Globalism and Localism in Telecommunications
E.M. Noam and A.J. Wolfson (Editors)
© 1997 Elsevier Science B.V. All rights reserved.

After Privatization: Neocolonialism?

Jean-Pierre Chamoux

When the subject of privatization and colonialism was first suggested to me as a topic for the 1994 Columbia Institute for Tele-Information conference series on international ventures, I was somewhat skeptical. In plain terms, privatization of public operators, whether in Europe and Latin America or Asia and Africa, is considered by economists and professional analysts of the telecommunications community as reflecting a positive move toward improving both the coverage and efficiency of global telecommunications services. Individuals and industries worldwide are demanding wider services and affordable prices for both the telephone and other communications devices. Common sense supports the hypothesis that a privately owned and operated corporation is more responsive to users' needs than a public administration controlled by a government and therefore susceptible to political pressures.

At the same time, colonialism is thought to be obsolete. A widely supported concept in previous centuries, notably among leading European countries, the colonial spirit has been progressively considered as outdated, politically unsustainable, and economically inefficient. Widely fought against by leftist intellectuals of the Western countries -- as well as by Marxist activists supported by communist-led countries -- colonialism was also considered to be a costly and unwise public policy by pragmatic conservatives (cartierism). As a result, from the 1950s onward, colonial empires of the West began to vanish. Eastern Europe, the more recent of these vast colonial conglomerates, began tumbling down in 1989, with little (if any) serious consideration given to the notion that the passing of the Soviet colonial domination over the Euro-Asian continent was something that should be regretted.

In short, privatization seems to be looking forward while colonialism looks backward. Thus, to me, joining the two concepts seemed quite awkward, although in the back of my mind I suspected that there were sound reasons to test whether or not they overlapped in today's telecommunications environment. I thus agreed to examine these two notions together -- but with a question mark.

In this chapter, I will consider, first, the main facts and figures driving the privatization programs of telecommunications operators. I will then attempt to investigate the similarities and differences between the present privatization period and the former colonial era as experienced in Europe. Then I will try to link colonialism with privatization, testing that connection with a few cases of interest. I will then conclude with my own answer to the question raised by the essay's title.

1. Privatization: Facts and Figures

The information and communications (I & C) industries are not the only ones concerned with privatization. On the contrary, returning the operation of utilities and basic industries like steel, oil, and cement to private hands has characterized the recent history of many countries, particularly in those parts of the world where nationalistic political behavior has coincided with either a populist or a socialist regime. Several of the so-called nonaligned countries of the 1950s and 1960s (e.g., India, Indonesia, Egypt) and the strongly nationalized Latin American countries (e.g., Argentina, Brazil, Mexico) have reconsidered their former economic policies. The necessity of a wider acceptance of global markets in our age has compelled large multinational operators to again welcome investment in manufacturing and services for I & C industries.

Besides a reversal of the intellectual climate, which since the failure of the Soviet bloc has been more favorably disposed to private investment, there are also pragmatic factors favoring the expansion of large, multinational operators in telecommunications (for reasons analogous to those invoked for airlines, energy, chemicals, etc.):

- manufacturing requires more capital, more research, and a higher degree of specialization than ever before. Few players are able to sustain this capital-intensive global competition. Those that can view the world as a global market where technologies, products, and know-how are distributed with less consideration for the nation-state and higher stakes for corporations;

- operating networks also require high capital investments, highly skilled employees, and a commercial expertise that abolishes most of the previous national barriers. Demand for services is linked to economic development and to the industrialization of the less developed territories. New data services reveal the inefficiencies of the old telephone and telegraph administrations, as microcomputers and other electronic communications devices find their way into small businesses and trade. (Chile, for example, now has more microcomputers per capita than France.); and

- media are evolving toward a somewhat global market as well. This is not only because of the technical revolution in printing, satellites, and video but also because of a globalized approach in trade, advertising, and information reporting, a trend that has been demonstrated for many years by the formation and extension of worldwide networks like CNN, by integrated multimedia publishers like Rupert Murdoch, and by new conglomerates like Matra-Hachette, Sony, and Matsushita.

Despite this spectacular enlargement in the size of the I & C market, it must be remembered that much of the world's population is still poorly equipped -- or even completely unequipped -- with communications devices.[1] The poverty of many world populations has restricted solvent demand for such equipment and services; most African populations and quite a few eastern European states fall into this category. In countries where the previous economic regime has eradicated all financial organizations able to trade money and organize capital flows, capital is simply unavailable. This is particularly true in former communist countries who find themselves fully dependent on foreign money supply and expertise for financial matters.[2]

1.1. Case Study: Central Europe

As an example of the problems facing formerly communist economies, I was personally involved in the efforts to develop plans for restoring modern, service-oriented, internationally competitive network equipment for one of the states of central Europe between 1990 and 1994. The master plan for this network development required an investment that neither the local government nor the country's renascent banking system were able to provide. Two possibilities -- public funding and private funding -- were considered.

Because of the budget crisis, public funding was only feasible through foreign money. Given the level of public debt and the state of economic performance in this country, no serious investors would get involved unless they were covered by a public institution. The loans were first provided by the World Bank and complemented by the European Bank for Reconstruction and Development. In this case, we witnessed a quite classic situation: a fairly long delay (eighteen months) between the loan application and the availability of the credit where it was needed.

We noticed finally that the loan process could be analyzed as an arbitration between an infrastructural investment in the country, constrained by public service consideration (i.e., artificially low tariffs), and an enlargement of the country's public debt, which was already high beforehand. This public model for development puts a higher burden on the public debt and maintained the investment under a strong political control, restricting the potential return on the invested foreign capital to low margins because of politically controlled tariffs, delays in implementing the program, and manpower constraints within the public utility agency.

Private sector funding, at the level considered in this particular country, was not affordable by the local operators (because of lack of saving, evanescent banking mediation, and dominance of foreign currency savings among the small wealthy population). There were only two possible alternatives. One was to borrow money on the international money market, that is, issue bonds in U.S. dollars, Swiss francs, or deutsche marks. The other was to sell shares of the "corporatized" local operators to foreign investors able to bring into the country both fresh money and know-how to manage not only the network developments but also the financial organization of the privatized venture.

This last solution was finally accepted but was strongly constrained by laws and substantially slowed by delays and internal opposition among vested interests. After a lengthy debate within the administration (poorly arbitrated by the political leaders who finally were thrown out at the recent general election) privatization did occur at the end of 1993 but in a framework that has not really encouraged the foreign investors to maintain a quick pace for investing in and restoring a modern network. Prices, for example, are kept under strict control, forecasting the public policy is far from easy, interconnect agreements are not clear-cut -- and so on.

As a result, it appears that massive privatization programs are still not as common in Europe as they were expected to be six years ago. The only big program completed so far has been British Telecom (BT) (amounting to £20 billion over the ten-year period 1984-94). The total for Latin American states, including Chile, Argentina, and Mexico, went up to US$50 billion in all sectors of the economy for 1991 -- a significant figure. The massive privatization expected in the former Eastern bloc was delayed or indefinite, with many uncertainties still to be overcome (like the "voucher" system, which has not really started on a wide scale).

The political climate in most of the countries considered reasonably eligible for mass privatization programs (such as Indonesia, India, Brazil) remains far from favorable to this move on the whole. This explains the "stop-and-go" policies that characterize this period and the prevailing impression that when successful, as in the BT case, privatization of a public telephone operation is safer and more attractive for would-be investors in large developed countries than in less developed, former socialist regimes.

2. Testing the Link between Privatization and Colonialism

Although somewhat paradoxical, the conclusion that the privatization of a telephone operation is safer in developed rather than undeveloped countries leads to the impression that successful privatization in most cases is not at all linked to the colonial-era conditions: the relationship between the local authorities and foreign investors seems to be rather different from those established in colonial times between the main land government and the "imperial" corporations. The cases of KPN in Holland and Telmex in Mexico and of New Zealand and Australia generally do not conform to the colonial-era model. There are more differences with the colonial era than similarities in the privatization programs organized in most countries today. The superficial similarities do not withstand a serious, knowledgeable analysis.

The central European example just described is not a unique one: Latin American and European privatizations have also been far from successful at evading government control and administrative burdens. This marks a clear difference with the colonial era when the imperial corporations of the colonial states were encouraged to invest in the new territories open to their operations and were free from any local political control.

The privatizations we are witnessing today are also managed in a very different context: in most cases, the private investor is not a single foreign corporation but rather a conglomerate of several foreign companies, linked under a weak consortium for the sake of each privatization. It appears that the local governments count on such weak alliances to keep some control over practical developments of the privatized company. This was not at all the case in colonial times when the balance was tilted in favor of a stable, corporate-type investment and management style within the imperial companies in charge of the colonies' economic developments.

2.1. Investments Driven by Rent-Seekers

Even if superficial, the link between these two eras, distant in time and different in their purposes, merits further examination. I believe, for instance, that there are several formal commonalities between the "colonial"-type investor and the person investing in a privatized company. The first analogy involves the fact that in both cases the richer, the more educated, and the wider-experienced investors bring their money to the poorer, less equipped, less advantaged network.[3] At least this "politically correct" analogy can be seen as the basis for the World Bank or for the EEC dedicated programs (toward Eastern and Central Europe or toward Africa, the Caribbean, and Latin America). In plain terms, such programs are supposed to shift money and expertise from the "haves" to the "have-nots."

When one goes back to the rhetoric used to support the colonial expansion of France in the last quarter of the nineteenth century, the same redistributionist philosophy applies. There is a similar approach, in this context, between the colonial era and some of the present-day public policies that advance privatization as a route to development.

As a matter of fact, rent-seekers were always interested in colonial policies. Individual and corporate interests devoted to colonial development (i.e., plantations, trading companies, steamer lines, and telegraphic wire and wireless companies) were basically attracted into the new lands as long as their investment was easier to manage, quicker to return a higher revenue, protected by the flag, and so on. These colonial companies were either asking for a state guarantee (e.g., overseas lines or some territorial privileges) or monopolies (e.g., Cable & Wireless [C&W] in colonialist England).

This rent-seeking situation is somewhat similar to the one that we may infer operates behind the behavior of today's cash-wealthy operators, who are willing to take over, personally or in consortia, the control of privatized operators. In most cases, the investor from a rich, Western nation asks for protected status or looks for some kind of a rent: a telephone monopoly; an infrastructure privilege; a public insurance against major risks; and the right to use, reexport, and transfer out the return on its investment. This rent-seeking situation is still prevalent in most utilities whether they are in the West or not, and it characterizes most corporate structures in public utilities (e.g., Générale des Eaux, RWE) and in former phone monopolies (e.g., AT&T, BT) as well as in large manufacturing corporations involved in supplying equipment to the networks (e.g., Alcatel-Alsthom, Siemens).

2.2. Peculiar Interests in I & C Businesses: Going Global

It is, however, not on the basis of rent-seeking that one can explain the growth of I & C industries. What stimulates the formation of large, multinational operators in this industry is rather the following:

- manufacturing firms like AT&T, Alcatel, Siemens, Northern Telecom, and Ericsson are opening new facilities and joint ventures in most parts of the world (e.g., Poland, Russia, Ukraine, Hungary, Romania, China, Thailand) to deliver equipment to a market that has become global in size and reach;

- operating and service companies are looking for licenses in all parts of the world, with two combined policies reinforcing the global reach of their networks: servicing their multinational clients in as many countries and territories as they can and diversifying their investments in a wider number of countries in order to spread out their risk-taking and enlarge their client bases; and

- entertainment and media consortia are also following the same path, going global as much as they can, thanks to the global reach of satellites' footprints and the concentration of advertising on consumer goods like cars, electric and leisure appliances, food, movies, music, and the like.

Is this trend similar to the one we witnessed during the colonial era? In one sense the answer is yes because, at first sight, these large companies are coming to foreign territories under some kind of a public service obligation. It may be assumed that most of these investors, whether in manufacturing or in operations, are rent-seekers, acting under assumptions similar to those made by the imperial companies when they started to settle in the French, British, or Dutch colonies overseas. I have heard comments, mainly from intellectuals in third world countries,

that assume that the investments of the Bell operating companies' (former branches of the AT&T telephone system) in Latin America or the DBP Telekom steps toward the "mittel-Europa" countries are a new form of colonialism, that is, an attempt to draw a rent from a foreign territory thanks to the protection of its home political patronage.

2.3. Significant Differences with the Colonial Era

Because of the special global market in I & C, there are significant differences between the colonial era's and today's investments into foreign I & C markets. The first difference stems from the fact that companies investing in network privatization today are acting for their own sake and not for the sake of their "mother" country: the more global they are, the more these large corporations are tied to the financial markets. Whenever an investment abroad looks too risky, too "politically correct" to be "financially correct," the financial analysts on the markets drag their quotations down. This appears to be the best control one may exercise on the management strategy of a global corporation, and it keeps the companies free of investments that may not be economically rational.

As a matter of fact, dragging quotations down does not prevent companies from rent-seeking, insofar as a stable rent often pleases share owners more than an open competitive market.[4] But rent-seeking behavior is not enough to constitute colonial behavior. The combination of market control on share pricing and rent-seeking within typical utility markets like the telephone, in my view, keeps the investors far from the behavior of the colonial period when markets were less global and analysts less informed about real market forces.

A second major difference between present-day privatization in telecoms and the colonialism of former times derives from the specificity of communications markets in general: there is no way that developing a large communications market may ever exhaust or abuse an actual finite resource.[5] In modern times, we have effectively discovered that communications is not a zero-sum game. The first ten years after the AT&T divestiture clearly demonstrated the huge growth potential of communications markets whenever one removes the constraints to wider competition and innovative entrepreneurships. Whether in developed or less developed areas of the world, demand for wider and more user-friendly services is as broad as human curiosity itself.

The economic policy at stake today is not to split a given pie between a small number of protected imperial ventures (as was the case with colonial land and colonial developers) but to enlarge, as fast as possible, the pie itself. This can be achieved more safely, quickly, and feasibly with private investors than with public administrations handled by the state (like the PTTs have historically been until recently).

Because of existing competitive forces and the globalization that forces monopolies either to adapt their behaviors or accept competition, the risk that a new communications investment will take over the market and act as a predator over a closed market of stable dimension is hence much smaller now than it was for trading posts in colonial times. We have experienced many illustrations of this trend in western Europe during the last twenty years. Not all of these changes have yet played out, leaving more room for competition to grow and at the same time less space for pure, protected rent-seekers.

3. Operators: Privatizations Depart from Colonialism

A third difference between present-day privatization and the colonial era derives from the fact that privatizations of operating companies in most countries today are made in terms such that no single investor can take full control of the operation. Public authorities in charge of selecting the operating ventures usually ask conglomerates of diverse origins to apply for qualification. In doing so, only minority national interests can enter the privatized operator.

These privatized operators are hence locked into a complex international influence whereby their chance to exert a colonial-type influence becomes very small indeed. Because in typical cases no more than 15 percent of interest is left to a single investor, the chance is small that this foreign interest will take over the operator management for itself. Even then, the colonial-type behavior is usually not feasible because foreign influences neutralize each other -- but for the financial interest of share ownership!

Many privatization programs were developed in the late 1980s and early 1990s and were not always implemented as programmed, mainly because of the political shyness of the governments and parliaments involved.[6] This was crystal clear in central and eastern European states but in the long run may also become true for India, Indonesia, and Brazil. In these large, densely populated countries, decision makers still keep the colonial period firmly in mind. They pretend to maintain political neutrality with the private operations and certainly will be more cautious than ever in selecting the ownership structure of the privatized companies. Two factors work to maintain some control on possible foreign interests, whether colonial or purely financial:

- currency control is (unfortunately, in my view) still quite openly maintained, with heavy obligations imposed on the share owners to maintain capital control in the country where they are allowed to operate. Although this heavy control on the flow of capital acts rather as a counteraction to colonialism, it can also be considered as a nationalistic position, which is, like colonialism itself, rather passé; and

- national market introduction, through a public offering of the operators' shares, is another way to prevent privatization from allowing a quasicolonial behavior among the foreign investors. When this market is sufficiently developed, up to 50 percent -- if not more -- of equity is issued on the stock exchange. Combined with the practical currency controls mentioed above, this leaves little ground for a colonial takeover.

I finally doubt that a quasicolonial behavior can be found in most cases currently at stake, whether in South America, Asia, or Europe (east and west). If any are left, one should probably look toward the small ex-colonial islands or former colonies where a single former colonial-imperial company (like GTE, C&W, FCR) still operates all or part of the networks. Those cases involve small clusters of not-so-wealthy areas but also a few exceptional territories like Hong Kong where the former colonial arrangement is bound to vanish soon after 1997.

In conclusion, it seems to me impossible to restore a colonial-type behavior through privatization of former public operators. Although this notion is appealing to some political leaders of the former colonies in the third world,[7] it simply does not conform to the real world, which has become truly global over the last twenty years and is controlled financially by

competition markets in many different stock exchanges and politically by governments still under the influence of the post-World War II anticolonialist rationale. The link between privatization and colonialism thus seems too weak (or too superficial) to be valid. The idea founding that link relies, I guess, on a purely instrumental understanding of communications.[8] Recent developments in communications theory, though still disputed,[9] suggest a more optimistic view. Despite the brilliance of the assumption, privatization does not really restore colonialism, and the assumption must therefore be discarded. So much for political tension, but so much the better for market traders!

Bibliography

Habermas, J. *Knowledge and Human Interest*. Boston: Beacon Press, 1971.

Lewandowski, J. "The Political Struggle over Mass Privatization in Poland." *Economic Transformation*, no. 26 1994.

Masmoudi, M. "The New World Information Order." *Journal of Communications*, no. 29, (1979).

McBride, S., et al. *Many Voices, One World*. Paris: UNESCO, 1980.

Pennman, R. "Issues in International Communication." *Aust. Journal of Communications* nos. 9-10 1986.

Shannon, C., and W. Weaver, *Mathematical Theory of Communication*, Urbana: University of Illinois Press, 1949.

Endnotes

1. Pennman (1986).

2. Lewandowski (1994).

3. McBride et al. (1980).

4. Rent-seeking does not exclude competition. Under the present rules, frequency allocation in the United States combines the natural interest for rent-seeking and some degree of competition through auctions.

5. Habermas (1971).

6. Including countries like France where we have had "stops and goes" for over eight years.

7. Masmoudi (1979).

8. Shannon and Weaver (1949).

9. Habermas (1971).