Taking control: transforming telecommunications in Mexico
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Introduction

The establishment and expansion of utility networks have been tightly bound up with Mexico’s socio-economic development from empire to independence, while they laid the foundations – literally, in the form of physical networks of transport, communications, energy and water.

In each historical phases of Mexican development there was a trade off between the aim to develop networks services to promote national business corporations, on the one hand and the requirements of Foreign Direct Investment (FDI) or Foreign Debt to attract technological and business capabilities to sustain a higher rate of growth, on the other.

- Network services were considered essential in the emerging export led growth national economy during the Porfiriato, which contribute to accumulate foreign debt particularly of the Mexican National Railways.
- Network services were also necessary for its take-off during the so-called ´Mexican economic miracle´ (Desarrollo Estabilizador) during the 1950s and 1960s.
- From the 1970s to 1980s, Mexico’s accumulating debt, headed by some of the largest networks, and oil and gas giant state owned enterprise, Petróleos Mexicanos (PEMEX), contributed significantly to Mexico nearly going under, in what would be the deepest and prolonged debt crisis in Latin American history.
- From the 1990s Network service also played a central role in the passage from a relatively closed (inward looking 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 to make up a “national champion”, its 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 providing the architecture for the informational society,³ increasingly subject to intensified global competition and mergers and acquisitions.

The role of the telecommunications sector is examined at three critical stages of transition: 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 slow. Ownership and control preferences can be visualised as a 3-D axis that includes public, private, domestic and foreign: in this light, the government has repeatedly sought to use Mexican private investment when State ownership was either undesirable or unaffordable. Although ownership of other strategic networks, particularly railways, electricity, petroleum, gas and water is only mentioned in passing 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-area (NAFTA), and the inward FDI boom in the 1990s. This clearly differentiates Mexico from many large Southern American countries that did opt to open up their networks to FDI from the 1990s.

Nationalisation meaning public or state-owned enterprises in Mexico have broadly evolved in the following way: 1) a relatively prolonged emergence from 1920-1960; 2) a dramatic expansion between 1960-1982 and 3) an equally dramatic decline from 1983 to 2000. The different factors for setting up public enterprises or nationalising private companies have been forgotten or distorted over the time. Nationalisation was used many times as a way to keep foreigners out in the military, technology, energy, transport and telecommunication sector, but the state could be also seen as nationalisation by default when bailing out companies in financial trouble as in the 1930s and 1970s.

Business transformation through FDI played also a key role in each phase of Mexican economic development. This was also reflected in contradictory discourses and aspirations of the governments and the domestic business. It was a way to attract technological capabilities and access to international standards and a way to transfer or acquired control on business.

- Inward FDI in infrastructure and networks services was considered a necessary condition for the primary export led growth model of the late XIX and earlier XX century.
- In a similar way, inward FDI by manufacturing TNC was considered a condition (or a minor devil) to attract technological capabilities and to sustain a higher rate of growth during the “Desarrollo estabilizador” going from the second stage of import substitution industrialization in the 1950s to export promotion and “maquiladoras” in the 1970s.
- FDI liberalisation was also a clear requirement of the “Washington Consensus”. The privatisation of Telmex was used as flagship of the Salinas sexenio to attract FDI, a presidency that was considered by The Economist the Thatcher of Latin America.
- Outward FDI of Telmex is an indicator of the transformation public enterprise in a “national champion” that has reached the age and the capabilities to compete in a key sector in the regional market.

What was the main objective of the Mexican Governments?

- Increasing efficiency of the corporation, the industry and the national economy introducing “privatisation” as a model of “corporate governance” according to OECD standards.
- Attract FDI using TELMEX as a flagship of the privatisation process.
- Creating national champions – increasing power of national business groups.

This chapter is organised in four sections that corresponded with historical phases of transformation of telecommunication in Mexico:

1. From foreign TNCs to the mexicanisation of telecommunications.
2. From nationalisation to the slimming down during the debt crisis.
3. TELMEX privatisation as a Political Economy paradigm of neo-liberalism vis a vis nurturing of the most prominent Latin American “national champion” corporation (Carlos Slim).
4. The emergence of the largest Latin American telecom TNC.

II: The prolonged emergence of a nationalised telecom enterprise:
Telecommunications were not nationalised until 1972, later than railways, electricity, oil and gas. In order to put this nationalisation into perspective, the origins of State-owned enterprises in Mexico, and the nationalisation of other key networks will be first briefly considered.

In a similar way than in most new national European nations, 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 and gunpowder.

Strategic - Military. A few enterprises were established during the Porfiriato, namely, the Mexican National Railways (1908) and the Caja de Préstamos para irrigación y Fomento (1908), both with mixed public and private capital. This brought Mexico closer in line to other Latin American countries, which were actively setting up state-owned enterprises in transport and banking. 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 in the 1920s that a more modern concept of State-owned enterprises came into play. Over the following few decades, until the 1970s, many enterprises – including electricity, railways, telegraphs and telephones – were incorporated into the so called “parastatal” or public enterprise sector, these elected due to their perceived importance for Mexico’s economic and social development, national independence and for 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 (1934-1940), 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 today as a national holiday).

American and European FDI played an important role in the Mexican economy during the Porfiriato, being largely destined for mining, petroleum, railway expansion, electric power, banking and textiles. Mexican National Railways was, at the beginning of the twentieth century, the largest public 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, under funded, 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 share original value. Foreign interests that had dominated the mining 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 by via concessions and, in the eyes of the TNCs, threatened their property rights. 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. 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 foreign TNCs directors 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. Recent 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, or, whether the Cárdenas administration represented the climax of a genuinely revolutionary industrial policy.

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 distribution. Tensions, however, between the Mexican government and the foreign 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 - Comisión Federal de Electricidad), 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 using World Bank loans). By 1960, the only remaining foreign interests were Belgian Mexican Light and Power and the American Foreign Power Company, which mainly were involved in electricity distribution. The Mexican government bought both in 1960 while Article 27 of the Constitution was reformed to reserve electricity services for the Mexican State.

The incorporation of telecommunications into the parastatal sector was particularly long-winded, with the firm only becoming fully nationalised in 1976. 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, became consolidated into two TNCs: Ericsson of Sweden and ITT of the United States (US). 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 very high during this period; this mutual distrust was exacerbated when Múgica was offered bribes if the foreigners could have their ways, 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. 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.

From the 1940s, the government opted to ‘Mexicanise’ telecommunications. Mexicanisation is a loose, flexible tool used to describe 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 return significant, though less visible, privileges once in the background. The rationale was to take control over FDI, channelling it into priority areas for Mexico, rather than foreign interests. The Mexicanisation of telecommunications occurred in two phases: firstly, 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. Next, the government negotiated the acquisition of the ITT-owned firm. By 1957, TELMEX controlled 96 percent 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, gaining funds 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 percent of shares: when Echeverría’s government bought a further 3 percent in 1972, TELMEX was finally officially nationalised.21

II Business Organizational Anarchy and Debt Crisis -

In 1970, there were 272 state owned enterprises, mostly in the transport, communications, banking and industrial sectors. From 1970, however, the parastatal sector grew at a dizzying speed: in twelve 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 organizational anarchy, increasing bureaucracy, and managerial problems, it also contributed significantly to Mexico’s rising external debt.

From the 1940s, the State’s promotion of enterprises in transport, communications and energy had largely been financed by utility profits whilst foreign credit played a minor role.22 However, Mexico’s foreign debt gradually rose, becoming notable in the 1960s, but boomed in the 1970s. Mexican consolidated foreign debt, set at 7 billion dollars in 1970, doubled by 1974, doubling again to reach 29 billion by 1977. By 1982, it topped nearly 80 billion dollars. Curiously, during the great loan boom between 1973 and 1982, the proportion of foreign debt owed by the public and private sector remained.23 The bulk of loans were destined for state owned enterprises and banks that had required heavy financial support for their rapid expansion in the 1970s. Two state owned enterprises, PEMEX and the Federal Commission of Electricity, absorbed most debt. While, in 1970, PEMEX’s foreign debt stood at barely 367 million dollars, by 1981, this surpassed 11 billion dollars, representing 27% 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 990 million dollars in 1970 to over 8.2 billion dollars in 1981.

Graph 1. Proportion of Net Foreign Debt owed by different institutions 1970-1996

Why did Mexican technocrats and bankers not smell danger at this dramatic escalation of foreign debt? From 1976, huge oil reserves had been discovered in the Gulf of
Mexico, and it was generally believed debt could be paid off using this ‘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 United States (US), European and Japanese banks aggressively sought out new clients in Latin America. Literally hundreds of US banks provided loans to Mexican public and private enterprises but, by 1982, six large banking corporations led the pack: Citicorp (2.8 billion dollars in Mexican loans), Bank of America (2.5 billion dollars), Manufacturers Hanover (1.9 billion dollars), Chase Manhattan (1.6 billion dollars), Chemical Bank (1.4 billion dollars) and J.P. Morgan (1.1 billion dollars).24 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.25 State owned banks such as Nacional Financiera increased its debt to 20 million dollars in this period—This irresponsible strategy assumed international interest rates would not rise, and that there would not be a devaluation in Mexico. After the Federal Reserve Bank of the US increased interest rates in the early 1980s, the majority of 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 globalization 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 87 billion dollars, of which almost 60 billion dollars was public sector debt, 19 billion dollars private sector debt and 8.5 billion dollars commercial bank debt. Successive debt restructuring over the next few years consisted fundamentally of refinancing loans authorized by the international banks so the government did not declare a moratorium. Foreign creditors persuaded the Finance Ministry to profits from petroleum to cover interest on the debt. A large part of parastatal debt was transferred to the government and the parastatal banking sector, guaranteed by PEMEX. The sale of the parastatal sector was part and parcel of the new policy recommendations by the World Bank the IMF known today as the “Washington Consensus”.

III The role of TELMEX in privatisation in the new neoliberal consensus

The privatisation programme in Mexico has been analysed elsewhere,26 so the focus here will be on the role TELMEX played. By 1982, 1155 state owned enterprises were controlled by the Mexican government, accounting for 18.5% of GDP and employing around one million workers. During the De la Madrid administration (1982-1988) 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 divestures, 294 were closed down, 204 were sold, 72 merged and 25 transferred.27 Even though the number of parastatals 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.28 Moreover, the number of parastatal 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 public enterprises, 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
A 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. The public enterprise sector shrank from 1155 to 220 between 1982 and 1994. The sale of TELMEX was the single most important instance of privatisation in Mexico for three principal reasons. First, 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. Second, 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. Third, 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. 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. Salinas’ 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 telephone workers (STRM: Sindicato de los Trabajadores de la República Mexicana) 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.

What corporate governance was inforced in face of privatisation? Were workers and other stakeholder engaged as shareholder? Was there a nationalistic-protectionist biased to favour Mexican investors?

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 the control of the private business. Special controlling shares restricted for Mexicans were reduced and concentrated, so that, with only a relatively small amount, Mexican investors could afford to take control. The sale was announced in August 1990: of the three offers made, the controlling 20.4% share was awarded to the Grupo Carso. This Mexican conglomerate, owned by Carlos Slim, bought 10.4% of total capital stock (51% of special controlling ‘AA’ shares reserved for Mexican investors). Its partners were Southwestern Bell (SBC) and France Telecom, each with 5% of total capital stock. Thus, TELMEX passed from a public to a Mexican controlled private monopoly in 1990, which would expire after six years and thereafter face competition.

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 owners of TELMEX were privileged gaining a six-year period to enjoy a monopoly over national and international services. This gave them time to expand and modernise its network, according to the targets set by the government and also to consolidate itself 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 case. 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: Comisión Federal de Telecomunicaciones) 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% 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 had to offer new interconnection services to its rivals.

The Foreign Investment Law and Regulations and the Concession require that Mexican shareholders retain the power to determine the administrative control and the management of Telmex (OECD 2005 Communication Outlook considered). Non-Mexican investors are not permitted to own more than 49% of the capital stock of a public telecommunications operator. Mexican corporation engaged in the telephone business. Foreign investment in cellular telephony may be authorised up to 100%. Mexico Concessions are only granted to individuals or corporations of Mexican nationality. Foreign investment can be no greater than 49% except for cellular telephony services where permission is required from the Commission of Foreign Investment for a greater level of foreign participation.

IV  The return of foreigners and the rise of the Latin American TNCs

Deep privatisation of former national monopolies and other former State-owned enterprises 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 advantages 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, and the rise of investment dispute claims going to the GATS-WTO, (Mexico was only beaten by Argentina in the number of claims presented) characterised this period. As a result, as some disillusioned TNCs started to pull out of the region, Latin American investors moved to replace the vacuum left by some TNCs with regional capital, and the so-called trans-latin companies started to emerge.

Mexican inward FDI flow shows the evolution in different periods, it was on average around 3 billion dollars from the 1970s to 1993 and its proportional contribution to Gross Domestic Investment (GDI) was below 7%. This contrast with the trend from 1994 onward, when FDI flows increase five times in volume and its contribution to GDI increased to around 15%. Another significant change in terms of Mexican TNCs took place in outward FDI flows that increased from an annual average of 100 million from 1970s and 1993 to more than 1,5 billion between 1994-2004

Another important change took place since 1997 in outward FDI that has reached an annual average 1.5% of GDI. Although outward FDI is still much less important than inward FDI as is typical in most developing countries. This change in outward FDI reflect the increasing internationalisation of Mexican TNCs, that has increased five times in the amount and number of operations of cross border M&A.
CEPAL called Trans-latinas to Latin America’s TCNs (TLACs) that are usually private enterprises that move beyond their country of origin by acquiring assets in other enterprises in the region, possibly as a springboard to international expansion. In the context of telecommunications, desires to dominate future technologies help explain the formation of strategic-alliances between partners.

Mexican-based enterprises made up half of the top 25 TLACs by sales in 2003, and TELMEX and its spin-off América Móvil took second and third place respectively. Grupo Carso, Slim’s industrial and commercial group, was in eighth position. However until 2003, Telmex revenues were mainly from Mexico and its internationalisation was below America Movil and CEMEX, this change with the acquisition of AT&T assets in 2004.

The transnationalisation of companies based in the developing world is not confined to Latin America, indeed, it is dominated by Asian companies. In 2003, two Mexican companies were included in the top six non-financial TNCs from the developing world ranked by foreign assets: CEMEX, in fifth position, and América Móvil, in sixth.

To evaluate and compare the transformation of TELMEX in a proper TNCs that took place in 2004 when it became the second TLACs in terms of revenues and the first in employment, it has been estimated the transnationality index (TNI) in 2004 for the 5 top regional TNCs. Telmex was still in 2004 below the other four TNCs in terms of TNI but closed the largest TLACs (Petrobras). TELMEX was clearly a TLACs in terms of its regional activities. Telmex and América Movil as telecoms are distinctive regional TNCs in terms of its network services and technological specialisation that contrast with the natural resource orientation of Petrobras, CEMEX and CVRD.
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Source: Elaborated by the authors based on Annual Reports and UNCTAD (2001-2005)

* 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.

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 introducing competition, with the exception of Brasil.36 Mexico differed 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 US enterprises such as Verizon and Bell South, gaining new markets via the acquisition of former State-owned enterprises. 37 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.38 Most early efforts focused on gaining access to fixed-line telephony in South America via privatisation whilst, in the latter 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)39 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.40
Despite these encroaching challenges, TELMEX still enjoyed very large market shares: in 2000 it held 95% of local telephony, 66% long distance, 72% mobile and 60% data/internet. CEPAL is critical of the development of telecommunication in Mexico since privatisation. Though TELMEX expanded and modernised its network after privatisation, its success was inferior to that of other privatised companies in the region. Moreover, prices remain high, even when compared to OECD members, and the disparity between penetration levels is increasing. Slowness in introducing competition, reinforced by the policy to protect the national champion and weak regulatory capacity, and TELMEX’s application of high interconnection fees and cross-subsidisation policies (lowering prices in exposed activity and raising them in protected ones such as local calls) in order to fend off competition are all pointed to as the causes. The regulatory body COFETEL has come under criticism 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 was incapable of correcting this; COFETEL took TELMEX to court in 1999, and TELMEX won. The US FCC fined a TELMEX subsidiary in the US 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, which was suspended in 2001 with the election of a new president.

Now, while TELMEX has been criticised for blocking competition at home, it has, at the same time, emerged as one of the leading trans-lats. TELMEX announced its strategy to internationalise from 1998, stating that its natural market where the Spanish speakers in the Americas. In 1998, it 1) bought 18.9% of Prodigy, US internet service provider and, the next year, struck an agreement with Microsoft to design a portal for Spanish speakers 2) signed an agreement with Telecomunicaciones de Guatemala that involved TELMEX managing the company restructuring with an option to buy 49% of the company over the next five years. The following year, TELMEX acquired a US 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, while spinning-off TELCEL, television interests and international assets into América Móvil. The newly established América Móvil, (director is Slim’s son?) 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 while diversifying risk outside Mexico. The aim of this new company, 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 still led. As foreign investors abandoned the region, América Móvil stepped in, buying from 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 eye to eye with its competitor Telefonica.

Between 2003 and 2005, TELMEX invested around 5 billions dollars in Latin America, and in 2005 its 2004 annual reports started to include international operators by
Until 2003, TELMEX description of its business was “provide telecommunications services, primarily in Mexico”. In 2004, when the annual report stated that as result of a number of business acquisitions throughout Latin America, starting in 2004, the company also provides its services in Argentina, Brazil, Chile, Colombia and Peru.

<table>
<thead>
<tr>
<th>Subsidiary company</th>
<th>Country</th>
<th>Equity*</th>
<th>Value**</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telmex Argentina ***</td>
<td>Argentina</td>
<td>100</td>
<td></td>
<td>Feb.04</td>
</tr>
<tr>
<td>Telmex do Brasil ***</td>
<td>Brazil</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telmex Chile Holding ***</td>
<td>Chile</td>
<td>100</td>
<td>196</td>
<td></td>
</tr>
<tr>
<td>Telmex Colombia ***</td>
<td>Colombia</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telmex Perú ***</td>
<td>Perú</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Embratel</td>
<td>Brazil</td>
<td>90.3</td>
<td>672</td>
<td>Jul-Dec.04</td>
</tr>
<tr>
<td>Telmex Corp. (Chilesat)</td>
<td>Chile</td>
<td>99.3</td>
<td>114</td>
<td>Apr. 04</td>
</tr>
<tr>
<td>Techtel</td>
<td>Argentina Uruguay</td>
<td>83.4</td>
<td>100</td>
<td>Jun. 04</td>
</tr>
<tr>
<td>Metrored</td>
<td>Argentina Uruguay</td>
<td>83.4</td>
<td>12</td>
<td>Jun-04</td>
</tr>
<tr>
<td>Latam Telecom</td>
<td>US</td>
<td>100</td>
<td>n.a.</td>
<td>bef.2003</td>
</tr>
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</table>

**Affiliated companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Equity*</th>
<th>Value**</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Televista</td>
<td>US</td>
<td>45</td>
<td>34</td>
<td>bef.2003</td>
</tr>
<tr>
<td>Technology and Internet LLC</td>
<td>US</td>
<td>50</td>
<td>17</td>
<td>bef.2003</td>
</tr>
<tr>
<td>Net</td>
<td>Brazil</td>
<td>36.6</td>
<td>311</td>
<td>Feb-Mar.05</td>
</tr>
</tbody>
</table>

*: Percentage corresponds to controlling interest in 2005

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

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

Source: elaborated by the authors based on Telmex Annual Reports

In Brazil, TELMEX acquired majority shares in Embratel from MCI (formerly WorldCom), and cable and data transmission services in Argentina, Brazil, Chile, Colombia and Peru.

TELMEX transnationalisation was going against the trend. OECD (2005) stressed that while a number of incumbent carriers continue to hold shares of incumbents in foreign markets, the number of new transactions of that nature has decreased. One area where such investments remain relatively popular is in the ownership (and sometimes cross-ownership) of carriers in adjacent countries. Examples of this are the investment by SBC in Telmex, Telefonica in Portugal Telecom and Portugal Telecom’s holding in Telefonica. In terms of fixed networks Deutsche Telekom has also invested close to home with stakes in Matav and Slovak Telekom. By way of contrast KPN, Telecom Italia, SBC and Verizon are among the carriers which have sold stakes in incumbents in other countries. OCDE 2005 Communication Outlook

**Conclusions**

According to FDI specialist 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, US firms seeking efficiency, mostly in the manufacturing sector (in order to compete against Asian imports) dominated investment into Mexico and Central America. FDI inflows largely resulted in the creation of new assets, which 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 privatization, which tended to strengthen systemic competitiveness. Standing from Mexico, what is also apparent is that attempts to open up its networks to (foreign) private capital have been hampered. Though some privatization has been implemented in railways (through concessions), oil and gas (through partial restructuring of PEMEX) and competition has been introduced in electricity supply, as a whole, these networks continue to be dominated by the State. Vicente Fox dismissed either the privatization of PEMEX or the CFE when taking power in 2000. Barriers to foreign capital continue to apply; TELMEX’s sale being destined for national investors. In contrast to other large Latin American countries, therefore, Mexico has low levels of FDI in its main networks, with the exception of mobile telephony. The extent to which this is caused by Mexico’s blockage of FDI, or US internationalizing business strategies favoring efficiency through manufacturing, is a fascinating one. But lack of competition at home has fuelled competitive spirit and financial base of TELMEX.
### Table X: LAC FDI in electricity and energy

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
<th>Mexico</th>
<th>TOTAL</th>
<th>TOTAL LAC</th>
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</thead>
<tbody>
<tr>
<td>1992</td>
<td>2119</td>
<td></td>
<td>2.5</td>
<td></td>
<td>2121.5</td>
<td>2124.1</td>
</tr>
<tr>
<td>1993</td>
<td>1116</td>
<td></td>
<td>17.1</td>
<td></td>
<td>1133.1</td>
<td>1134</td>
</tr>
<tr>
<td>1994</td>
<td>124</td>
<td></td>
<td>19.7</td>
<td>15.2</td>
<td>158.9</td>
<td>525.3</td>
</tr>
<tr>
<td>1995</td>
<td>1111</td>
<td></td>
<td>54.1</td>
<td>2.1</td>
<td>1167.2</td>
<td>1179.3</td>
</tr>
<tr>
<td>1996</td>
<td>681</td>
<td>1626</td>
<td>406</td>
<td>1.1</td>
<td>2714.1</td>
<td>3605.3</td>
</tr>
<tr>
<td>1997</td>
<td>1527</td>
<td>3554</td>
<td>1394.7</td>
<td>5.2</td>
<td>6480.9</td>
<td>9971.3</td>
</tr>
<tr>
<td>1998</td>
<td>932</td>
<td>2292</td>
<td>495</td>
<td>26.6</td>
<td>3745.6</td>
<td>4514.5</td>
</tr>
<tr>
<td>1999</td>
<td>951</td>
<td>2970</td>
<td>4559.7</td>
<td>139.5</td>
<td>8620.2</td>
<td>8647.2</td>
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<tr>
<td>2000</td>
<td>446</td>
<td>3046</td>
<td>859.8</td>
<td>116.8</td>
<td>4468.6</td>
<td>4478.6</td>
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<tr>
<td>2001</td>
<td>197</td>
<td>1470</td>
<td>907.6</td>
<td>268.9</td>
<td>2843.5</td>
<td>2858.2</td>
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<tr>
<td>2002</td>
<td>-57</td>
<td>1629</td>
<td>490.4</td>
<td>24.6</td>
<td>2087</td>
<td>2226.5</td>
</tr>
</tbody>
</table>

*Argentina, Brasil, Chile, Colombia, Ecuador, México, Perú, Paraguay y Venezuela.


### Table XX: LAC FDI in telecommunication

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
<th>México</th>
<th>TOTAL</th>
<th>TOTAL LAC</th>
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<tbody>
<tr>
<td>1992</td>
<td>36</td>
<td></td>
<td>41.2</td>
<td></td>
<td>77.2</td>
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<tr>
<td>1993</td>
<td>-19</td>
<td></td>
<td>16.4</td>
<td></td>
<td>-2.6</td>
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<tr>
<td>1994</td>
<td>245</td>
<td></td>
<td>59.1</td>
<td>719.3</td>
<td>1023.4</td>
<td>3284.3</td>
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<tr>
<td>1995</td>
<td>634</td>
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<td>409.8</td>
<td>876.3</td>
<td>1920.1</td>
<td>1990.9</td>
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<tr>
<td>1996</td>
<td>145</td>
<td>611</td>
<td>423</td>
<td>428</td>
<td>1607</td>
<td>1773.7</td>
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<tr>
<td>1997</td>
<td>845</td>
<td>831</td>
<td>103.7</td>
<td>681.5</td>
<td>2461.2</td>
<td>2621.6</td>
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<tr>
<td>1998</td>
<td>260</td>
<td>2565</td>
<td>78.9</td>
<td>435.9</td>
<td>3339.8</td>
<td>3752.8</td>
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<tr>
<td>1999</td>
<td>714</td>
<td>7797</td>
<td>340.2</td>
<td>278.3</td>
<td>9129.5</td>
<td>9619.9</td>
</tr>
<tr>
<td>2000</td>
<td>3870</td>
<td>10897</td>
<td>855.1</td>
<td>-2371.9</td>
<td>13250.2</td>
<td>15181.9</td>
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<tr>
<td>2001</td>
<td>167</td>
<td>4130</td>
<td>1246.3</td>
<td>2912.9</td>
<td>8456.2</td>
<td>8883.8</td>
</tr>
<tr>
<td>2002</td>
<td>-715</td>
<td>4190</td>
<td>330.6</td>
<td>750.3</td>
<td>4555.9</td>
<td>5225.9</td>
</tr>
</tbody>
</table>

*Argentina, Brasil, Chile, Colombia, Ecuador, México, Perú, Paraguay y Venezuela.

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2 Freeman & Soete 1994
3 Castells
4 Between 1920-1940, there were 36 State-owned enterprises (known in Mexico and referred to henceforth as parastataals); this rose to 144 between 1941-1954. From 1955-1970 parastataals nearly doubled in number, but it was finally between 1970-1982 that they took off, summing 1155 in 1982 as Mexico confronted the debt crisis. Their decline, however, was abrupt: the privatisation process, triggered by the 1982 debt crisis, included the selling off of most of these firms: by 1986 there were only 737 parastataals left, dropping to 280 in 1990 and 213 in 1993.4 By the end of 1996, the number of parastataals had fallen again to 185, of which 72 were
decentralised organizations, 91 enterprises with majority state ownership, and 22 public trusts (fideicomisos públicos).

5 Clifton et. al 2003.

6 “State-Owned Enterprises are often prevalent in utilities and infrastructure industries, such as energy, transport and telecommunication, good corporate. Good governance of State-Owned Enterprises is an important prerequisite for economically effective privatisation, since it will make the enterprises more attractive to prospective buyers and enhance their valuation. These Guidelines should be viewed as a complement to the OECD Principles of Corporate Governance on which they are based and with which they are fully compatible. The Guidelines are explicitly oriented to issues that are specific to corporate governance of State-Owned Enterprises and consequently take the perspective of the state as an owner, focusing on policies that would ensure good corporate governance.” The Corporate Governance of State-Owned Enterprises in OECD countries, OECD, 2005.

7 Privatisation. Standard economic rhetoric lays particular emphasis on increasing efficiency by reducing distortions and improving incentives. But in many countries, creating national champions or increasing the power of the industrial oligarchy were intended or unintended consequences of the process of privatisation, Newbery 2003

8 Comín and Díaz 2004 and 2006.


11 (Meyer 1968).

12 Knight 1991.

13 (Knight 1991).

14 (Grunstein Dickster 2005).

15 Glade 1968 p. 81.

16 Grunstein Dickter 2005.

17 Grunstein Dickter 2005.

18 For further analysis of Mexicanisation see J. A. Hellman, Mexico in Crisis, Holmes & Meier, New York/London.

19 Telmex was owned by: Mexicana Corporación Continental S.A, Ericsson, Bruno Pagliai, Octavio Fernández Reynosa and José Joaquín César (Petrazzini 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.

20 The buyers were Mexican bankers led by Carlos Trouyet and Eloy Vallina (President of Banco Comercial Mexicano). Trouyet was made president of the board, replacing Vallina (Asturian) who was murdered shortly afterwards. (Called the Slim of the 1960s) Salon del empresarial webstie.


22 From 1942 to 1955, Nacional Financiera managed loans of 300 million dollars from Export-Import Bank (US) destined for Mexican National Railways, Federal Commission of Electricity, PEMEX and other companies. Foreign financing from the World Bank (then International Bank for Development and Reconstruction) increased from 1955, being destined for the electrification and development of the railways, amongst other things. Though these credits were modest, they were key to the economic development of Mexico in the 1950s, in the face of the lack of international capital destined for that country. During the 1960s, the World Bank lent 800 million dollars mostly destined for expanding the electricity network and highway construction, InterAmerican Bank for Development 530 million dollars, and the ExImBank 660 million to finance US exports. La información sobre los préstamos de los organismos financieros multilaterales u oficiales proviene de Green (1973), passim.

24 Quijano, Finanzas..., p.85.
27 Aspe 1993.
29 Ramamurti 1996.
30 See Clifton 2000.
31 For more details on how the shares were restructed, see Clifton 2000.
32 Clifton 2000.
33 ECLAC 2003.
35 UNCTAD WIR 2005 Annex Table A. 1. 100 p. 271.
36 ECLAC 2000
37 (Table IV.6 ECLAC 2000).
39 ECLAC 2003 p56.
40 (Mexican Alfa and Bancomer group which formed Alestra with AT&, and Banamex-Accival which joined MCI WorldCom to create Avantel)
41 _CEPAL 2000
42 (Cepal 2000, 193).
44 ECLAC 2000 43