Chapter 10

The economics of international telecommunications

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Over the past few years, several important international trade relations have materialized, and we are continuing to see more of them. These relations have not necessarily been the result of traditional factors such as geography, comparative economic strengths, or common language. Instead, they have been an outgrowth of shared national perspectives, especially in understanding the value of information and information services.

Historically, domestic telecommunications markets were subject to several external constraints. In much of Europe, for instance, government-owned post and telecommunications entities effectively monopolized communications products and services. In the United States and Canada, the telephone companies were vertically integrated into all stages of production, equipment, local and long-distance services. These monopolistic companies, at least in part, sought to fulfill social objectives through their pricing policy. For the most part, legislators, regulators, and government officials were satisfied with the consequences.

The essence of regulated telecommunications operations in the United States and abroad was a government sanction that reinforced a regime of price discrimination, that is, selling the same product to different customers at different prices. This system was stable and sustainable only so long as customers lacked effective alternatives. But then the technological environment radically changed, at least in the United States. Moreover, previous barriers to competitive entry were lowered or removed altogether. That fundamental competitive change forced reforms and regulatory approaches in much of what the United States has experienced in its communications sector.

Japan was the first major country to undertake liberalization along the lines pioneered in the United States. New legislation was passed in 1984 that privatized a dominant firm, Nippon Telegraph and Telephone, and opened much of the domestic communications market to competition. Some attributed the changes undertaken by the Japanese government to United States trade pressures. Certainly some of the changes recently adopted by that nation are along the lines urged by the United States, such as liberalization of equipment rules and regulations that had restricted use of private lines. But much of the effort to liberalize communications was well underway in Japan before trade issues became a major component of our political agenda. While barriers to competitive communications developments have been lowered in many sectors, Japan's barriers are probably as high and as durable as they have ever been.

The next major move toward telecommunications liberalization took place in Britain. There, legislation to privatize British Telecom was introduced, passed, and several pro-competitive market opening initiatives followed. One can hardly say – and I do not know anybody who has said it – that liberalization in the United Kingdom was a result of United States trade pressures. Whether it was the result of a national view, the change was needed and would prove of great benefit to the country.

Other countries are studying or have followed with similar national initiatives. These include the Netherlands and our largest trading partner, Canada. But also in France, Germany, and other markets, telecommunications liberalizations have gained considerably more political support. In Germany that support is being converted into actual liberalization laws and regulations, and it is possible that the Germans might end up leading liberalization on the continent. But the conventional wisdom is that they will lag behind the more progressive nations.

Why is all of this occurring? One would have to assume that it is chiefly because nations saw communications policy changes as furthering their best interests. In short, national self-interest has been at work. It has been fueled in part by small, but growing groups of business, government, and academic leaders who have become convinced that the sword of closed protectionism once characteristic of telecommunications is undesirable given the dynamic technological changes in marketplace conditions.

Telecommunications used to consist chiefly of voice traffic, linking subscribers across town, or throughout a government or country, or occasionally internationally. These are small components of the gross national product: in the United States about two to three percent. Today we are all trying to contend with what someone once labeled 'the dazzling new electronic abundance.' We have girdled the world with high capacity satellites and fiber optic cables. We distribute not only traditional voice information but also an array of data, video, and other commercial information.

At the same time, telecommunications technology has exploded. Moreover, the industry has become much more critical in the world economy. The financial services, transportation, insurance, retailing, travel and tourism, and a whole array of other political industries, depend on the availability of effective and efficient telecommunications. In manufacturing, computer-aided design and manufacturing have become more and more the norm. Telecommunications in sum has become essential as a modern business tool. For this reason, tariffs, along with entrance barriers, are now crucially important. Subsidies that are too high, for example, can harm vital enterprises.

The share of the gross national product, at least in the United States, reflects this growing reliance on communications. At present, the industry constitutes about six percent of GNP, and that percentage has been increasing by more than one half percent annually. Indeed, telecommunications is one of the relatively few major industry sectors that has been steadily growing as a share of our GNP.

In the United States and abroad, marketplace forces are at work, and it is those forces, reinforced by national interest, that are pushing change. But there is still, unfortunately, stiff resistance in some quarters to accommodating the changes through the political process by altering the regulatory environment. In Italy, Korea, Switzerland, Australia, and some other countries, established communications administrations have enlisted local interest groups, including organized labor, in defense of the status quo. The point to bear in mind, however, is that such short-sighted efforts may place at risk the peaceful development of national economies and the emergence of a free international trade environment.

The domestic economic risks of rigid communications policies should be well known. Many of today's markets are global. That is true, for example, of automobiles, financial services, most business and consumer electronics, and aeronautics. Does it make sense for a country to tell its leading automobile or computer or electronics companies that they cannot have the sort of free, unimpeded access to telecommunications and information resources that their international trade rivals enjoy simply because those assets were not invented here? How can the Deutsche Bank, for example, hope to maintain its competitiveness *vis-à-vis* Japan, London, or United States-based banking organizations, when it may not have the same ability to exploit commercially advances in telecommunications technology?

The international trade risks also should be recognized. In the United States our communications markets are wide open. The manifest success that foreign-based companies have enjoyed in this country provides ample evidence of that fact. At the same time that our leading communications firms confront intensifying competition at home, however, their access to key markets overseas remains highly restrictive. Over time, the lack of competitive market access or effective commercial parity will have negative implications for United States firms. In recognition of those implications are continuing pressures to curtail foreign access to the United States communications market.

United States communications and trade policy leaders have been reassessing our past policies and our posture in this critical field. Options considered include the feasibility of establishing free trade alliances. Some have argued that United States market access should be conditioned on the availability of comparable market access overseas. Those arguments will gain in political currency, unless there is some change in market circumstances abroad.

For telecommunications policymakers overseas, several points should be clear. First, the domestic economic risks of failing to make pro-competitive regulatory changes are large today and should increase because telecommunications is becoming a more and more critical production component in global markets. They are getting increasingly rivalrous and competitive. Second, to the extent that liberalization is blocked or otherwise handicapped in succeeding, the result may be to heighten general international trade tensions. That could do genuine damage to the free trade foundation on which most developed countries' economies are more and more based. In conclusion, it is highly desirable as a matter of domestic and international policy that steps toward more open and freer telecommunications markets continue to accelerate.