global competition and mergers and acquisitions. The role of the telecommunications sector is examined at four critical stages of transition: Mexicanisation, nationalisation, privatisation and transnationalisation. What emerges from this analysis is that post-revolutionary Mexican governments have continuously sought to bring telecommunications under their wing – and away from foreign control – though this development has been gradual. Ownership and control variants are arrayed along twin axes: can be visualised as a 3-D public–private and domestic–foreign: in this light the government has repeatedly sought to use Mexican private investment when state ownership was either undesirable or unfeasible. Although ownership of other strategic networks – particularly railways, electricity, petroleum, gas and water – is only mentioned briefly to enable comparison there is a common trend to protect networks from foreign control and this despite Mexico's turn to open markets, the signing of the North American Free Trade Agreement (NAFTA) and the inward FDI boom in Latin America in the 1990s. This differentiates Mexico from many large Southern American countries that have opened up more to FDI inflows.

Mexican SOEs have broadly evolved in the following way: (1) a relatively prolonged emergence from 1920 to 1960; (2) a dramatic expansion between 1960 and 1982; and (3) an equally dramatic decline from 1983 to 2000. The various reasons for setting up SOEs or nationalising private companies have been forgotten or distorted over time. In Mexico nationalisation was often used in order to keep foreigners out of the military, technology, energy, transport and telecommunications sectors. The state also nationalised by default to bail out companies in financial trouble, however, particularly during the 1930s and 1970s.⁴ FDI played an important role in business transformation in each phase of economic development, though this was fraught with contradictions since, whilst FDI was a critical means of attracting technological capabilities and access to international standards, the Mexican governments sought to control or at least restrict foreign ownership of business. Inward FDI into infrastructure and network services was considered necessary for the export-led growth model of the late nineteenth and early twentieth century. During the period of 'stabilising development' inward FDI into manufacturing Transnational Corporations (TNCs) was considered a 'necessary evil' that would permit Mexico to jump from the second stage of import substitution industrialisation in the 1950s to a more complex phase of intermediate industrialisation in the 1960s and 1970s. In the 1960s a large number of TNCs moved into chemicals, pharmaceuticals and the automobile sector. In the following decade the development strategy was heavily oriented toward the promotion of intermediate industrial goods and energy, including the development of steel companies, petrochemicals, the nuclear industry and transport and further expansion of the (transnationalised) automobile sector (including automobile parts which began their export boom in the 1980s), and communications networks in general. Unfortunately, however, the jump to production

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of advanced capital goods did not work: for instance, production of industrial machinery. The industrial transformation was therefore incomplete and contributed to the shift to *maquiladoras* in the late 1980s and early 1990s, which did not require much new technology. The liberalisation of FDI as of the late 1980s was a clear requirement of the so-called 'Washington Consensus' and the privatisation of TELMEX was used as the flagship of the Salinas administration (named the 'Thatcher of Latin America' by *The Economist*) to attract FDI. Finally, outward FDI by companies, including TELMEX, heralds a new phase whereby the 'national champion' has come of age and can compete aggressively in regional telecoms markets.

The rest of this chapter is organised into five sections that roughly correspond to the historical phases of telecommunications transformation. In the first section the transformation of telecommunications from foreign, private TNCs to Mexicanisation is discussed. The era of nationalisation is analysed up to the 1982 debt crisis in section two. TELMEX's role in the privatisation process follows in section three showing how the option of creating a prominent national champion was selected. TELMEX's transformation into Latin America's largest Trans-Latin American telecom company follows in section four. Conclusions follow.

I. The Prolonged Emergence of Nationalised Enterprise

Telecommunications were not nationalised until 1972, later than railways, electricity, oil and gas. In order to put this nationalisation into perspective we shall first briefly consider the origins of SOE in Mexico and the nationalisation of other key networks.

The origins of public enterprise in Mexico were the creation of fiscal monopolies during the empire – particularly during the Bourbon period – in tobacco, mercury, salt, gunpowder and military activities, following similar patterns to Europe.⁵ A few enterprises were established during the Porfiriato, namely Mexican National Railways (1908) and Caja de Préstamos para Irrigación y Fomento (1908), both with mixed public and private capital. This brought Mexico closer into line with a number of other Latin American countries, such as Argentina, Brazil, Chile and Peru, which had created state enterprises in banking and other activities from the 1860s and 1870s. However, after the crisis of 1890 they were largely privatised in Argentina and Peru, while in Brazil state railways and banks continued to flourish. During the Mexican Revolution the state played a more decisive role in the economy: from 1915 it effectively took over the tram system in Mexico City, most regional banks and many *haciendas*. The Mexican Revolution heralded change, one important consequence being the inclusion of Article 27 in the 1917 Mexican Constitution which invested the state with legitimate and inalienable ownership of key natural resources and infrastructure.

It was from the mid-1920s that a more modern concept of SOE came into play. Over the following few decades – and until the late 1970s – many

enterprises (including electricity, railways, telegraphs and telephones) were incorporated into the so-called parastatal (public) sector, in general because of their perceived importance for Mexico's economic and social development, national independence and their strategic role. The nationalisation of these networks was often slow and complex, evolving over many decades. The main exception to this was the administration of Lázaro Cárdenas (1934–40) which saw an intensification of activity, climaxing with the nationalisation of the railways in 1937 and, in particular, with the dramatic expropriation of 17 American and British oil firms and the creation of the state monopoly PEMEX in 1938 (which is still celebrated in Mexico as a national holiday).

American and European FDI had played an important role in the Mexican economy during the Porfiriato, being largely destined for mining, petroleum, railway expansion, electric power, banking and textiles. However, in the key sector of transport the state early on took a major share and at the beginning of the twentieth century Mexican National Railways was the largest enterprise in Mexico. Half of its capital, however, was still held by foreign investors as shares or bonds. In 1914, in the face of fully-fledged revolutionary struggle, the Mexican government declared a moratorium on its foreign debt, including its railway debt. In post-revolutionary Mexico railways were in a poor state – destroyed, underfunded, overstaffed and increasingly subject to competition from roads. In 1937 Cárdenas declared the railways nationalised and the negotiations over their control and debt were not resolved until the mid-1940s, when foreign shareholders were paid back one tenth of the shares' original value.⁶

Foreign interests that had dominated the extraction of crude oil and natural gas started to clash over rising taxes with the Mexican government as it stabilised from 1920. Tensions further escalated after the passing of the Petroleum Law in 1925 which put restrictions on the foreign exploitation of oil and gas via concessions and, in the eyes of TNC owners, threatened their property rights.⁷ The expropriation of foreign oil interests in 1938 has attracted the attention of many historians: the traditional view is that this was an act of anti-imperialism, marking the apex of revolutionary economic nationalism.⁸ Revisionist historians, such as Knight, argue that the expropriation was not the result of pre-planned revolution ideology, but rather a case where the Mexican government's hand was forced due to a number of factors, including declining reserves in Mexico and newly discovered oil fields in Venezuela, the intransigent – sometimes arrogant – behaviour of TNC managers that still treated Mexico as a colony and an intractable labour dispute with a powerful trade union. In short, the government acted to save face.⁹ Debate among historians continues as to whether the assertion that the PEMEX expropriation was, as Knight claimed, a 'spectacular exception' to an otherwise moderate and pragmatic approach to FDI,¹⁰ or whether the Cárdenas administration represented the climax of a genuinely revolutionary industrial policy.¹¹

In contrast, nationalisation in the electricity and telecommunications sectors was slow, unfolding over decades. The origins of electricity in Mexico are during the Porfiriato when foreign TNCs became involved in generation and

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distribution. Tensions, however, between the Mexican government and the TNCs gave rise to disputes about pricing, interconnection of networks and infrastructure development beyond the main cities. In 1937 the Mexican government established the CFE (Federal Electricity Commission) in order to increase pressure on TNCs gradually. By the late 1950s the Mexican government was in charge of plants providing nearly half the total national generating capacity (in many cases thanks to World Bank loans).¹² By 1960 the only remaining foreign interests were Belgian Mexican Light and Power and the American Foreign Power Company, which were mainly involved in electricity distribution. The Mexican government bought both in 1960 while Article 27 of the Constitution was amended to reserve electricity services for the Mexican state.

The incorporation of telecommunications into the public sector was particularly long-winded, with the firm only becoming fully nationalised in 1972.¹³ As in the case of electricity TNCs established telephone services in Mexico City during the Porfiriato. Fierce competition, non-cooperation and a lack of regulation characterised the industry that by 1925 had been consolidated into two TNCs: Ericsson of Sweden and ITT of the USA.¹⁴ The Great Depression forced the two TNCs to start negotiating a merger, whilst pressure grew during the Cárdenas administration to interconnect their systems. While both foreign companies were in favour of a merger each was determined to set the conditions and both were vehemently opposed to accepting the conditions laid down by the government, which tried to reign in their privileges. Correspondence between the directors of the foreign firms and the Secretary of Communications and Public Works, Múgica, reveals that tensions were high during this period. This mutual distrust was exacerbated when Múgica was offered bribes if the foreigners could have their way, and – infuriated – cut off correspondence. The vehemence of the correspondence between Múgica and the foreign TNCs was such that it has been suggested expropriation could not have been entirely ruled out.¹⁵ However, the oil expropriation acted as a shock wave: both the Mexican government and the foreign companies moderated their behaviour from 1938, whilst the Cárdenas administration ended in 1940 and was followed by a more conservative administration.¹⁶

From the 1940s the government opted to gradually 'Mexicanise' telecommunications. Mexicanisation is a loose, flexible notion describing a range of different policies, from wholesale nationalisation to a more incremental shift in ownership away from foreign interests and towards Mexican private investors, allowing foreigners to regain significant, though less visible, privileges once out of the limelight.¹⁷ The rationale was to attempt to channel FDI into priority areas for Mexico rather than in the interests of foreigners. The Mexicanisation of telecommunications occurred in two phases: first, the Mexican government negotiated with Ericsson to create TELMEX in 1947, to be jointly owned by Mexican and Swedish interests with a majority Mexican board.¹⁸ Next the government negotiated the acquisition of the ITT-owned firm. By 1957 TELMEX controlled 96 per cent of telephone services and the following year

the Mexican government pressurised Ericsson and ITT to sell their remaining shares to Mexican private investors, thus consolidating its Mexicanisation. From this time the state gradually increased its ownership of TELMEX, obtaining revenues via taxes on local and international calls and a scheme whereby new subscribers would buy state-issued shares in the company (to dilute private Mexican interests) and then buy them back using telephone taxes. By 1970 the state controlled 48 per cent of the shares: when Echeverría's government bought a further 3 per cent in 1972 TELMEX was finally officially nationalised.¹⁹

II. Organisational Anarchy and Debt Crisis

In 1970 there were 272 SOEs, mostly in the transport, communications, banking and industrial sectors. From 1970, however, the public sector grew at a dizzying speed: in 12 years the number of enterprises more than quadrupled, peaking at 1155 in 1982. Nationalisation was implemented either via rescue operations or for politico-economic reasons and took in enterprises from all sectors, in any form, shape or size. Not only did this result in organisational anarchy, increasing bureaucracy and managerial problems, but it also contributed significantly to Mexico's rising external debt.

From the 1940s state promotion of enterprises in transport, communications and energy had largely been financed by utility profits whilst foreign credit played a minor role.²⁰ However, Mexico's foreign debt gradually rose, becoming notable in the 1960s but booming in the 1970s. Mexican consolidated foreign debt, set at US\$ 7 billion in 1970, which doubled by 1974, doubling again to reach US\$ 29 billion by 1977. By 1982 it reached nearly US\$ 80 billion.²¹ The bulk of loans were destined for SOEs and banks that had required heavy financial support for their rapid expansion in the 1970s. PEMEX and the CFE absorbed most debt. While in 1970 PEMEX's foreign debt stood at barely US\$ 367 million, by 1981 this surpassed US\$ 11 billion, representing 27 per cent of total long-term Mexican public debt. The expansion of the electricity network, promoted by President Echeverría (1970–76) and López Portillo (1976–82), also led to massive accumulated debt, rising from US\$ 990 million in 1970 to over US\$ 8.2 billion in 1981.

Why did Mexican technocrats and bankers not smell danger with this dramatic escalation of foreign debt? From 1976 huge oil reserves had been discovered in the Gulf of Mexico and it was generally believed the debt could be paid off using 'black gold'. In a short period of time Mexico's debt had also internationalised: while most of the foreign loans during the 1960s and early 1970s were extended directly to the Mexican government by multilateral financial agencies, from the mid-1970s the international debt scenario changed dramatically as private American, European and Japanese banks aggressively sought out new clients in Latin America. Literally hundreds of American banks provided loans to Mexican public and private enterprises but

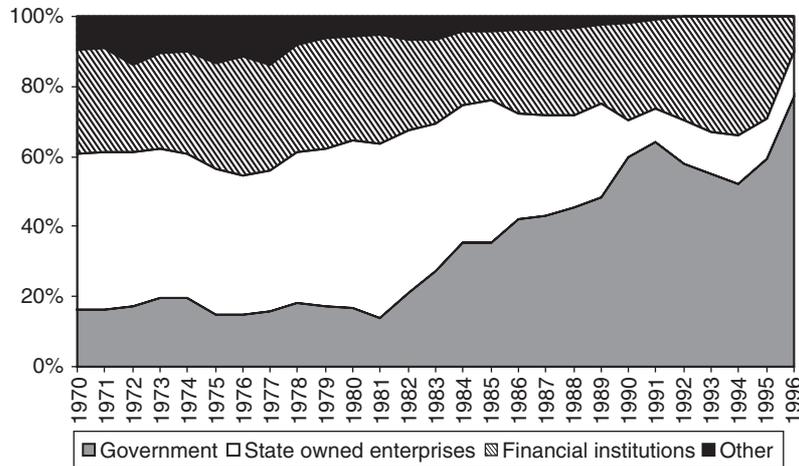
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Figure 13.1 Proportion of Mexico's Net Foreign Debt Owed by Different Institutions 1970–1996

Source: Elaborated by authors based on Ibañez (2000).

by 1982 six large banking corporations led the pack: Citicorp (US\$ 2.8 billion in Mexican loans), Bank of America (US\$ 2.5 billion), Manufacturers Hanover (US\$ 1.9 billion), Chase Manhattan (US\$ 1.6 billion), Chemical Bank (US\$ 1.4 billion) and J.P. Morgan (US\$ 1.1 billion).²² The 1982 crisis was also provoked by the financial strategy of Mexican private and public banks to obtain low cost loans from abroad and then re-loan domestically at higher rates.²³ State-owned banks such as Nacional Financiera increased its debt to US\$ 20 billion in this period. This irresponsible strategy assumed international interest rates would not rise and that there would not be devaluation in Mexico. After the Federal Reserve Bank of the USA increased interest rates in the early 1980s most Latin American debtors had to find additional loans to bridge the costs provoked by the increase in interest payments. The huge debt service obligations went beyond the relatively limited budgetary possibilities of Latin American governments: financial globalisation and indebtedness had surpassed both expectations and fiscal realities. The first country to fall was Mexico, which declared a temporary suspension of payments in August 1982. Its total external debt at this point was US\$ 87 billion, of which almost US\$ 60 billion was public sector debt, US\$ 19 billion private sector debt and US\$ 8.5 billion commercial bank debt. Successive debt restructuring over the next few years consisted fundamentally of refinancing loans authorised by the international banks so the government did not declare a moratorium. Foreign creditors persuaded the Finance Ministry to assign profits from petroleum to cover interest on the debt. A large part of public sector debt was transferred to the government and the public banking sector, guaranteed by PEMEX.

Privatisation was part and parcel of the new policy recommendations by the World Bank and the IMF known in retrospect as the 'Washington Consensus'.

III. The Role of TELMEX in the New Neoliberal Consensus

Privatisation in Mexico has been analysed elsewhere,²⁴ so the focus here will be on the role TELMEX played. By 1982, 1155 SOEs were controlled by the Mexican government, accounting for 18.5 per cent of GDP and employing around 1 million workers. During the De la Madrid administration (1982–8) one half of these were divested, mostly small or medium-sized enterprises in non-priority areas where it was difficult to defend government ownership. Of these divestitures 294 were closed down, 204 were sold, 72 merged and 25 transferred.²⁵ Even though the number of SOEs was slashed by half, there was little impact on government finances or government participation in the economy during this period. Revenue generated by sales in this period was US\$ 500 million and had only a small microeconomic impact.²⁶ Moreover the number of public sector workers actually increased since, as some enterprises were divested, others from the private sector were incorporated. Only in 1988, in the last year of the De la Madrid administration, was the privatisation of a small number of large SOEs – including Aeroméxico and Mexicana, Mexico's two national airline – begun.

The Salinas administration, which came into power in December 1988, took dramatic and rapid steps to deepen and extend the opening up of the economy. In 1989 the financial system was liberalised and FDI restrictions softened in order to make new areas of the economy accessible to foreign investors. An ambitious privatisation programme was launched to sell off many of Mexico's largest firms. Between 1989 and 1994 TELMEX, Mexicana, steel mills including Altos Hornos and Sicartsa, dozens of sugar mills, automobile companies including Dina and mines including Cananea were all sold off. Between 1982 and 1994 the number of SOEs shrank from 1155 to 220.

As Newbery observes governments face a range of options regarding corporate governance, stakeholder arrangements and overall transparency and openness when privatising.²⁷ What model of privatisation would Salinas opt for? Certainly the sale of TELMEX was the single most important instance of privatisation in Mexico for three principal reasons. Firstly, the revenue generated by the sale for the Mexican Treasury, which totalled around US\$ 6 billion, was easily the largest sum obtained from the sale of any single firm at the time, constituting around 30 per cent of all proceeds generated during the Salinas administration. Secondly, TELMEX was chosen by Salinas as a 'launching pad' from which the rest of the sales were carried out. A successful sale would send a message to investors that the government was serious in its plans to privatise.²⁸ Thirdly, the sale of TELMEX was used for political ends. It should be remembered that Salinas came to power under suspicious circumstances, many sectors of society, including some of the main trade unions, having failed to support him.

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A dramatic privatisation programme could engender resistance from the general public and the unions, who associated this with job losses, the 'flexibilisation' of labour contracts and the weakening of trade union power.²⁹ Salinas's objective, thus, was to guarantee a successful privatisation early on in his mandate, free from union conflict. In the run up to the TELMEX sale Salinas held meetings with the leader of the Trade Union of Mexican Telephone Workers (STRM) in order to pact a mutually satisfactory privatisation. He informed them of his plan to promote them as an example of 'vanguard, new unionism', promising them they would benefit from privatisation if they cooperated. Salinas inaugurated the STRM's annual meeting in 1989 and announced the privatisation of TELMEX to its workers before this had been made official. Six promises were made: (1) there would be no redundancies; (2) labour rights would be respected; (3) workers would get shares in the company; (4) the state would still be the regulator; (5) the new owner would be Mexican; (6) telecommunications services would improve. The workers were in general flattered by this personal attention: they were the union 'pets' of the President of Mexico and agreed to cooperate.

Prior to the sale the government modified TELMEX's ownership and corporate governance in an innovative way to *ensure that Mexican investors would end up with control of the private business*. Special controlling shares restricted to Mexicans were reduced and concentrated, so that, with only a relatively small amount, Mexican investors could afford to take control.³⁰ The sale was announced in August 1990: of the three offers made, the controlling 20.4 per cent share was awarded to Grupo Carso. This Mexican conglomerate owned by Carlos Slim bought 10.4 per cent of total capital stock (51 per cent of special controlling 'AA' shares reserved for Mexican investors). Its partners were Southwestern Bell (SBC) and France Telecom, each with 5 per cent of total capital stock.³¹ Thus TELMEX passed from a public to a Mexican-controlled private monopoly in 1990, which would expire after six years and thereafter face competition. Moreover the STRM were also awarded shares in exchange for cooperating with the privatisation.³²

In 1994 the Salinas administration ended in scandal and the entire privatisation programme came under scrutiny. Rumours abounded that Salinas had used Slim as a 'straw man' to buy TELMEX on his behalf, though this has not been proved. It is clear, however, that the new TELMEX owners were privileged, gaining a six-year period to enjoy a monopoly over national and international services. This gave them time to expand and modernise the network according to the targets set by the government and also to become consolidated as a national champion before competition got a look in. TELMEX also enjoyed a head start in new telecommunications markets, such as mobile telephones and internet services. When mobile telephone licences were awarded in 1998, TELMEX was awarded one licence to operate in each of the nine regions (under the name TELCEL), having to compete as a duopoly with a different operator in each region (TELCEL was the only operator with national coverage).

From 1995, as TELMEX's monopoly drew to a close, provisions were made to prepare for competition. The regulatory body, the Federal Commission of Telecommunications (COFETEL), was established and a new regulatory framework for telecommunications implemented. Institutional pressure increased further when, in 1993, FDI restrictions were loosened, allowing foreigners to buy more than 49 per cent of mobile telephone companies, subject to approval by the National Foreign Investment Commission, and in 1998, when, as a result of the new commitments Mexico agreed to at the WTO under the fourth protocol to GATS, TELMEX was forced to offer interconnection services to its rivals. Restrictions to 49 per cent of foreign ownership of TELMEX still stand in 2006.³³

IV. The Return of Foreigners and the Rise of the Trans-Latin American Corporation

Deep privatisation of former national monopolies and other SOEs in most Latin American countries helped feed a boom in inward FDI flows to the region in the first half of the 1990s. This was the first wave of transnationalisation of the late twentieth century, characterised by TNCs, usually from the industrialised world, entering and taking advantage of newly privatised enterprises in the region. A second wave of transnationalisation started around 2000 and is still ongoing. Economic crisis, global (and regional) declines in global and regional FDI flows,³⁴ combined with a rise of investment dispute claims going to the GATS-WTO, (Mexico was second only to Argentina in the number of

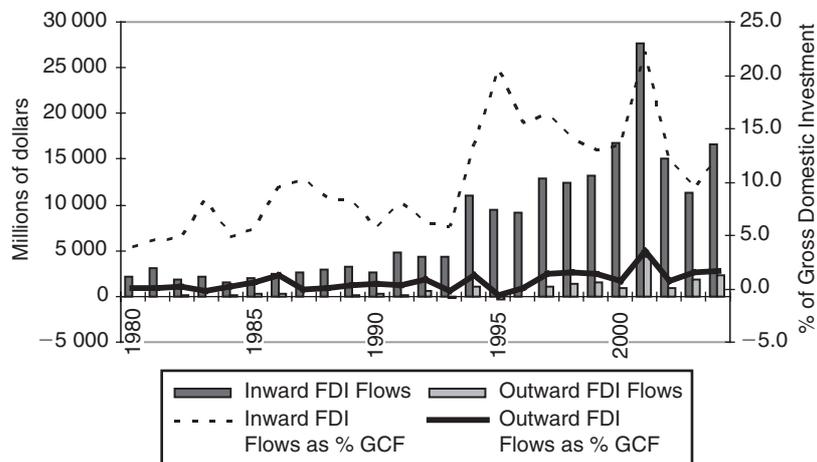


Figure 13.2 Mexico – Inward and Outward Foreign Direct Investment, 1980–2004 (millions of dollars and percentage of Gross Domestic Capital Formation)

Source: Elaborated by the authors based on UNCTAD (2000–2005).

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claims presented), characterised this period.³⁵ As a result, as some disillusioned TNCs started to pull out of the region Latin American investors moved to fill the vacuum.

The Economic Commission for Latin America and the Caribbean (ECLAC) labels these new regional actors 'Trans Latins': these are (usually) private enterprises based in one Latin American country that cross borders by acquiring assets in other enterprises in the region, possibly as a springboard to international expansion. In order to distinguish Latin American companies from other 'Latin' companies, such as Spain and Portugal, which also seek to exploit the 'Latin' business world, they are referred to here as Trans Latin American Corporations (TLACs).

In Mexico between 1970 and 1993 inward FDI flows averaged around US\$ 3 billion, and the proportional contribution to Gross Domestic Investment (GDI) was below 7 per cent. From 1994 onwards inward FDI flows increased fivefold while GDI contributions reached 15 per cent. Outward FDI also changed significantly, increasing from an annual average of US\$ 100 million between 1970 and 1993 to over US\$ 1.5 billion between 1994 and 2004. From 1997 outward FDI reached an average 1.5 per cent of GDI: although this shows outward FDI is still much less important than inward FDI, as in many developing countries, there is increasing internationalisation by Mexican TNCs, as reflected in the number of cross-border mergers and acquisitions.³⁶

By 2003, of the top 25 TLACs in the region half were Mexican-based. TELMEX and its spin-off América Móvil ranked second and third respectively, whilst Grupo Carso, Slim's industrial and commercial group, ranked eighth. The top five TLACs are composed either of telecommunications actors (TELMEX and América Móvil) or extraction (Petrobras, CVRD) or cement (CEMEX). As can be seen in Table 13.1 TELMEX is a very recent TLAC because, until 2003, the bulk of its revenue originated from Mexico. Indeed it was with the acquisition of AT&T assets in 2004 that TELMEX became properly internationalised.³⁷ Comparing the transnationality index (TNI) of all five companies TELMEX has the lowest result.

The remainder of this section analyses the strategy of TELMEX and América Móvil during both waves of transnationalisation. In the case of Latin American telecommunications in general, in retrospect, the objectives sought through privatisation were to maximise inward FDI rather than to introduce competition, with the exception of Brazil.³⁸ Mexico was different in that the overriding objective was to nurture a national champion. At the global level telecommunications in the 1990s was characterised by rapid technological change, increased competition and mergers and acquisitions. Latin America became a playground for operators, mostly from the industrialised world, which saw its underdeveloped networks and unexploited technologies as offering attractive ways to extend their markets. Thus the first wave of transnationalisation involved European enterprises, particularly Telefonica, France Telecom, Telecom Italia and Portugal Telecom, and American enterprises

Table 13.1 Top Five Trans-Latin American Corporations in Leading Non-Financial TNCs, 1999–2004

| Corporation | Home country | Industry | Revenues* | | | | Transnationality Index* | | | | Main countries of operation |
|-----------------------------------|--------------|--------------------|-----------|------|------|------|-------------------------|------|------|------|--|
| | | | 2003 | 2004 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | |
| Petrobras | Brazil | Oil | 42.7 | 48.3 | 7.2 | 5.8 | 4.3 | 6.1 | 15.6 | 14.9 | Brazil, Argentina, Bolivia, Colombia, USA |
| Telmex | Mexico | Telecoms | 10.8 | 12.1 | 0 | 0 | 0 | 0 | 0.8 | 11.8 | Mexico, Brazil, Argentina, Chile, Colombia, Peru, USA |
| América Móvil | Mexico | Telecoms | 7.2 | 11.2 | 9.9 | 22.7 | 30.7 | 30.6 | 35.9 | 44.1 | Mexico, Argentina, Colombia, Ecuador, Guatemala, Venezuela, Nicaragua, Brazil, USA |
| CEMEX | Mexico | Building materials | 7.6 | 8.1 | 54.6 | 54.8 | 70.4 | 67.9 | 72.3 | 71.9 | Mexico, USA, Spain, Venezuela, Colombia, Egypt, Finland, Indonesia, Thailand, Barhein, Costa Rica, Chile, Jamaica, Nicaragua |
| CVRD (Companhia Vale do Rio Doce) | Brazil | Mining | 7 | 8.5 | 34 | 28.9 | 32 | 35.9 | 40.5 | 41.9 | Brazil, USA, Argentina, Chile, Norway, France, Bahrain |

Notes: * gross revenues in millions of dollars.

** TNI (UNCTAD's definition) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Source: Elaborated by the authors based on company annual reports and UNCTAD (2001–2005).

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such as Verizon and Bell South gaining new markets via the acquisition of former telecoms SOEs.³⁹ Telefonica emerged as the leader: by 1999 it was the largest TNC in the region by consolidated sales, with coverage in most segments and most countries.⁴⁰ Most early efforts focused on gaining access to fixed-line telephony in South America via privatisation, whilst in the latter part of the 1990s TNCs strengthened their positions and entered new segments, such as Internet, mobile telephony and multimedia services.

Two foreign TNCs, SBC and France Telecom, entered the Mexican market with the privatisation of TELMEX (France Telecom was to sell its shares in 2000 in order to withdraw to European markets). Gradually, as TELMEX's monopoly came to an end in 1996 and institutions for competition were established, more TNCs entered to compete with TELMEX. In the late 1990s local telephony was gradually opened up, and concessions were granted to new companies (Axtel, SPC and Amaritel). In the mobile telephone sector, new licences were awarded: as had happened in the previous round TELMEX's TELCEL successfully won a licence to operate in each of the nine regions. The difference was that this time TELMEX was not alone; Pegaso (a partnership between a local group and Leap Wireless of the US, subsequently bought by Telefonica in 2002)⁴¹ also gained national coverage. Long-distance services were also opened up: new players with foreign and Mexican capital quickly snapped up one quarter of TELMEX's market share.⁴²

Despite these encroaching challenges TELMEX still enjoyed very large market shares: in 2000 it held 95 per cent of local telephony, 66 per cent of long-distance, 72 per cent of mobile and 60 per cent of data/Internet services. ECLAC is critical of the development of Mexican telecommunications since privatisation, arguing that although the privatised TELMEX has expanded and modernised its network, other privatised Latin American telecommunications operators have developed at much better rates.⁴³ Moreover prices remain high in Mexico, even when compared to OECD members, and the disparity between penetration levels is increasing. Slowness in introducing competition, reinforced by the policy of protecting the national champion and a weak regulatory capacity, and TELMEX's application of high interconnection fees and cross-subsidisation policies (lowering prices in exposed activities and raising them in protected ones such as local calls) in order to fend off competition are all noted as the causes.⁴⁴ The regulatory body COFETEL has been criticised for being too dependent on the executive, lacking transparency and failing to regulate TELMEX properly. When the newly established Federal Commission of Competition warned COFETEL that TELMEX had a dominant position in all key telecommunications markets COFETEL seemed incapable of correcting this: when COFETEL took TELMEX to court in 1999 TELMEX won. The American FCC fined a TELMEX subsidiary in the USA because TELMEX headquarters would not allow two competing joint ventures, Alestra (AT&T) and Avantel (WorldCom), to connect to its network. A complaint was also lodged at the WTO against the Mexican government for failing to regulate TELMEX over practices such as refusing to resell long-distance calls and charging high

interconnection fees (this was suspended in 2001 with the election of a new president).

While TELMEX has been criticised for blocking competition at home, it has at the same time emerged as one of the leading TLACs. TELMEX announced its strategy to internationalise from 1998, stating that its natural market was Spanish speakers across the Americas. In 1998 it firstly bought 18.9 per cent of Prodigy, the American Internet service provider and the next year agreed with Microsoft to design a portal for Spanish speakers, and secondly signed an agreement with Telecomunicaciones de Guatemala that involved TELMEX managing the company restructuring with an option to buy 49 per cent over the next five years. The following year TELMEX acquired an American company that supplied prepaid fixed telephony and, together with SBC, Cellular Communications of Puerto Rico. In 2000 TELMEX restructured, keeping basic telephony, data and Internet, and spun off TELCEL, television interests and international assets to América Móvil. The newly established América Móvil formed an alliance with SBC and Bell Canada International to expand their platform across the continent for mobile telephone, Internet and data service provision, and profited from their experience diversifying risk outside Mexico. The aim of Telecom Américas was to integrate systems and establish a large digital footprint in the region.

Between 2000 and 2002 Telecom Américas bought four Brazilian mobile telephone companies. Due to different strategic approaches América Móvil bought the shares in both of its foreign partners and restructured in order to initially focus on the Brazilian market. At the end of 2003 América Móvil unified its regional operators under a single brand, Claro, and by 2005 had a solid position in this country, though Telefonica was still leader. As foreign investors abandoned the region América Móvil stepped in, buying Argentine CTI Móvil from Verizon, Compañía de Telecomunicaciones El Salvador from France Telecom, Telecom Italia's Peruvian subsidiary and Chilean Smartcom from Spain's Endesa. By the end of 2005 América Móvil was neck and neck with its competitor Telefonica. TELMEX is a recent TLAC: until 2003 its aim was to 'provide telecommunications services, primarily in Mexico' but most recently it has been transformed into a regional powerhouse.⁴⁵ Between 2003 and 2005 it invested US\$ 4750 million in Latin America, and this was reflected in the 2004 annual report which paid much more attention to its regional operators in Argentina, Brazil, Chile, Colombia and Peru (see Table 13.2).

Conclusions

According to Latin American FDI specialist Michael Mortimore, the inward FDI boom to Latin America and the Caribbean in the 1990s resulted in two broad patterns. From the point of view of international business strategy American firms seeking efficiency, mostly in the manufacturing sector (in order to compete with Asian imports) dominated investment into Mexico and Central America. FDI inflows largely resulted in the creation of new assets, which

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Table 13.2 TELMEX International Subsidiaries and Affiliated Companies, 2005

| Subsidiary Company | Country | Acquisition | | |
|-----------------------------|-------------------|-------------|---------|--------------|
| | | Equity* | Value** | Date |
| Telmex Argentina *** | Argentina | 100 | | Feb. 04 |
| Telmex do Brazil *** | Brazil | 100 | | |
| Telmex Chile Holding *** | Chile | 100 | 196 | |
| Telmex Colombia*** | Colombia | 100 | | |
| Telmex Perú*** | Peru | 100 | | |
| Embratel | Brazil | 90.3 | 672 | Jul.–Dec. 04 |
| Telmex Corp. (Chilesat) | Chile | 99.3 | 114 | Apr. 04 |
| Techtel | Argentina/Uruguay | 83.4 | 100 | Jun. 04 |
| Metrored | Argentina/Uruguay | 83.4 | 12 | Jun. 04 |
| Latam Telecom | US | 100 | n.a. | before 2003 |
| <i>Affiliated companies</i> | | | | |
| Televista | US | 45 | 34 | before 2003 |
| Technology and Internet LLC | US | 50 | 17 | before 2003 |
| Net | Brazil | 36.6 | 311 | Feb.–Mar. 05 |

Notes: * Percentage corresponds to controlling interest in 2005.

** All acquisition values from 2003 were recorded at the purchase price for the net asset in millions of dollars.

*** Assets of AT&T Latin American Corp.

Source: Elaborated by the authors based on TELMEX *Annual Report* (various years).

increased export capacity and international competitiveness. In the case of South America international business, mainly from Europe (especially Spain) sought access to markets and services and was mainly concerned with the purchase of existing assets through acquisitions and privatisation, which tended to strengthen systemic competitiveness.⁴⁶

Within these broad trends, and taking a perspective from Mexico, the general observation is that attempts to open up networks to (foreign) private capital have been significantly hampered. There has been some privatisation, such as of the railways (through concessions), and in oil and gas (through supply and building contracts for PEMEX), whilst competition has been introduced into electricity supply. Some of the benefits of these processes have been channeled towards Mexican economic groups but many others have gone to foreign firms.⁴⁷ In general, however, the networks are still majority state-owned. Vicente Fox rejected the privatisation of PEMEX and CFE when he came to power in 2000.⁴⁸ Barriers to foreign capital continue to apply, such as restrictions on TELMEX's ownership. In contrast to other large Latin American countries therefore Mexico has experienced low FDI inflows into its main networks, with the exception of mobile telephony. Meanwhile TELMEX has been dynamic and is the only clear competitor to Telefonica in the region. The two giants will largely dominate telecommunications in the future. The increased stock value

of Slim's companies was reflected in his being named by Forbes as the world's third richest man (after Gates and Buffet) in 2006. In the case of telecommunications a lack of competition at home has helped TELMEX fund its international spree.

Notes

- 1 Ramamurti (1996); Clifton (2000).
- 2 Freeman and Soete (1994).
- 3 Castells (1996).
- 4 Clifton et al. (2003).
- 5 Comín and Díaz (2004); Comín and Díaz (2006).
- 6 The original agreements of 1942 and 1946 are in Secretaría de Hacienda y Crédito Público (1958) pp. 195–578.
- 7 Maddison et al. (1989) pp. 35, 55.
- 8 Meyer (1968).
- 9 Knight (1994).
- 10 Knight (1994).
- 11 Grunstein Dickter (2005).
- 12 Glade and Anderson (1968) p. 81.
- 13 For an official but detailed historical description of the evolution of the telephone industry in Mexico see Teléfonos de México (1991).
- 14 For the official story of Ericsson in Mexico see Gabriel Szekely (2000).
- 15 Grunstein Dickter (2005).
- 16 Grunstein Dickter (2005).
- 17 For further analysis of Mexicanisation see Adler Hellman (1988).
- 18 Telmex was owned by: Mexicana Corporación Continental S.A., Ericsson, Bruno Pagliai, Octavio Fernández Reynosa and José Joaquín César (Petrzinni 1994) p. 107. TELMEX would allow Ericsson to consolidate its business in Mexico whilst enjoying the protection of Mexican laws behind the guise of a Mexican company.
- 19 See Petrazzini (1994). This turn to Mexicanisation was explained by President Echeverría's (1970–76) new economic policy towards foreign investment and Mexicanisation. In 1973 Echeverría introduced the first serious piece of legislation that regulated foreign direct investment. See Lewis (2005).
- 20 See Green (1978).
- 21 For an analysis of debt in the 1970s see Green (1998).
- 22 Quijano (1985) p. 85.
- 23 Green (1998) p. 104.
- 24 Aspe Armella (1993); Baer and Conroy (1994); Bazdresch and Elizondo (1994); Clifton (2000); Ramamurti (1996); Rogozinski (1997); Sánchez and Corona (1993); Tandon (1992); and Teichman (1995).
- 25 Aspe (1993).
- 26 Galal (1994).
- 27 Newbury (2003).
- 28 Ramamurti (1996).
- 29 See Clifton (2000).
- 30 For more details on how the shares were restructured see Clifton (2000).
- 31 Clifton (2000).
- 32 Clifton (2000).
- 33 OECD (2005).

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- 34 ECLAC (2003).
 35 UNCTAD (2005).
 36 A recent study of the internationalisation of Mexican firms is de los Angeles Pozas (2002).
 37 UNCTAD (2005) Annex, Table A.1.100, p. 271.
 38 ECLAC (2000).
 39 ECLAC (2000), Table IV.6.
 40 ECLAC (2000) p. 213.
 41 ECLAC (2003) p. 56.
 42 Mexican Alfa and Bancomer group which formed Alestra with AT&T, and Banamex-Accival which joined MCI WorldCom to create Avantel.
 43 ECLAC (2000).
 44 ECLAC (2000) p. 193.
 45 In August 2005 Peruvian telephone enterprise TIM Peru was acquired by TELMEX from Telecom Italia for US\$500 million; and in April 2006 TELMEX and América Móvil bought the stock of Verizon Communications in telephone firms in Puerto Rico, Venezuela and the Dominican Republic for US\$ 3700 million.
 46 Mortimore (2005).
 47 Lewis (2005) p. 35.
 48 ECLAC (2000) p. 43.

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