# After Privatisation: Neo-Colonialism?

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# AFTER PRIVATISATION : NEO-COLONIALISM ?

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When the topic of that talk was first suggested to me last year, I somehow questionned it : in plain terms, privatisations of public operators wether in Europe, in Latin America or elswhere in Asia and Africa, are considered by economists and professional analysts of the telecommunications community as wittnessing a move in the right direction to improve both coverage and efficiency of global telecommunications services. People and industries worldwide are demanding wider services and affordable prices for the telephone and for other communication 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 responsive to political pressures.

On the other hand, colonialism is somehow thought to be out of time : a widely supported concept during the previous centuries, notably among leading European countries, the colonial spirit has been progressively considered as outdated, politically unsustainable and finally not economically efficient. 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 as a costly unwise public policy by pragmatic conservatives (cartierism). As a final result, colonial empires of the west vanished from the 1950's onwards. The more recent of these vast colonial conglomerates is trumbling down since 1989 on the eastern side of Europe, with little (if any) serious consideration that the former soviet colonial domination over the Euro-Asian continent should be regretted for.

In short : privatisation seems to be looking forward while colonialism may rather be considered as backwards looking. Thus joining the two concepts together seemed quite akward to me although, somehow in the back of my mind, I was suspecting sound reasons to test wether or not they were overlapping in todays telecommunications world. I hence accepted to examine these two notions together, but suggested to add a question mark to the title, because I was not yet able to provide a clear affirmative answer to the question.

In this paper, I shall consider first the main facts and figures driving the privatisation programs of telecommunications operators. I will then attempt to check the similarities and differences between the present privatisation period and the former colonial era that we have had in Europe. The I will try to link colonialism with privatisation, testing such a rationale with a few cases of interest. I shall then conclude with my own answer to the question raised by the tittle of this paper.

I. - FACTS & FIGURES ON PRIVATISATION

The information and communication industries are not the only ones concerned with privatisation. On the contrary, returning the operation of utilities and basic industries like steel, oil, cement into private hands characterises the present times in many countries, particulary in those parts of the world where nationalistic political behaviours have concurred with either a populist or a socialist regime. Several among the so called "non- aligned countries" of the 1950's and 1960's (like India, Indonesia, Egypt) and among the strongly nationalized latin-american countries (like Argentina, Brazil, Mexico) have reconsidered their former economic policies. With a wider acceptance of global markets as a necessity of our times, large multinational operators are welcomed again to invest in manufacturing and in services for I & C [1] industries (Le Communicateur, 1990-1994).

Besides a reversal of the intellectual climate, more favourable than before for private investment since the failure of the soviet bloc, there are also pragmatic factors favouring the expansion of large, multinational operators in telecommunications (for reasons analog to these invoked for airlines, energy, chemicals etc...) :

- *manufacturing* requires more capital, more research, a higher specialisation than ever before ; few players are able to sustain this capital-intensive global competition ; they consider the world as a global market where technologies, products and know-hows are distributed with less consideration of the nation-state and higher stakes for corporations.

- *operating networks* also require high capital investments, skillful employment and a commercial expertise which abolishes most of the previous national barriers ; demand for services is linked with economic development and with industrialisation of the less developped territories. New data services reveal the inefficiencies of the old telephone and telegraph administrations, as micro-computers and other electronic communication devices find their way into small businesses and trade : a country like Chile has now more micro-computers per capita than France !

- *media* are evolving towards a somewhat global market as well, not only because of the technical revolution on printing, on satellites and video, but also with the support of a globalised approach of trade, advertising and information reporting, which has been demonstrated clearly for many years already, by the formation and extension of worlwide networks like CNN, by integrated multimedia publishers like Murdoch and new conglomerates like Sony and Matsuhita.

Despite this spectacular enlargement of I&C market size, we must not forget however that much of the world population is yet poorly, or even not equiped, with communication devices at all (Penman, 1986). Poverty of many populations have restricted solvent demand for such equipments and services : most African populations and quite a few eastern european states fall into that category. Capital is not available in those countries where the previous economic regime has eradicated all financial organisations able to trade money and organize capital flows : this is particularly true in former communist countries who find themselves fully dependent on foreign money supply and expertise for financial matters (Lewandowski, 1994).

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[1] I&C is used here for "Information & Communication"

I was for instance involved, over a period of three years, in one of the central European states where serious plans were designed to restore a modern, service oriented, internationnaly competitive network equipment from 1990 up to 1994. The master plan for this network development was requiring an investment that neither the local government, nor the renascent banking system were able to provide. Two possibilities were considered : one was public funding ; the other was private funding.

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 investor would get involved if not covered by a public institution. The loans were first provided by the World Bank and complemented by the European Bank for Reconstruction and Development. We wittnessed in this case a quite classical situation : a fairly long delay between the loan application and the availability of the credit where it was needed (18 months).

We noticed finally that the loan process could be analysed as a arbitration between an infrastructural investment in the country, constrained by public service consideration (ie artificially low tariffs) and an enlargement of this country public debt which in that country was already high before hand. This public model for development put 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 man-power constraints within the public utility agency.

Private sector funding, at the level considered in that particular case, was not affordable from the local operators (*ie* : lack of saving, evanescent banking mediation and dominance of foreign currency savings among the rare wealthy population). The only possible alternatives were : eigher borrow money on the international money market, ie. issue bonds in US dollars, swiss francs or DM ; or sell shares of the "corporatised" 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 organisation of the privatised venture.

This last solution was finally accepted but heavily dragged by delays, internal opposition between vested interests and strongly constrained by laws. After a lengthy debate within the administration, poorly arbitrated by the political leaders who finally were thrown away at the recent general election, privatisation did occur at the end of 1993 in a framework which has not really encouraged the foreign investors to keep a quick pace in investing and restoring a modern network : prices are kept under a strict control ; forecasting the public policy is far from easy ; interconnect agreements are not clear cut etc...

As a result it appears that massive privatisations programs are still not so common as they were expected to be six years ago. The single big program completed so far was BT (amounting ut to 20 bil. £ over a 10 years period 1984 to 1994). The total for Latin American states, including Chile, Argentina, Mexico went up to 50 bil. US $ in all sectors of the economy for 1991, which is very significant. Massive privatisation expected in the former Eastern Bloc are still delayed or not clear cut yet with many uncertainties still to be overcomed (like the "voucher" system which has not really started on a wide scale).

The political climate, in most countries which are considered reasonably eligible for mass privatisation programs (Indonesia, India, Brasil) stays far from favorable to this move at large. Hence the "stop and go" policies which are characterising this period and the prevailing impression that when successful, like in the BT case, privatisation of a telephone public operation is safer and more engaging for would be investors in large developped countries than in less developped, former socialist regimes !

II - TESTING THE LINK BETWEEN PRIVATISATION & COLONIALISM

Although somehow paradoxal, this leads to the impression that successful privatisation in most cases are not at all linked with the colonial era conditions : the relationship between the local authorities and foreign investors seem to be rather different from the ones established in former colonial times between the main land government and the "imperial" corporations. The case for *KPN* in Holland, for *Telmex* in Mexico, for New Zealand and for Australia do not fit with the colonial era model. There are more differences with the colonial era than similarities in the present privatisation programs organised in most countries. The superficial similarities, we find, do not resist a serious knowledgeable analysis.

The above example is not a unique one : latin american and central european privatisations have been far from evading from government control and from administrative burdens. This makes a clear difference with the previous colonial era when the "imperial" corporations of the colonial states were both encouraged to invest into the new territories open to their operations and free from any local political control. The privatisations that we are wittnessing today are also managed in a very different context : in most cases, the private investor is not a single corporation but rather a conglomerate of several foreign companies, linked under a weak consortium for the sake of each privatisation ; it so appears that the local governements count on such weak alliances to keep some control on practical developements of the privatised company. This was not at all the case in former colonial times when the balance was kept rather in favour of a stable, corporate type investment and management styles within the imperial companies in charge of economic developments in the colonies..

Even if superficial the link between these two era, distant in time and different in their purposes, is any-how worthwhile testing further. I consider, for instance, that there are several formal commonalities between the "colonial" type investor and the person investing into a privatised company. The first analogy deals with the fact that in both cases the richer, the more educated, the wider experienced investor brings his money to the poorer, less equiped, less advantaged network (Mac Bride, 1980). At least this "politically correct" analogy can be found as the basis for the World Bank or for the EEC dedicated programs (towards Eastern and Central Europe or towards Africa, the Carabean, Latin America). In plain terms such programs are supposed to bring money and expertise from the "haves" to the "havenots"! When one goes back to the wording supporting the colonial expansion of France at the last quarter of the XIXth century, the same philosophy applies. There is a similar approach, in this context, between the colonial era and some of the public policies supporting privatisation as a road towards development.

Rent seekers were always interested in colonial policies : individual and corporate interests devoted to colonial development (*ie* : implantations, trading companies, steamer lines, telegraphic wires and wireless companies) were basically attracted into the new lands as long as this investment was supposed to be easier to manage, quicker to return a higher revenue, protected by the flag, etc... These were either asking for a state guarantee (ex. overseas lines or for some territorial priviledges) or monopolies (ex: Cable and Wireless in colonial England).

This rent seeking situation is somewhat similar to the one we may infer behind the behaviour of todays operators willing to take over, personnally or in consortia, the control of privatised operators. In most cases, the investor from a rich, western basis asks for a protected status, or looks for some kind of a rent : a telephone monopoly, an infrastructure priviledge, a public insurance against major risks, and the right to use, reexport and move away the return on its investment. This rent-seeking situation is still prevalent in most utilities wether in the west or not, and it characterizes most corporate structures in public services corporations (Générale des Eaux, RWE ..) and in former phone monopolies (AT&T, BT), as well as in large manufacturing corporations involved in supplying equipments to the networks (Alcatel-Alsthom, Siemens).

It is however not on the previous basis that one can explain the growth of information and communication industries. What stimulates the formation of large, multinational operators in all sectors of this industry is the following :

a)- *manufacturing firms* like AT&T, Alcatel, Siemens, Northern Telecom, Ericsson, are opening new facilities and joint ventures in most parts of the world like Poland, Russia, Ukraine, Hungary, Romania, China, Thailand, etc... to deliver equipments on a worldwide market.

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

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

Is this trend somewhat similar to the one we have wittnesses during the colonial era? One could say yes because, at first sight, these large companies are coming to foreign territories under some kind of a public service obligations. There may be assumed that most of these investors, wether in manufacturing or in operations, are rent-seekers, acting under assumptions similar to those made by the imperial companies when they started so settle in the French, British or Dutch colonies overseas. I have heard comments, mainly from intellectuals in third world countries, assuming that the BOC's [2] investments into Latin America, or the DBP Telekom steps towards the "mittle europa" countries are as they say, a new form of colonialism, that is an attempt to draw a rent from a foreign territory thanks to the protection of their home land political patronage.

One may however think that there are significant differences between the colonial era and today's investments into foreign I&C markets. The first difference, in my

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[2] BOC : Bell Operating Companies, former branches of the AT&T telephone system.

view, comes from the fact that companies investing in network privatisation 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 "polically correct" to be "financially correct", then the financial analysts on the markets drag their quotation down. This appears to be the best control one may exercise on the management strategy of a global corporations. This form of control keeps the companies free from investments which may not be sound or economically rational.

As a matter of fact, it does not prevent companies from rent seeking, as far as a stable rent often pleases the share owners more than an open competitive market[3]. The combination of market control on share pricing and rent seeking within this typical utility markets like the telephones, keeps, in my view, the investors far from the colonial period when markets were less global and analyst more ill-informed on real markets forces.

A second major difference between privatisation in telecoms and colonialism in the former times, comes from the specificity of communication markets in general : there is no way that developping a large communication market may ever exhaust or abuse an actual finite ressource (Habermas, 1971). We have discovered over the modern times that communication is not a zero sum game : the first ten years after the AT&T divestiture have clearly demonstrated the huge growth potential of communication markets whenever one breaks the constraints open to a wider competition and to innovative entrepreneurships. Wether in developped or less developped areas of the world, demand for wider and more user friendly services is as wide as human curiosity can be.

The economic policy at stake is not to split a given pie betwen a small number of protected imperial ventures (like it was the case with colonial land and colonial developpers) but to enlarge, as fast as possible, the pie itself which appears safest, quickest and more feasible with private investors than with public administrations handled by the state (like the PTT have always been up until now). The risk for a communication new investment to take the market over, and act as a predator over a closed market of stable dimension is much smaller than it was in colonial times for trading posts, because of existing competitive forces, because of globalisation that forces monopolies either to adapt their behaviours or to accept competition. We have lived many experiences of this trend in western Europe during the past 20 years, and these changes are not yet all completed, leaving ground for more competition to grow and smaller space left for rent-seekers.

A third difference with the colonial era comes from the fact that privatisations of operating companies in most countries are made in terms such that not a single investor can take full control of the operation : public authorities in charge of selecting the operating ventures usually ask for conglomerates of diverse origins to apply for qualification. In doing so, only minority national interests can enter the privatised operator. These are hence locked into a complex international influence whereby the chance to exert a colonial-type influence becomes very minor indeed. As, in typical cases, no more than 15 % interest is left to a single operator, the chance is small to let this foreign interest take over the operators management for

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[3] Rent seeking is not exclusive of competition : under the present rules, frequency allocation in the US combines the natural interest for rent seeking and some degree in competition through auctions.

himself. Then, the colonial-type behaviour is usually not feasible as foreign influences neutralize each other, but for the financial interest of share ownership !

## III. - OPERATORS PRIVATISATIONS DIFFER FROM COLONIALISM

Many privatisation programs were programmed in the late 1980's and early 1990's. These programs were not always implemented as programmed, mainly because of the political shyness of the involved governments and parliaments. This was cristal clear in central and eastern European States, but may appear also the truth for India, Indonesia and Brasil on the long run.

In these large, densely populated countries, the past colonial period is still kept in mind by most decision makers. 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 privatised companies. Two more factors keep some control on possible foreign interests, wether colonial or purely financial :

-*currency control* is (unfortunately in my view) still quite openly maintained, with heavy obligations imposed to the share owners to maintain capital in the country where they are allowed to operate. This heavy control on the flow of capital acts rather as a counterfire to colonialism, at least, and can be considered also as a nationalistic position, rather passeist, just like colonialism itself !

- *national market* introduction, through public offering of the operators' shares, is another way to prevent privatisation from allowing a quasi-colonial behaviour of the foreign investors. When this market is developped enough, upto 50% of equity -if not more- is then issued on the stock-exchange. Combined with practical currency controls quoted above, this leaves little ground -if any- to a colonial takeover.

I finally doubt that a quasi-colonial behaviour can be found in most cases at stake, either in South-America, Asia, Europe (east and west). If any are left, one should probably look after the small ex-colonial islands or former colonies where a single former colonial-imperial company (like GTE, C&W, FCR) still operates whole or part of the networks. Thoses cases are dealing with small clusters of not -so wealthy areas- but a few exceptionnal territories like Hong-Kong where the former colonial arrangement is bound to vanish soon.

To conclude, it seems to me out of reach to restore a colonial-behaviour through privatisation of former public operators. Although appealing to some political leaders of the former colonies in the Third World (Masmondi, 1979), this assumption just does not fit with the real world, global as it has become over the post 20 years, financially controlled through competition markets in many different stock-exchanges, politically controlled by governments still under the influence of the pas war II anticolonialist rational. Despite the brilliance of the assumption, it has then to be disguarded. So much for political tension...

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The link between privatisation and colonialism seems to weak -or too superficial to be true-. The idea founding that link relies, I guess, on a purely instrumental understanding of communication (Shannon, 1949). Recent developments of communication theory suggest a more optimistic view, even when still disputed (Habermas,