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**Telecommunications in Central America:
El Salvador, Honduras, Guatemala, Nicaragua and Costa Rica
*The shift from public to private, the “development” connection, and the rise
of wireless communications***

by

Brunilda (Bruni) Funes, B.A., B.J.

**A thesis submitted to
The Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of**

Master of Arts

School of Journalism and Communication

**Carleton University
Ottawa, Ontario
February, 2002**

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Thesis Supervisor

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January, 2002

Abstract

Key words: Central America, El Salvador, Honduras, Guatemala, Nicaragua, Costa Rica. Telecommunications, privatization, critical political economy, wireless, development, IMF, and World Bank.

This thesis discusses the shift from public to private telecommunications taking place in Central America's countries. A critical political economy approach is used to describe and analyze the change and the Latin American context in which it is occurring. The research intends to make the connections between telecom privatization, international financial entities, and economic development policies implemented in Central America. The writer argues that, once again, the banner of 'development' is being used to push forward an approach whose benefits do not reach the poorest sectors of society. The thesis includes data from El Salvador, Guatemala, Honduras, Nicaragua, and Costa Rica. It also surveys the local telecommunications regulatory entities and their main policies, and provides basic data on the rise of wireless communications in the region.

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INTRODUCTION

Explaining the Research: What, where, how and why

Introduction

In the past years, in Latin America, as in many other parts of the world, telecommunications services have undergone profound changes. These changes are not only in the technological areas but also there have been changes in the type ownership and in the regulation of telecommunications. In the region, as in many other parts of the globe, telecommunications used to be seen as a strategic sector related to national security and national sovereignty; therefore, most states avoided foreign telecommunications ownership (Noam, 1992). In fact, Latin American countries saw state ownership as a way to protect their national interests.

However, things started to change in the late 1980s, when neo- liberal economic ideas prescribed privatization as one of the panaceas that could solve the economic problems faced by Latin America. Privatization, indeed, was supposed to bring development to the region.¹

In that context, the privatization of telecommunications has played a key role in international development policies designed by international organizations, such as the World Bank, (WB), the International Monetary Fund (IMF), and the Inter-American Development Bank (IDB). All these financial entities have put the modernization of telecommunications technology on top of their development

¹ Werner Baer and Melissa H. Birch. (1994). *Privatization in Latin America. New Roles for the Public and Private Sectors*. Westport, Connecticut and London: Praeger.

agendas. According to the World Bank, for example, modern communications such as the Internet will boost efficiency and will enhance market integration. The Bank argues that, particularly in developing countries that are most disadvantaged by poor access to information, the Internet will raise productivity and efficiency.²

In the framework of privatization, the telecommunications sector lost its position related to national security and became one of the state-owned items put on sale.³ Latin America became the developing world's laboratory for large-scale privatization. In fact, as Ravi Ramamurti asserts, between 1988 and 1992 developing nations raised \$60 billion³ with the selling of their state owned enterprises. Two-thirds of those proceeds were raised in Latin America.⁴

By the year 2000, many Latin American nations had already transferred their telecommunications business to the private sector. At that time, according to the International Telecommunications Union (ITU), the region had the largest number of fully privatized operators in the world.⁵

Central America, located in the heart of the Americas did not escape the telecommunications privatization fever. This thesis describes and analyses the telecommunications privatization processes taking place in Central America.

² The World Bank. (2001). *Global Economic Prospects and the Developing Countries*. Report.

³ All amounts are in US dollars.

⁴ Ravi Ramamurti. (1996). *Privatizing Monopolies. Lessons from the Telecommunications and Transport Sectors in Latin America*. Baltimore and London: The Johns Hopkins University Press.

⁵ ITU. (1999). *Trends in Telecommunications Reform. Convergence and Regulations*. Report.

Central America is known for its high levels of poverty, its income inequality, and for its political and military unrest. The region has been following the example of its southern, most developed neighbours. Since the 1990s, Central America has embraced privatization of state owned enterprises, particularly privatization of telecommunications, as one of the routes towards economic development.⁶

Central America's governments argue that telecommunications privatization will benefit the majority of people. They also argue that privatization will accelerate development in the region.

International financial pressures, neo-liberal economic policies that have forced governments to raise cash and reduce their sizes, and the idea that privatization provides a chance to compete in the global economy, are among the reasons why many of these nations have been transforming their state owned telecommunications into private services.

In addition, international lending organizations such as the WB and IMF have promised these governments millions of dollars in loans, and increased participation in global markets, if they privatize the telecommunications sector.⁷ On some occasions, as in the recent case of Honduras, the lenders have

⁶ See Annex 1. All maps in this thesis are courtesy of the General Libraries, the University of Texas at Austin. July 24, 2001. [www@lib.utexas.edu](http://www.lib.utexas.edu).

⁷ John P. Tuman. (1999). "Explaining Japanese Foreign Direct Investment in Latin America, 1979-1992". *Social Science Quarterly*. Vol. 80 No.3. September, pp. 339-348.

threatened to impose financial reprisals, such as stopping loans, if the country does not actively pursue the privatization of public enterprises.⁸

After decades of civil war and political instability, Central America's nations are in much need of investment, and for the local governments, the promise of new investments in the region seems very attractive. Therefore, the idea of selling state owned properties and public enterprises has been seen by many politicians and business people as a positive step on the way towards financial recuperation and insertion into the world economy. Even in Costa Rica, where telecommunications services are modern and efficient, financial and political groups are pushing, without much result yet, for the privatization of telecommunications.

Most of the political leaders in the region, and their advisers, have been educated in American schools that promote the neo-liberal way of thinking; therefore, they have totally embraced the idea of privatization of public enterprises as the route towards development (Schiller, 1996: 92).

By the year 2000, with the exception of Costa Rica, the majority of Central America's countries- Honduras, Guatemala, Nicaragua and El Salvador, had initiated or concluded the process of transferring their telecommunications services to private hands. In most cases, the new owners belong to the exclusive group of the world's "Top 20 Public Telecommunication Operators".

⁸ Honduras: "IMF stops \$ 55 million dollars loan." *La Prensa de Honduras*. September 21, 2000. Available at: <http://www.laprensahn.com/econoarc/0009/e21004.htm>.

The list, published by the ITU, includes Telefonica of Spain, France Telecom, and AT&T. These corporations now own a large part of the telecommunications industry in Central America. In El Salvador, for instance, a subsidiary of France Telecom owns up to 90 per cent of the main telephone lines.

The change in the telecommunications sector ownership in Central America- and its social, cultural, economic and political implications, is a process that deserves our attention. This thesis examines and describes the ongoing privatization process of the telecommunications sector that is taking place in Central America. The researcher has applied a critical point of view to describe the process that is converting what used to be a public service into a private one. The thesis includes a series of case studies that describe the individual situations of El Salvador, Guatemala, Honduras, Nicaragua, and Costa Rica. In addition, it discusses the role of the regional and local regulatory telecommunications entities, and enumerates some of the most important policies that regulate the new owners.

The research tries to make the connections between telecommunications privatization and economic development policies implemented in the region. It argues that once again, the banner of 'development' is being used to push forward a process whose main beneficiaries are the transnational corporations (TNCs), and the regional and local business groups that now have access to more diverse and less expensive communication connections.

In this thesis, the writer agrees with the idea expressed by several commentators, including Ben Petrazzini, that privatization of telecommunications has increased the number of phone lines and brought about the rise of modern telecommunications systems such as wireless and Internet services (Petrazzini, 1996). However, although the researcher recognizes Petrazzini's contributions to the study of telecommunications, the writer wishes to point out two things: First, a similar outcome can be achieved without privatizing the telecommunications sector, as the example of Costa Rica, one of the cases under study in this thesis, demonstrates.

And second, although modern telecommunications services certainly open a window of opportunity for those who can afford them, the reality is that the full benefits of these technologies do not reach yet to the majority of people living in Central America. In the region, more than half of the 32 million inhabitants lives in poverty.

Nicaragua, with an annual per capita income of 410 US\$, is the second poorest country in Latin American and the Caribbean. It means that many people there have less than two dollars a day to survive. According to the World Bank, Honduras also shows a high level of poverty. In the country, the annual Gross National Product (GNP)⁹ per capita is 760 US\$, and 53 per cent of the population lives in extreme poverty conditions (World Bank, Indicators 2001).

⁹ Brian Lyons. (1995). *Macroeconomics*. Ontario: Prentice Hall Canada Inc., p 435. Lyons explains that the GNP measures the total income of a country's residents. It includes income earned inside the country or in other nation (s).

Economic conditions are not much different in El Salvador. Recent data from the United Nations Development Programme indicates that in El Salvador 52 per cent of its 6.2 million inhabitants live in conditions of extreme poverty (UNDP, 2001). Considering that in the country the monthly wage is about 120 US\$, it is obvious that the full benefits offered by modern telecommunications are far from reaching the majority of people.¹⁰ The promised development that structural adjustment programs and privatization were supposed to bring to the region has not yet arrived.

To conclude this section, it is important to point out that recently the region has attracted the media's attention because of natural disasters such as Hurricane Mitch (1998), and several earthquakes in El Salvador (2001). These natural phenomena have caused extreme damage to the local economies and infrastructure, and have left some nations of the region even more vulnerable to the pressures exerted by international lenders; and even more open to the dictates of potential investors. And, in a region where the majority of labour groups have lost their credibility and their negotiation powers, the path towards the total privatization of telecommunications seems to face few obstacles at present.

¹⁰ Salvadoran Foundation for the Economic and Social Development (FUSADES), Report 2001. El Salvador, April 3, 2001. Data refers to daily wages in urban areas.

Methodology

The period of study covers from 1990 to the present. To place the research into context, the thesis provides an overview of the social make up, the political situation, and the local and international economic pressures that relate to the transformation of the telecommunications sector from public service to private, in Latin America and particularly in Central America.

The research includes case studies from El Salvador, Honduras, Guatemala, Nicaragua and Costa Rica. It uses quantitative and qualitative data extracted from books and reports produced by international and local agencies related to the telecommunications business, development and finances. The case studies include data from news agencies, newspapers, magazines, phone interviews, and other written sources produced either in electronic or paper format. Many of the original documents were written in Spanish and were translated by the researcher.

There are common points to all the case studies under analysis, for example: the countries share language, geographical location and cultural heritage. Also, they show some differences such as the level of development, economic and social situation, income distribution, recent history, and stage reached in the privatization process. To facilitate the research, the countries have been separated into three groups:

- **El Salvador and Guatemala:** These two nations show an advanced stage in the telecommunications privatization process, and have followed a model of privatization and full competition (Pisciotta, 1997).
- **Honduras and Nicaragua:** Currently, both countries are trying to sell their telecommunications sectors. These countries seem to be willing to follow a privatization with a phased -in competition model.
- **Costa Rica:** This nation has followed a different approach. It is slowly opening competition without privatizing the sector.

The research intends to focus not on the technical aspects of telecommunications but rather on the economic, regulatory and social aspects related to the transfer of ownership of the telecommunications sector occurring in the region. As Raymond Williams asserts: "When we think of modern communications we think at once of certain technologies...[but] technology is always, in a full sense, social." ¹¹

Limitations and Justification

Most of the research on telecommunications' privatization has been focused on larger Latin American countries such as Argentina, Brazil, Chile and Mexico. There has been scarce attention paid to Central America.

Therefore, currently, there is not much academic information detailing the ongoing changes occurring in the telecommunications business in Central

¹¹ Raymond Williams. (1989). *What I came to Say*. London: Hutchinson Radius, pp.172-3.

America. This thesis intends to be a contribution to an issue rarely touched by telecommunications' researchers.

Time is another limitation related to this research. On the one hand, in some of the countries the privatization process has not finished yet, therefore, the research cannot provide a complete map of the privatization of the telecommunications sector. On the other hand, to measure the entire economic, political, social and cultural effects that the privatization of telecommunications will have on these nations, further research will be needed.

The research, however, is important because it will offer insight on the transformation from public telecommunications to private service. It will detail aspects regarding Central America's telecommunications regulators and their policies, and it will offer data on the rise of wireless communications in the region.

Personal Justification

The study related to technologies of communications attracts my attention because this type of analysis allows incorporating economic, political, and social aspects. Additionally, this type of study is related to power relations in society. In essence, I am interested in the intertwined relationships among power, technology, economics, politics, and social issues.

The genesis of this thesis can be found in three interrelated facts: first, it grows from previous academic research I have done, focused on

telecommunications. Secondly, I was born in Central America. Many family members and friends still live there; and, on a daily basis, I keep informed about what it is going on in Central America's nations. And thirdly, I have travelled and worked for several years as a journalist in the region; therefore, I know how and where to seek information related to the area.

Thesis Outline

This thesis is divided into five chapters, plus the introduction. Chapter I provides the theoretical framework in which this analysis is placed. It draws from leading academics such as Herbert Schiller, Vincent Mosco (Critical political economy and theories on transnational corporations), Dwayne Winseck, William Drake, Eli Noam (telecommunications policies) and Ben Petrazzini (Latin America's telecommunications privatization processes), among others.

Schiller and Mosco's theories on the role of transnational corporations and critical political economy are being applied in this thesis, and particularly to data collected from Central America.

Winseck and Drake are experts in telecommunications policy and telecommunications history. In this thesis, their research is used to explain the relationship among privatization, telecommunications, and policies emanated from international entities. Eli Noam and Ben Petrazzini have done extensive studies on telecommunications privatization in Latin America. The researcher draws from all of them.

Chapter II deals with the telecommunications and financial entities. It describes the role of the global, regional and local telecommunications regulatory entities. It analyzes some of the main telecommunications policies related to the ongoing privatization of telecommunications services and also provides information on the World Bank (WB) and International Monetary Fund (IMF), and their lending policies.

Chapter III offers a social, economic and political background on Latin America and Central America. It also provides an overview of some of the telecommunications privatization processes that have taken place in larger Latin American nations.

Chapter IV deals with specific case studies. It provides data related to the process of telecommunications privatization in El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica. Each case study includes a description of the national telecommunication regulatory entity and some of the policies applied in the country. The chapter also incorporates some data regarding the rise of wireless communications, a phenomenon that is tied up to the privatization and liberalization of the sector.

Finally, Chapter V, the conclusion, provides a summary of the ideas presented in the whole investigation. The following are some of the questions that prompt this research:

In Central America, who owns the telecommunications systems, and what services are provided? How regulation is undertaken? Is there any relationship

between international economic policies and the privatization of the telecommunications occurring in the region? Is there any relationship between income distribution and access to telecommunications services? How many people have access to telephone services? How many are using wireless phones? Who is being provided access and who is not?

These queries relate to questions of access, communications policies, privatization and advanced capitalism, already analyzed by political economy scholars such as Herbert Schiller and Vincent Mosco, whose views we find in the next chapter.

CHAPTER I
THEORIES AND TERMS

Chapter I: Theories and Terms

"Technology is a social construct and serves the prevailing system of social power...private ownership of productive resources has provided the base of that social power" Herbert Schiller, 1976.¹²

Herbert Schiller's ideas on technology, private ownership and transnational corporations in developing countries are timeless. As we will see in this chapter, Schiller's ideas, written more than twenty years ago, are still important to consider. Furthermore, his research is applicable to the main topic in this thesis: the privatization of telecommunications services in Central America.

This Chapter draws from a diverse group of academics- such as Herbert Schiller, Vincent Mosco, Eli Noam, Dwayne Winseck, William Drake, Norman Lerner, Peter Golding, Robert Babe, Graham Murdock, and Ben Petrazzini, among others. These scholars have done research in the areas of political economy, communication and telecommunications. Chapter one is divided into two sections; section A refers to the political economy of communication, and it sets the lines of the theory that serves as a basis for this research, and section B, refers to terms frequently used in this research.

¹²Herbert Schiller. (1976). *Communication and Cultural Domination*. Armonk, NY: M.E. Sharpe, p. 51.

A. The Political Economy of Communication

To begin with, what is political economy? There are different approaches within political economy, and there are different definitions to answer the question (Babe, 1995; Mosco, 1996). Robert Babe points out that political economy is a 'melding' in which polity and economy come together. Political economy, therefore, "seeks to reintegrate, for purposes of comprehension and analysis, the polity and the economy."¹³

Babe identifies three main approaches to political economy: Liberal, Marxist and Institutional. He places Adam Smith's theories as the leading ideas of liberal political economy, and explains that the liberal approach promotes market competition, and that was supposed to increase equality as well as economic freedom.

The Marxist approach to political economy, according to Babe, has its foundation in the teachings of Karl Marx. This approach usually tends to focus on the process of production and the elimination of private property.

The Institutional approach, on the other hand, tends to view economy and society as areas where continual and cumulative change occurs. These changes tend to make the future something 'undetermined'. In general, dissidents to the neo-classical method of abstracting from power, change and inequities may be called political economists (Babe, 1995).

¹³ Robert Babe. (1995). *Communication and the Transformation of Economics*. Boulder, Colorado: WestviewPress, p.74.

Political economy, or critical political economy, according to Peter Golding and Graham Murdock, is a discipline that "goes beyond technical issues of efficiency to engage with basic moral questions of justice, equity, and the public good."¹⁴

Vincent Mosco notes that while traditional research looks at the role of governments as regulators of communications, critical research identifies the ways this formal regulatory process serves the interest of communications companies and large corporate users of communications systems (Mosco, 1989).

For Mosco, political economy "is the study of the social relations, particularly the power relations, that mutually constitute the production, distribution and consumption of resources" (1996: 25). Mosco's theories on the socio-political power relations that make up the production, distribution and the exchange of communication resources certainly apply to this research, which focus on the privatization process of telecommunications services that is taken place in Central America.

A central concern in political economy is power, which is "the ability to control other people, processes, and things, even in the face of resistance."¹⁵ Overall, political economy is about survival and control. It studies how societies

¹⁴ Peter Golding and Graham Murdock. (1996). "Culture, Communications and Political Economy". In *Mass Media and Society*. James Curran and Michael Gurevitch (eds). London-New York: Arnold, p.14.

¹⁵ Vincent Mosco. (1996). *The Political Economy of Communication. Rethinking and Renewal*. London, Thousand Oaks, and New Delhi: SAGE, p 25.

organize themselves in order to survive.

The political economy of communications pays special attention to the question of ownership, as it explains different forms of control, especially ideological control. Political economy embraces the idea that information can be made a commodity, which has exchange value that can be traded in markets (Meehan, Mosco and Wasko, 1993).

As stated above, this thesis deals with the power relations involved in the shift, from public to private, in Central America's telecommunications services. The research seeks to understand and describe the connections between political, social and economic aspects involved in the privatization of the telecommunications industry. Such a holistic approach to reality needs to begin somewhere; therefore, as "entry points"¹⁶ to the analysis, this thesis uses two leading concepts explained by Mosco: *commodification* and *spatialization*.

Following Mosco, commodification is the process of transforming use values into exchange values. In that context, communication processes and technology, such as the one used by the telecommunications sector, contribute to the general process of commodification in the economy as a whole. Examples of this type of commodification processes are the privatization and liberalization processes started in the early 1980s, and that have affected public telecommunications everywhere around the world (Mosco, 1996). These

¹⁶ Vincent Mosco. (1996). *The Political Economy of Communication. Rethinking and Renewal*. London, Thousand Oaks, and New Delhi: SAGE, p.139. An entry point, according to Mosco, is

processes are certainly linked to the transformation of the telecommunications industry in Central America where governments, transnational corporations and international financial institutions argue that modernization and privatization of the telecommunications sector is the key to increase participation in global markets and bring development to the region.

Another entry point that can be applied to the purposes of this thesis is spatialization. According to Mosco, spatialization denotes the process of overcoming constraints dictated by both space and time. In short, spatialization refers to the linkages among time, space, technology, media, and structures of power. In this thesis, we relate this process to the expansion of transnational telecommunications corporations in Central America, the establishment of 'maquilas', and the role of the state in promoting this type of business expansion.

Close to the process of spatialization and commodification we can also observe "the nation building process," which involves more than political power. It includes economic processes that allow those in power to reach their economic goals (Mosco, 1996). This process is evident in Central America, where neoliberal policies have full support from the governing elites and the local business sector.

Spatialization and nation building are political economic processes. Spatialization involves among other things, both the logic of production in the contemporary global economy, and the logic of power concentrating

not one to which all others can be reduced. It leaves the door open to understand the mutual relations that are intertwined in a situation under study.

some measure of control over economic decisions in those who, directly or indirectly, hold substantial sway over the political decision-making of nations, regions, and localities (Mosco, 1996:200).

As Mosco points out, in the quest for control, both political and economic interests become so intertwined that it is difficult to determine where each one begins or ends. Mosco asserts that the connections between the state and the economic realm are shown in four processes related to current activities assumed by the state: commercialization, internationalization, liberalization, and privatization. Commercialization occurs when the state decides to adopt market regulation instead of regulation based on public interest considerations. Internationalization refers to trade alliances, such as the General Agreement on Tariffs and Trade (GATT) supported by international entities such as the World Bank (WB), the International Monetary Fund (IMF), and the International Telecommunications Union (ITU). Liberalization occurs when the state allows the entrance of new players into the market, to promote market competition (Mosco, 1996: 202-203). Privatization, a key element of analysis for the purposes of this thesis, is explained in the next section.

B. Terms

In this section, I draw from several scholars to explain some of the terms related to telecommunications, theories of development, advanced capitalism, and concepts of globalization and privatization. The material draws from

different, sometimes conflicting points of view. In what follows, therefore, I present a review of the literature that explains the basic terms and theories related to this research: telecommunications, globalization, development theories, and privatization, among others.

Telecommunications

What does the term telecommunications mean? Many people think that telecommunications is just the wires that transmit the data. However, telecommunications as defined by the European Union, are services that transport electromagnetic signals-sound, data, image and any combination thereof, excluding broadcasting (Drake and Noam, 1997).

But, telecommunications means more than point-to point wired or wireless connections; it is a highly sophisticated system that carries valuable services and products in the form of information. Herbert Schiller describes telecommunications a field, "nothing less than the physical, structural, and institutional bases of a system of domination that operates through its impact on human consciousness" (Schiller, 1983:32).

Schiller argues that telecommunications industry growth reflects the interests of transnational corporations that want to expand their power all over the world. He maintains that the military and the developed countries are also behind the expansion of highly developed telecommunications systems. In his words, "...business and marketing, law and order, and war are the main

progenitors of telecommunications and the chief users of the advanced systems and processes" (Schiller, 1983: 30).

Telecommunications is considered by many to be the nervous system of the current global economy. Presently the global economy seems to work as a body whose parts are connected in a wired or wireless way. And, if a connection fails, the whole body certainly feels the pain.

Moving forward, towards the experts' point of view, telecommunications is considered as one of the largest and fastest growing industries in the world economy. Only the banking industry surpasses the growth of the telecommunications sector. According to Business Week, by 1993 telecommunications was the industry with the second highest market value in the world after banking.¹⁷ Recent data from the International Telecommunications Union (ITU) indicates that by the year 2002 the telecommunications business will generate revenues of 925 billions US\$ from services and 375 billions US\$ from the sale of equipment (ITU: Industry Overview, 2000).

Telecommunications is considered as a distinct sector that plays a dual role in the economy; it produces its own economic activity and it is the underlying transport means for other activities. For example, sectors such as government, education and research rely heavily on telecommunications services. For

¹⁷ Morgan Stanley. (1994). "Capital International." *Business Week*. July.

financial services, telecommunications are crucial. Every day an enormous amount of money 'travels' through wired and wireless telecommunications systems. For instance, in 1995 "financial institutions [were] transferring \$2.3 trillion or more electronically every day " (McLarty, 1998: 3). Additionally, telecommunications infrastructure continues to play a key role for the military and national security. Therefore, when nations face war situations the governments tend to control all forms of telecommunications.

In recent years, other researchers have dealt with the question regarding who is in charge of paying for the costly expansion of the telecommunications sector. For Rohan Samarajiva (1997) the answer is simple: the private sector. He argues that in most countries telecom infrastructures are being built by investors rather than by governments.

However, the fact that the telecommunications structure has become a private matter worries other researchers. For them, one of the main questions is regarding the responsibilities and rights that go together with citizenship and access to public services. Several political economists have already studied the shift from citizen to consumer.¹⁸ Certainly, in many places around the world the obligation of the state in providing access to basic services, such as telecommunications, is being transferred to the private sector. As a result, access to basic services is directly tied to income and, in some cases, to

¹⁸ Vincent Mosco. (1999). "Citizenship and the Technopoles." *In Communication, Citizenship and Social Policy*. Andrew Calabrese and Jean-Claude Burgelman (eds). Lanham, Boulder, NY, and Oxford: Rowman & Littlefield Publishers, pp.33-45.

geographical location.

For instance, in urban areas those who live far from the business core where the main lines of telecommunications are being built do not have the same facilities to access the networks. In rural areas where levels of poverty are higher, the situation is worst. Definitely, the telecommunications networks do not want to invest funds in areas where income is low and where the customers can not afford to pay for their services.

Modern telecommunications networks and their enormous capabilities of data transmission, have been acclaimed by other commentators and international organizations as the new tools that will bring development to the less developed countries (LDC's) (Petrazzini, 1996; Drake, 1998).

However, the theory of technological determinism, which supports the idea that new technology will remedy all the problems faced by the LDCs is nothing new. The same characteristics attributed now to telecommunications – efficient, problem solving, and liberating– were assigned to mass communication before (Schramm, 1964; Lerner and Schramm, 1967).

Theories of Development

Development is the satisfaction of basic needs such as food, shelter, education and health care. The basic goal of development is, or should be, to overcome poverty. However, in the framework of capitalist policies the main goal of development has become to achieve economic growth (Lee, 1997). As we will

see in this research, in Latin America, economic growth alone without equitable distribution has not been able to eradicate poverty.

In fact, one of the main flaws of development policies is that, instead of seeking causes and solutions to overcome poverty, they are tied to political discourse that is manipulated in the context of international power relations.

Since the late 1940s, the idea of 'development' has been part of political discourse. Daniel Lerner suggests that "development as an international ideology began with a communication; the State of the Union message delivered to congress by President Harry S Truman in January 1949."¹⁹

At that time, President Truman launched 'Point IV', a program to help poor nations around the world. The underlying goals of the program were to define the two blocks of power (US/USSR), to shift the political influence from Europe to the US, and to create the concept of "Third World" (H. Schiller, 1989: 138).

President Truman's program, which was also adopted by other countries and international entities, was linked to modernization²⁰ and communications.

¹⁹ As quoted by Herbert Schiller. (1989). *Culture Inc. The Corporate Takeover of Public Expression*. New York and Oxford: Oxford University Press, p. 138.

²⁰ According to Majid Teheranian, "Orthodox theories of modernization fall into one or a combination of the following four categories: 1. Stage theories (i.e. Marx, Weber, and Rostow). 2. Index theories: advanced by economists and accepted by others who correlate the sociocultural indices of development with those of economic indices (i.e. Higgins, 1968). 3. Differentiation theories. Advanced by sociologists and political scientists who seek understanding of the process of development in the increasing differentiation of structures and functions (i.e. Parsons, 1960, 1962; Almond and Powell, 1968; Almond and Coleman, 1960). 4. Diffusion theories advanced primarily by social psychologists suggesting that the development process begins with the diffusion of certain ideas, motivations and attitudes, or behaviour (Hage, 1962, McClelland, 1953; Lerner, 1958)". Majid Teheranian. (1977). "Communications and National Development. Reflections on Theories and Policies. In *Communications Policy for National Development. A Comparative Perspective*. Majid Teheranian, Faarhad Hakimzadeh et al. (eds) London, Henley and Boston: Routledge & Kegan Paul, pp. 22-23.

In the 1960s and 1970s it was believed that mass communications was the panacea that would cure all the ailments afflicting the Third World. At that time, Wilbur Schramm and Daniel Lerner came up with the following prescription: "The mass media are clearly the primary resource for developing societies in a hurry" (Lerner and Schramm, 1967: 316). According to their study, the developing countries need first of all a theory of development and a communication policy.

The theory of development, of course, was American and the communication policies and the technology also had the "made in the U.S" brand name. Neither the theory of development nor the communications policies solved the problems of the majority of people who live in underdeveloped nations. In fact, providing education, food, clean water, and health services to the masses cost too much money, and neither the domestic governing elites nor the imperial elites from abroad were willing to allocate massive funds to such type of development. They would rather invest money in telecommunications technology, and mass media projects.

The mass media (press, TV, radio, film) was supposed to become a powerful instrument of change. According to Schramm, developing countries needed "to speed the flow of information". As he pointed out, "the only way they [developing nations] can do it ...is to make full use of modern communication" (Schramm, 1964: 19). He considered that the role of the mass media was to teach people new skills and new values.

The underlying purposes of developing the underdeveloped world were to increase production and consumption, and to teach new values (American values) that would serve to advance the interests of capitalism and cultural imperialism.

As Dwayne Winseck suggests, theorists of modernization believed that there was a lack of 'psychic mobility' among citizens in the Less Developed Countries (LDCs). In theory, the expansion of media systems was supposed to eradicate behavioural patterns and ways of life that prevented modernization. Winseck suggests that using mass media and communication as the main tools for development were used as a kind of "social engineering process", which included psychological, legal, and cultural controls oriented towards the acceleration of the modernization process (Winseck, 1997a: 223).

These days, the idea of "leapfrogging development"²¹ has captivated the attention of many commentators and international agencies. According to them, development will occur when LDCs start using advanced telecommunications technology and, of course, new media such as the Internet.²²

For many scholars, the Internet holds the key for development in the LDCs. They write about the power and benefits that telecommunications and the

²¹ The leapfrogging development thesis appeared in the 1980s. It implies that with the use of telecommunications technology, LDC's will reach a developed stage. More on this can be found in J.P. Singh. (1999). *Leapfrogging Development? The Political Economy of Telecommunications Restructuring*. NY: State University.

²² See also: Human Development Report Globalisation with a Human Face, UNDP 1999; World Development Report, Knowledge for Development, World Bank 1998/99; Challenges to the Network, Internet for Development, ITU; Knowledge Societies, UNCSTD, and UNDP HD2001.

Internet together will bring to impoverished populations around the world.²³

However, reality shows that the expansion of the Internet has occurred in a few developed nations, and it is concentrated in a few strategic places and several “technopoles” where corporations have strong interest. For instance, ITU Indicators for the year 2000 show that almost 85 per cent of Internet users are concentrated in Canada, the US, and Europe (See annex 7, table 12). As Mark Malloch, UNDP administrator, points out, at this time Tokyo has more telephones than all of Africa, and Finland has more Internet hosts than Latin America (UNDP, 2000).

Certainly, the “global information revolution” has not reached the poorest areas of the globe. Many places around the world do not even have access to phone lines, and the situation does not appear to be changing. For instance, from 1995 to 1999, the number of phone lines in low-income countries grew just from 21 to 27 per cent (See Annex 7, Table 11).

As J.P Singh argues, telecommunications and development are not directly linked. To make any relationship between telecommunications and development, one has to examine who demands telecommunications services, who supplies them, and how these services are supplied (Singh, 1999:16).

Evidently, the old prescription made of technology, advanced telecommunications, and communications, is far from solving the ills affecting the

²³ For more on this topic see: William Drake. (1998). “The Distributed Information Revolution and the Global Information Society”, and D. Linda Garcia. “Opportunities for Developing Countries in

less developed countries. However, the expansion of global telecommunications has served to push further the advanced capitalist system around the globe.

Advanced Capitalism

According to Marx, capitalism, the economic structure of our society, has its foundation in the relations of production. Samir Amin adds that the mechanized factories of the nineteenth century allowed the system to reach an advanced stage.²⁴ One of the main concepts related to capitalism is the idea of relations of production. These relations take place between those who own the means of production and those who need to sell their labour power. Michelle Martin explains that "workers sell their labour power to capitalists who need it to keep their factories operating or, more specifically, to produce commodities and accumulate money, or capital" (1997: 50).

As expected, those who monopolize the means of production also have kept great control over the production and distribution of ideas and information. As Herbert Schiller states, modern information systems have been developed to secure the advantages enjoyed by a small part of humanity.²⁵ Schiller argues that the main beneficiary of technological expansion is not the impoverished

the Global Information Economy." July 30, 2001. Available at:
<http://usinfo.state.gov/products/pubs/archive/telecomm/garcia.htm>.

²⁴ Samir Amin. (1996). "Political Economy." *Review of International Political Economy*. Vol.3 No. 2, Summer, pp. 216-259.

majority of people living in LDCs, but the transnational corporations and those who have the ability to pay for their services.

Currently we can observe that advanced capitalism has moved from traditional production areas to new areas such as telecommunications, information, and "cultural industries."²⁶ These days, information and technology are among the principal profit-making products controlled and traded by transnational corporations. Transnational corporations (TNCs), which are for the most part based in a few developed countries, are responsible for about two thirds of current world output, and their operations certainly depend on telecommunications (D. Schiller 1999:38).

As Cees Hamelink noted years ago, the New World information and Communication Order (NWICO)²⁷ could very well be the world order of the transnational corporations, the 'corporate village' with international political

²⁵ Herbert Schiller. (1983). "Information for What Kind of Society". In *Telecommunications Issues and Choices for Society*. Jerry L. Salvaggio (ed.) The Annenberg School of Communication, University of Pennsylvania. NY: Longman, p. 31.

²⁶ Herbert Schiller. (1989). *Culture Inc.* NY: Oxford University Press, p 30. According to Schiller, cultural industries include the press, film, publishing, radio, TV, photography, recording, advertising, sports, and the information industry.

²⁷ Back in the 1970's, a group of countries, most of them from the Third World (now the LDCs) expressed their position on international communications, and demanded democratic access to information and information technology; UNESCO set up a Commission to study those problems. The Commission, chaired by Sean McBride, produced the McBride Report. The report was called "Many Voices, One World," and was endorsed by UNESCO in the General Conference of 1980. At the same time, UNESCO adopted the New International Information Order (NIIO) which recognized the disparity in infrastructural development, in training facilities and technological know-how between the developed and developing regions of the world. The report also recommended the use of technology as the main solution to provide information access to the less developed nations. At that time, Herbert Schiller, among other communication scholars, criticized the McBride Report because it did not analyze the role of the transnational corporations. For more on this issue, please see: Herbert Schiller. "Electronic Utopias and Structural Realities." in *Communication in the Eighties: a Reader on the 'McBride Report'*. Cees Hamelink (ed.) Rome:

blessing.²⁸ These days, Hamelink 's "corporate village" could be identified under another name: globalization.

Globalization

The term "globalization" has become popular; it appears everywhere. Most magazines and newspapers use the "cool" buzzword of the late 1990s. Everyone has gone "global", from business to culture. Different scholars see globalization from different points of view. For instance, some scholars see globalization as a form of imperialism while others argue that globalization has reduced the role of the state. Others argue that globalization is not global. In what follows, different scholars define the term, and its implications.

Leo Panitch points out that there are many simplistic definitions and many misunderstandings associated with the term. He states that globalization is closely related to the expansion of capitalism and the collapse of the USSR. According to him, globalization is best understood as:

The new stage of capital accumulation on a world scale, developing out of the contradictions of the postwar Keynesian/Bretton Woods order, which is characterized by a vast increase in the size, flow and speed of foreign direct investment and trade, and accompanied by an even more vast creation of international credit, currency flows, speculation, futures markets, and private and public debt.²⁹

Panitch argues that states are the "actual actors of globalization", because

IDOC. And, Dwayne Winseck. (1997). "Contradictions in the Democratization of International Communication." *Media, Culture & Society*. London:SAGE. Vol. 19, pp. 219-246.

²⁸ Cees Hamelink. (1980). *Communication in the Eighties: a Reader on the 'McBride Report'*. Cees Hamelink ed. Rome:IDOC, p. 51.

²⁹ Leo Panitch. (1998). "The State in a Changing World" *Monthly Review*. Vol. 50 No. 5. Available at: http://www.aidc.org.za/archives/gl_and_state.html.

they have control on regulations that have allowed the current levels of capital accumulation. He adds that financial international institutions that sponsor globalization do not seek to displace the state; they seek "a certain type of state restructuring" (1998).

Noam Chomsky makes the connections between globalization and imperialism. He suggests that while 'imperialism' was capitalism in the age of electro-mechanically based monopoly capitalism; 'globalization' is capitalism in the age of electronics (1997). Chomsky also claims that under globalization a new proletariat is emerging, and a deepening polarization is becoming clearer.

Thirty-two countries representing a half billion people are buried under unsustainable debt burdens... The economic middle ground is destroyed, resulting in a handful of international capitalists on one side, and a vast majority of marginalized or destitute proletarians, incapable of purchasing the flood of goods, on the other. Such is the inescapable dilemma faced by capital in the age of globalization.³⁰

Herbert Schiller foresaw globalization as a phenomenon where "the division inside the society between information 'haves' and 'have not' deepens just as it does between nations."³¹ Schiller argues that globalization is neither global nor equitable.

'Globalization' is a misleading term, falsely giving the impression that everything has become globalized. [However,] the main constituents of globalization are the big corporations- in automobiles, oil, consumers goods, banking and financial electronic services- and their increasingly transnational operations (Schiller, 2000:78).

³⁰ Noam Chomsky. (1997). "Economic Globalization: Capitalism in the Age of Electronics." Available at: http://www.aidc.org.za/archives/chomsky_02.html.

³¹ Herbert Schiller. (1984). *Information and the Crisis Economy*. NY: Ablex, p. 8.

Schiller argues that some people see globalization as a decline of imperialist power, but "imperialism understood as the exploitative control of people and resources, is alive and well" (H. Schiller, 1991: 17). According to him, contemporary imperialism is able to mobilize economic and military entities, as well as it is able to mobilize international organizations.

Globalization, in fact, has increased the contradictions already existing in society and, according to some scholars, it is paving the way for a stronger opposition (Schiller, 1991: 25; Chomsky, 1997). Resistance is building up at local and global levels, and the unemployed, NGOs, labour unions and students are considered to be part of it. Naomi Klein notes that this type of resistance goes across frontiers and brings together a series of different peoples and interests. This type of resistance "embraces globalization but seeks to wrest it from the grasp of the multinationals" (200: 445).

For Vincent Mosco, globalization refers to "the spatial agglomeration of capital, led by transnational business and the state, that transforms the spaces through which flow resources and commodities, including communication and information" (Mosco, 1996:205).

Clearly, in the economic globalization process not everyone or every nation participates to the same degree. Millions of people around the world are just the spectators, or perhaps the victims, of the globalization process. Millions more do not even know what it is all about it, as they scramble to survive on less than a dollar a day.

Thus, while a few million people count themselves as members of the "global village", millions more are left out. While corporate leaders talk about producing "global products" or going "global" millions of people around the world can not afford to buy them. Millions more do not even have the means to satisfy their hunger.³²

However, following the globalization discourse, LDCs dream of becoming competitive in the global market, and opening doors to all kinds of merchandise and cultural products. In the meantime, the TNCs centralize their power in the developed world, from where they control and distribute goods, knowledge and culture.³³ Most frequently, the trade is in American dollars, and the language used in the trade is the English language.

In fact, globalization preserves the same power relations that existed previously: from the centre to the periphery. The difference is that now with the use of satellites and modern technology, its penetration power is stronger.

Globalization has given license to schemes for privatization, and dismantling of the social infrastructure. Philip McMichael (1997) contends that

³² According to the Food and Agriculture Organization of the United Nations (FAO), there are about 800 million people around the world who do not have access to adequate food supplies. The FAO considers that access to food is a human right and has asked the international community to recognize that right in the context of international human rights legislation. The organization asserts that "as long as people are hungry there can be little progress towards halving poverty through economic growth processes." Source: FAO. (2000). Press Release 01-34. July 24, 2000. Available at: <http://www.fao.org/> Currently, in Central America there are about a million people without food. This year (2001) serious environmental changes have damaged the crops (corn and beans), and famine is expanding in the area. Source: La Prensa de Honduras/Reuters/ France Press/ July 29 2001. Available at: <http://www.laprensahn.com>.

³³ Herbert Schiller. (1996). "Globalizing the Electronic Highway: Creating an Ungovernable World". In *Information Inequality*. NY: Routledge.

the neoliberal project launched to promote globalization has been accompanied by deregulation of investment, trade and banking laws, dilution of environmental laws and employment protections, reductions in social entitlement, social subsidies, and wages and so on. Other scholars also write about the relationship between globalization and regional free trade agreements. Vincent Mosco and Dan Schiller, argue that the North American Free Trade Agreement (NAFTA)—that brings together the US, Mexico and Canada— facilitates and advances globalization. According to them “the North American region long has provided a site for experiments in globalization” (2001: 2). In their views, NAFTA intends to achieve a regional economic integration in which inequality conditions, particularly in Mexico, will persist.

At stake is the transition to a global economy, the balance of uneven development therein, the fate of national and public service principles, and the possible emergence of new countervailing forces that seek to resist the unfettered self-expansion of transnational capital.³⁴

Globalization and telecommunications have been linked to ideas about space and time. Some writers argue that globalization brought about a disconnection of market and place (Webster, 1997; Zukin, 1991). However, modern telecommunications technology provides the connections between both of them. Other scholars argue that globalization "signals the growing interdependence and interpenetration of human relations alongside the

³⁴ Vincent Mosco and Dan Schiller. (2000) (eds). *Continental Order? Integrating North America for Cybercapitalism*. Lanham, Maryland: Rowman and Littlefield Publishers, Inc., pp. 1-35.

increasing integration of the world's socio-economic life."³⁵ Arjun Appadurai believes that globalization covers many aspects. He sees globalization as a kaleidoscope that involves several dimensions such as "... ethnoscapas, mediascapas, technoscapas, financescapas and ideoscapas..."³⁶

In the context of globalization the disconnection between international telecommunications policies and human rights is evident. Dwayne Winseck asserts that many nations and international organizations are signing a variety of global telecommunications and communications treaties. He argues that what it is missing in those deals is the globalization of human rights (Winseck, 2000:32). The United Nations Development Programme (UNDP) makes a similar claim. The organization points out that to benefit humanity, "globalization must be about human rights, not only about capital and trade."³⁷

However, as Herbert Schiller stated long ago, we should be aware of the fact that corporations refuse to be disturbed by social problems and economic inequality. Their focus is on revenue.³⁸ That is why transnational corporations have been interested in promoting the privatization of public property and services around the world. Many countries have privatized public property and services such as education, health care, water, electricity, and telecommunications.

³⁵ Frank Webster. (1995). *Theories of the Information Society*. NY: Routledge, p.141.

³⁶ Arjun Appadurai. (1996). *Modernity at Large. Cultural Dimensions of Globalization*. US: University of Minnesota, p.33.

³⁷ UNDP. (2000). Report on Human Development- 2000. June, 25 2001. Available at: <http://www.undp.org/hdr2000/english/pressreleases/release4.pdf>

Privatization

Privatization, in simple terms, means the transfer of state owned property to private hands. Since the 1980s, after Chile and the UK began privatizing state owned enterprises, the term has become frequently used. Governments have transferred of all type of state-owned enterprises to the private sector. For instance, as this thesis describes in chapter IV, in Honduras, ports, airports, and telecommunications, among other public property, are for sale. In El Salvador, banks, telecommunications, electricity, roads, and water services have been privatized or are in the process of becoming privatized as well.

According to Gerber Torres (1997), privatization occurs in three waves. Public enterprises (including hotels, banks, fish plants, etc.) are put on sale first. The second wave refers to infrastructure; in this stage, ports, electricity, water, roads and telecommunications are transferred to the private sector. The third wave affects education, health care and pension plans.

Privatization is included in what John Williamson calls the "Washington consensus". According to him, the Washington consensus is the package of policies supported and promoted by US policy-makers and international financial entities such as the IMF and the WB. The 'consensus' sets up "the direction in which it is desirable to transform economic policy regimes and made

³⁸ Herbert I. Schiller. (1996). "Globalizing the Electronic Highway: Creating an ungovernable world." *Information Inequality*. NY: Routledge.

deregulation, trade liberalization, fiscal discipline, and privatization the economic dogma of the western world." ³⁹

Obviously, privatization processes show the power struggle between several elements such as governments, international financial entities, and businesses, among others.

Vincent Mosco's definition of privatization takes into consideration several aspects regarding the context in which the process of privatization takes place. His definition explains well the ongoing situation in Central America's telecommunications privatization. According to Mosco, privatization is nothing more than a process of state intervention that literally sells off a state enterprise (Mosco, 1996:203). Mosco states,

privatization takes many forms, depending on the percentage of shares to be sold off, the extent to which any foreign ownership is permitted, the length, if any, of a phase-in period, and the specific form of continuing state involvement, typically constituted in a regulatory body, in the aftermath of privatization. This process has accelerated for several reasons, including the rise of governments ideologically committed to private control over economic activity, the attraction, if for one time only, of fresh revenues for government coffers, and the pressures of transnational businesses and governmental organizations, such as the International Monetary Fund and the World Bank.⁴⁰

The strength of this particular approach is that it brings attention to the mixed interests that intertwine in privatization processes. As we will see in Chapter four, in Central America international lending agencies that promote

³⁹ John Williamson quoted in Luigi Manzetti. (1999). *Privatization South American Style*. NY: Oxford University Press, p7.

neoliberal policies, global corporations, and local business elites have come together to push the privatization of the telecommunications sector.

Supporters of privatization

The supporters of privatization tend to share several views:

- They argue that private services are more efficient than public ones.
- Privatization is supposed to be the end of monopolies.
- The shift from public to private telecommunications brings down the international phone rates.
- Privatization promotes local and foreign investments.
- They consider that privatization processes need strong governments.
- They are firm believers that privatization ends corruption.
- They argue that privatization is linked to development.

Some experts argue in favour of liberalization as the best way to promote competition, and privatization as the way to achieve economic growth and development. Ben Petrazzini is one of them. In his view, privatization and liberalization would open competition, and therefore benefit consumers and enhance economic growth.⁴¹

⁴⁰ Vincent Mosco. (1996). *The Political Economy of Communication. Rethinking and Renewal*. London, Thousand Oaks, and New Delhi: SAGE, p. 203.

⁴¹ For more on telecommunications liberalization see Ben Petrazzini. (1996). *Global Telecoms Talks: a Trillion Dollar Deal*. Washington: Institute for International Economics. 2. Ben Petrazzini. (1999). Internet and Economic Development. SPU-ITU Report.

Ben Petrazzini, writing on telecommunications privatization, defines privatization as “the transfer of commercially oriented state-owned government enterprises, activities, or productive assets to partial or total private ownership or control” (Petrazzini, 1996: 97).

Adherents of telecommunications privatization and liberalization, Ben Petrazzini and Luigi Manzetti among them, also argue that strong authoritarian, governments are key for privatization to succeed. Ben Petrazzini writes:

two variables are crucial to the success (or failure) of privatization: (1) state autonomy from opposition of local interest groups, and (2) cohesiveness of policymaker, or in its absence, the concentration of power in the head of the executive branch. (Petrazzini, 1995: 192)

On the same issue, commenting about the success of the Chilean privatization model, designed during General Augusto Pinochet's rule, Luigi Manzetti indicates that:

Coherent, sound policies need to survive their masters to be sustained over time...Pinochet in Chile, before withdrawing from power, created an independent central bank and engineered an electoral system that could make it impossible for his political enemies, once in power, to reverse his policies. Unfortunately, Chile remains an isolated case in Latin America. (1999: 331)

From an ethical point of view, and considering the recent past of Latin America where authoritarianism⁴² has caused serious human rights' violations,

⁴² In the 1970s, in Latin America fourteen countries had authoritarian governments, three more were controlled by the military and only three were considered under democratic rule. Authoritarianism is defined as the “absolute obedience to authority, against individual freedom.” An authoritarian regime expects obedience. In authoritarian states individual freedom is held as completely subordinate to the power or authority of the state, centered either in one person or a

From an ethical point of view, and considering the recent past of Latin America where authoritarianism⁴² has caused serious human rights' violations, such a prescription does not make sense. Neither does it make sense from an economic point of view.

As Mario Vargas Llosa asserts, if authoritarianism and dictatorship were the path to development, Latin America would be the most developed and rich area in the world. However, years of authoritarianism in Argentina, Chile, and Central America, instead of bringing development brought poverty, corruption and more inequality.⁴³

Privatization and the role of the state

Privatization is part of the neoliberal economic policies. According to several scholars, privatization has redefined the role of the state. The state used to be involved in several tasks such as service provider, generator of employment, investor, finances, and regulation. Nowadays, however, its role has been reduced to market 'regulator' (Ramamurti; 1996; Baer and Birch, 1994; Galiani and Petrecolli, 2000).

⁴² In the 1970s, in Latin America fourteen countries had authoritarian governments, three more were controlled by the military and only three were considered under democratic rule. Authoritarianism is defined as the "absolute obedience to authority, against individual freedom." An authoritarian regime expects obedience. In authoritarian states individual freedom is held as completely subordinate to the power or authority of the state, centered either in one person or a small group that is not constitutionally accountable to the people. Source: The American Heritage Dictionary of the English Language: Fourth Edition. 2000

⁴³ Mario Vargas Llosa. (1998). "Banishing the Myths". *Time*. March 16, Vol.151 No.10. Also available at: <http://www.time.com/time>.

Privatization also affects the role of the state. In the views of Carlos Vilas, in Latin America the change is obvious. The state has abandoned its regulatory capacity, and has paved the way for the formation or consolidation of oligopolies in the health, education, and social-security markets. Vilas remarks that, above all, the state has put aside its role as an agent of social development:

With privatization, health and education are no longer rights. They are luxuries or, at least, pieces of merchandise to be bought and sold in the marketplace. If you cannot afford the merchandise, don't buy it. In other words, if you can't afford medical care, die. If you can't pay for education, stay illiterate.⁴⁴

Atilio A. Boron also claims that neoliberal policies have obligated governments to downsize and privatize key services and industries. In the framework of free market and neoliberal policies, the state has reduced the number of employees, offices, and services. The problem is that the same neoliberal and advanced capitalist policies require a mix of public policies, and a strong regulatory framework to succeed. However, after dismantling its structure the state has lost most of its policy -making and regulatory capabilities. (Boron, 1999)

Privatization of telecommunications

In most countries, the telecommunications sector is usually one of the first large state-owned enterprises put on sale, and Latin American countries are a

⁴⁴ Carlos Vilas. (1996). "Neoliberal Social Policy: Managing Poverty (Somehow)." May/June 1996. NACLA Report on the Americas. August 20, 2001. Electronic version available at: <http://www.nacla.apc.org>

good example. By the year 2000, most of the countries in the region had privatized or were in the process of privatizing their telecommunications. According to the International Telecommunications Union (ITU), Latin America has the largest number of fully privatized operators in the world. Since the 1980s, 20 countries have privatized their incumbents in the region (ITU Trends in Telecomm Reform, 1999).

In the process of privatizing telecommunications, most developing countries have followed the same models with a few variations. Those models usually fit into two categories: privatization with full competition or privatization with phased-in-competition.⁴⁵ In the first model, privatization and competition occur simultaneously, El Salvador and Guatemala are examples of this type of privatization. In the second one, the state allows the new owner to keep control of the sector for a certain number of years, and competition occurs gradually.

William Melody, commenting on telecommunications privatization models in developing countries, mentions that while conditions between developed and developing countries differ the same models have been applied everywhere. (Melody, 1995). He notes that privatization and liberalization⁴⁶ reforms attract foreign capital, however, most LDCs are not in the position to control and

⁴⁵ Aileen Pisciotta. (1997). "Global Trends in Privatisation and Liberalisation." In *Telecom Reform. Principles, policies and regulatory practices*. William H. Melody (ed.) Denmark: Schultz DocuCenter, Denmark, pp. 333-347. In her writings, she describes four frequently used models: privatization with full competition, privatization with phased-in-competition, liberalization without privatization and private sector participation without either privatization or liberalization.

⁴⁶ Liberalization, on the other hand, means the government allows many enterprises to compete for consumer demand (McLarty, 1998:4) J.P Singh argues, both privatization and liberalization are 'elite driven' and their benefits are slow to reach the masses (Singh, 1999:16).

manage those resources for their own benefit. Often, the main beneficiaries of the reforms are the transnational corporations and foreign capital. (Melody, 1997).

In fact, as recent Latin American studies have demonstrated, a larger number of phone lines does not mean that the poor have gained access to the services. Nor does higher economic growth mean the end of poverty (Boron, 1996; Wilson and Rodriguez, 2000).

According to Alfred Kahn (1983) "the exposure of the telecommunications industry to competition marks the end of the public utility concept in telecommunications."⁴⁷ Dan Schiller asserts that public systems had at least some positive features. For example, in order to underwrite rudimentary domestic telecommunications services, they followed a cross-subsidy principle in which long distance calls were priced high (1999: 48). Mosco (1996) suggests, that with the shift from public to private ownership, also comes the transfer of power from governments to transnational corporations and international financial agencies.

Schiller explains the relationship between telecommunications and advanced capitalism in his book *Digital Capitalism*. He argues that telecommunications is vital to the expansion of advanced capitalism and crucial for transnational corporations that seek to control this structure of emerging

⁴⁷ Alfred Kahn. (1983). As paraphrased by Andrew Davis. (1994). *Telecommunications and Politics*. London and New York: Printer Publisher, p 203.

digital capitalism.⁴⁸ An example of this 'emerging digital capitalism' is the data processing and software business operating mainly from India, Philippines, and some Caribbean islands. By 1996 these types of businesses had a market value of about 40 billion US\$.⁴⁹

Privatization of telecommunications was supposed to end the monopolistic control exerted by the state. However, "in many countries, especially in Latin America, privatization has simply substituted a private monopoly for a state-owned one, with few discernible benefits for users."⁵⁰

Herbert Schiller's words on privatization seem appropriate to conclude this chapter. Privatization, he argued, eliminates areas of public economic activity and transfers them to corporate ownership. And we have seen this elimination of "public space" in a variety of areas from museums and roads, to telecommunications services. When all transactions, including what used to be public services, are governed by the ability to pay, inequality is guaranteed. As Schiller points out, "who can pay becomes the one and only standard, and exclusion by inability to pay an invisible side effect" (2000:137).

The next chapter describes some of the main financial and regulatory entities involved in telecommunications privatization processes taking place in South and Central America.

⁴⁸ Dan Schiller. (1999). *Digital Capitalism*. Cambridge, MA:MIT Press, p.37

⁴⁹ Ben Petrazzini. (1999). *Internet and Economic Development*. ITU Report.

⁵⁰ William Melody. (1999). "Telecom Reform". In *Telecommunications Policy* No. 25, pp. 7-34. Quoted in Dwayne Winsenck. (2000). "The Bias of Transnational Communications: The WTO, Wired Cities and Limited Democracy." *The Public*. Vol. 7, No. 4, p.21.

CHAPTER II

TELECOMMUNICATIONS

Regulatory and Financial Entities and the policy framework

Chapter II: Telecommunications
Regulatory and financial entities and the policy framework

"... will the [policy] arena be technology, market or regulation driven?

(Vincent Mosco, 1989:86)

As we have seen in this research, many scholars and international organizations have prescribed the privatization and modernization of telecommunications as a panacea to alleviate poverty and underdevelopment in Less Developed Countries (LDCs). Indeed, in the last fifteen years, a handful of international entities have become key in promoting the privatization of telecommunications as a path towards economic growth and development.

Telecommunications regulatory entities, such as the International Telecommunications Union (ITU), and financial entities such as the World Bank and the International Monetary Fund (IMF), have played a key role in establishing international standards and promoting policies that facilitate the expansion of transnational corporations, particularly telecommunications corporations.

Since the late 1990s, the World Trade Organization (WTO) also has become actively involved in the telecommunications sector. Its policies have the power to erase not only technological but also national frontiers. In fact, the WTO telecom agreement, in force since 1998, empowers the WTO to go inside the borders of the countries that have signed the agreement (D. Schiller, 1999: 48).

The interests of the private sector are very well represented in most of these international entities, particularly the ITU and WTO. In fact, according to Dwayne Winseck, there is a growing influence of private sector-based policy alliances on the ITU and WTO. "The greater impact of industry groups is also apparent at the ITU, where the private sector gained formal voting rights for the first time in 1992 and there are now 450 private voting members alongside 187 governments" (2000:22). The influence of the private sector is oriented to protect the interests of transnational corporations around the world.

This chapter provides an overview of the role of the IMF and WB, and the ITU and WTO in international telecommunications. It also describes important changes occurring in international telecommunications policies since the 1980s. In addition, it points to connections between international telecommunications policy and the ongoing privatization process taking place in Latin and Central America. The following is key to developing an understanding of the telecommunications privatization process in Central America's countries, detailed in chapter IV.

Data for this chapter has been drawn from documents published by international, regional and local telecommunications regulators. Eli Noam and William Drake's research on the role and evolution of telecommunications regulations, and Dwayne Winseck and Ben Petrazzini's views will be included as well.

WB and IMF

Created at the Bretton Woods Conference in 1944, the World Bank (WB) is comprised of five regional agencies that make loans or guarantee credit to its 177 member countries. The Bank manages a loan portfolio of about US\$200 billion. Loans are mainly dedicated to financing infrastructure projects such as roads, power plants and schools in LDCs. The Bank also makes loans to restructure a country's economic system by funding structural adjustment programs (SAPs). The World Bank describes itself and its role in the following words:

The World Bank is the world's largest source of development assistance, providing nearly \$16 billion in loans annually to its client countries. It uses its financial resources, highly trained staff, and extensive knowledge base to help each developing country onto a path of stable, sustainable, and equitable growth in the fight against poverty.⁴⁹

Gwen Urey points out that since the late 1980s the WB has become involved in telecommunications privatization. Therefore, since 1988, telecommunications loans have been included in structural adjustment plans implemented in Latin America. She states that the WB has issued 1.6 billion US\$ in loans directed to telecommunications privatization, with a large part of the money going to Latin American countries. Urey argues that "the privatization of telecommunications infrastructure represents an aspect of global financial integration because privatization often involves international joint ventures and foreign direct investment" (1995:113).

According to Urey, the bank has divided its telecommunications lending policies into two eras: "the old agenda" and the "new agenda". The old agenda was focused on funding major new investments to meet demand. The new agenda focuses on the regulatory environment and institutional structures, and in "advocating policies designed to promote new entry, competition and private participation" (1995: 118-119).

The WB also keeps a large staff of experts who write abundantly about the benefits that privatized telecommunications will bring to the developing world. Lately, the financial entity also has tied the modernization and privatization of telecommunications to the issuing of loans to developing countries. As Jill Hills suggests:

In the telecommunications sector the World Bank is increasingly occupying a gatekeeper function in the access of developing countries to loans from all sources, and through its control of capital is prescribing privatization as the solution to LDC problems.⁵⁰

The Bank prides itself on being an expert in advising on the design of telecommunications legislation in sometimes very different legal and market environments. Recently, the recommendations from the World Bank have been published in a manual, supposedly applicable to all developing economies shifting telecommunications ownership from public to private. The manual includes suggestions on how to create a telecommunications regulatory agency

⁴⁹ The World Bank. March 07, 2001. Available at: <http://www.wb.org>

⁵⁰ Jill Hills. (1993). "Economics as Ideology: The World Bank and Privatization." p. 53. As quoted in Gwen Urey. (1995). "Infrastructure for Global Financial Integration: The Role of the World

and the type of policies that should be put into place. According to the Bank, a legal standard and a common regulatory framework is essential in order to attract private investment into the telecommunications sector of most developing economies.⁵¹

The International Monetary Fund (IMF) was created also at the Bretton Woods Conference, and its mission is to supply member states with money to help them overcome short-term balance-of-payments difficulties. Such money is only made available, however, after the recipients have agreed to implement policy reforms.

The intrusive character of the IMF is embedded in its original mission. In the views of David Gisselquist, "anyone who lends money does it for a reason. Most creditors lend to make a profit. The IMF was not designed to make a profit; it was set up to exercise influence over governments that would borrow" (1981: 196).

The IMF began operations in 1947 and by the end of the 1950s had already put into place practices to distribute loans according to the 'good' behavior of those governments asking for loans (Gisselquist, 1981). Currently the IMF describes itself in the following terms:

The IMF is an international organization of 183 member countries, established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth

Bank." In *Telecommunications Politics*. Bella Mody, Johannes M. Bauer et al. (eds) New Jersey: Lawrence Erlbaum Associates Publishers, p.125.

⁵¹ The World Bank. (2000). *Telecommunications Legislation in Transitional and Developing Economies*. Paper 489. Washington DC.

and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.⁵⁴

Developing countries have relatively little power in the policies and decisions formulated by the IMF and the WB. Decisions at the World Bank and IMF are made by a vote of the Board of Executive Directors, which represents member countries. At the World Bank and IMF the level of a nation's financial contribution determines voting power. The United States has roughly 17% of the vote, with the seven largest industrialized countries (G-7) holding a total of 45%.

While the World Bank is in charge of mobilizing resources in support of poverty alleviation - and sustainable development to low -income countries, "the IMF has the mandate to provide short-term financing to countries, to help them confront macroeconomics imbalances." ⁵⁵

Both the WB and the IMF exert tight control in LDCs, particularly on those that are highly indebted. Examples of this are the IMF/WB policies being applied in Honduras and Nicaragua, best described in chapter IV.

There are controversial views regarding the effects of WB and IMF policies on developing nations. In the area of telecommunications for example, some researchers argue that privatization policies have increased productivity and have extended telecommunications coverage (Petrazzini, 1996, 1997; Birch and Haar 2000). However, other scholars contend that those policies have not

⁵⁴ IMF (2001) June 14, 2001. Available at: <http://www.imf>

⁵⁵ Bernard Hoekman and Michel Kostecki. (1995). *The Political Economy of the World Trading System: From GATT to WTO*. Oxford: University Press, p. 51.

produced a positive outcome for the majorities because they have contributed to increase external dominance and have imposed extra pressures on nations.

For instance, Hopeton S. Dunn argues that the enforced debt repayment policies include a range of 'conditionalities' and penalties such as withdrawal of scheduled loans. Furthermore, the "WB demands have included divestments of state-run enterprises including telecommunications and other public utilities, and the employment of foreign expertise for the implementation of certain Bank aided projects" (Dunn, 1995:205).

According to Mark Weisbrot, the lending policies imposed by the IMF and WB extract all the resources from impoverished nations. In the meantime they favour the interests of transnational corporations that sell materials and professional consultative service to the LDCs. They argue that the IMF and WB have also put more pressures on the environment because, in order to repay the debts, poor nations have increased the exploitation of their natural resources.

Furthermore, recent studies done by the Center for Economic and Policy Research (CEPR) indicates that since the 1980s the debt situation in LDCs has steadily worsened. According to CEPR, the promise of development and economic growth that globalization, privatization, neoliberal policies and structural adjustment offered to bring to LDCs has not been fulfilled.

The failure of the last two decades of globalization, structural adjustment, privatization, and "market fundamentalism" to raise living standards worldwide, and the dramatic decline in growth, especially in underdeveloped countries, should be cause for serious concern.

Futhermore:

The IMF and the World Bank should be using their enormous capacity for research to try to find out what has gone wrong. Most importantly, they should not pretend that they have the necessary expertise nor the answers to the difficult and often country-specific problems of economic growth and development, for it is clear that they do not.⁵⁴

Other researchers share those views. Harvard economist Jeffrey Sachs argues that after more than 20 years of structural adjustment; there has been no structural adjustment. Definitely, “the IMF should get out of the poverty business and leave it to others...”⁵⁵ However, the IMF failure in addressing the poverty issue has not stopped the organization from intervening in LDCs. One example of this is the IMF economic plan implemented in Honduras and Nicaragua, described in chapter IV.

While the WB and IMF deal with financial issues related to telecommunications, other entities such as the International Telecommunications Union (ITU) and Inter-American Telecommunications Commission (CITEL), whose role is described below, are in charge of producing global and regional telecommunications policies.

⁵⁴ Mark Weisbrot, Robert Naiman, et al. (2000). *“The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization.”* September CEPR Report. See also Mark Weisbrot, Dean Baker, et al. (2001). “The Scorecard on Globalization 1980-2000: Twenty Years of Diminished Progress.” August 4, 2001. Documents available at: http://www.cepr.net/globalization/scorecard_on_globalization.htm

⁵⁵ IDRC. (2001). Harvard Economist Calls for New Approach. August 7, 2001. Available at : <http://www.idrc.ca/reports/>

The ITU

William Drake traces the origins of the International Telecommunications Union (ITU) back to 1850, when the Austro-German telegraph treaty was created. Later on, in 1865, the treaty was transformed into a multilateral regime, which gave birth to the International Telegraph Union. In 1934, the organization changed its name to the International Telecommunications Union. It is important to point out, that in the first 84 years of the ITU' s operations, its membership consisted only of government representatives. However, the private sector often participated as a member of the official delegations to the ITU.⁵⁶

Historically, governments co-operated in the ITU to maintain two interrelated arrangements: a) the telecommunications regime for network standardization and service regulation provisions; and b) the radio regime for the assignation of frequency spectrum and geostationary satellite orbital slots. European countries' Ministries of Posts, Telegraph and Telephone (PTTs), designed the ITU's regimes. At the ITU, complete national control over telegraph, was always the unwritten prerequisite for membership. At that time, none of the ITU 's member governments wanted foreign competitors to sell international services to their domestic customers. Thus, the regime accommodated asymmetric regulation at the national level, but required symmetric regulation at the international level.

⁵⁶ Most data in this section comes from the ITU and from William Drake. (1994). "Asymmetric Deregulation and the Transformation of the International Telecommunications Regime." In

According to Drake, in the ITU the US government- with its comparative liberal domestic institutions, was the 'odd man out'. For its part, the US regarded the ITU's international arrangements "with hesitation and even hostility" (1994: 141). However, due to its economic -geopolitical power, the US presence was always required.

By 1934, two key events in the transformation process occurred in the international telecommunications' policy field: First, the US enacted its Communications Act. Second, it signed the ITU Convention for the first time. American agreed to join, but they put three conditions: the ITU should enhance private input; the US would not sign those articles considered objectionable; and it refused to sign the ITU Regulations, claiming that "it could not legally bind American firms to some of the rules therein" (Drake, 1994: 142).

Those three conditions meant the beginning of important changes in international telecommunications policies occurred between 1934 and 1988. Thus, gradually the "ancient symmetric regime whose fundamental purpose was to balance the demand for national sovereignty over domestic telecommunications", was displaced by a new "asymmetric regime" of open market competition. According to Drake, by the late 1980s - with the information revolution, the US and several corporations mobilized to pressure governments for change, first in domestic policy, and later in the international trade. From Drake's study, one can conclude that the ITU gave in to strong

pressures exerted by the corporations and by the US. The changes also demonstrate what Dwayne Winseck signals as a seemingly global tendency to follow “made in the US” regulatory policies.

There is a clear tendency among national governments and the ITU to adopt regulatory systems originating in the USA, and subsequently diffused to the UK, Japan and ever-wider circles thereafter. This extra-territorial application of core communications law restricts countries' ability to use public policies to guide development of new technologies and services,... and eliminates concepts of a positive right to communications.⁵⁹

In taking a look back at the ITU's origins and transformation, it confirms that power has a lot to do with international policy-making processes. For instance, since 1865 each country member had the right to vote; however, they voted according to the number of colonies they administered. The decisions were in hands of those who nations that had more colonies under control. Things changed in 1973, when the colonial system of voting was eliminated and each country was assigned one vote (Winseck, 1997: 226).

Another example that shows the international power relations inside the ITU is the World Administrative Telegraph and Telephone Conference (WATTC) of 1988. In that meeting, which eliminated most of the barriers for international telecommunication business, “most of the important decisions were taken by a

States. Eli M. Noam and Gerard Pogorel. (Eds). Norwood, NJ: Ablex Publishing Company.

⁵⁹ Dwayne Winseck. (1997). “Contradictions in the Democratization of International Communications.” *Media, Culture & Society*. London, Thousand Oaks and New Delhi) Vol. 19 (129-246) p. 236.

small, ad hoc group of mostly advanced capitalist countries working long into the night behind closed doors" (Drake, 1994: 186).

The objections and recommendations from LCDs were put aside.

According to Drake, the conference removed all the "obstacles" that stood in the way for the discussion on telecommunications that had place in the framework of the General Agreement on Trade in Services (GATS).⁵⁸ In addition, the WATTC contributed to further commodification of the telecommunications services. As Russell Pipe points out, "the WATTC gave legitimacy to the claim made by trade experts that telecommunications services are indeed trade, and should be governed by a trade regime."⁵⁹ This transformation in the conceptualization of telecommunications is important because historically they were thought of in terms of public service and national assets.

As Eli Noam states, the old public philosophy saw telecommunications in a different way. Telecommunications were linked to national security, and they were considered national assets that should not be controlled by foreigners. Additionally, the state was able to use cross subsidies that allowed access to some of the less economically advantaged (Noam, 1992).

Today, almost twenty years after the WATTC meeting took place the global telecommunications business has seen a number of changes. A new

⁵⁸ The GATS formally consists of 29 articles, 8 annexes, and 130 schedules of commitments (each WTO Member must submit a schedule) on specific services or service sectors.

Source: www.wto.org.

⁵⁹ G. Russell Pipe. (1989). "WATTC Agrees on New Telecom Rules." *Telecommunications*, January. p. 21.

international organization, the World Trade Organization (WTO)- which I discuss below, is involved also in developing policies for the telecommunication trade business. In the meantime, the ITU, whose membership presently includes 187 member states and about 450 private voting members, is trying to find its place in the new global telecommunications framework (Winseck, 2000:22).

The ITU 's Secretary General, Pekka Tarjanne, recognized in 1998 that the organization has had to make certain adjustments to bring its unique expertise to bear. Tarjanne suggests that "the ITU, not the WTO, has the required expertise in the sector. The ITU may need to adjust some of its standards setting and coordination activities to ensure that they do not conflict with the new trade rules." ⁶⁰

In its Strategic Plan for 1999-2003, the ITU stresses that it is to provide a forum in which the members can cooperate for the improvement and rational use of telecommunications. The ITU also reaffirms its commitment to fulfill its role in three areas: a) to provide technical advice, b) to promote the development of telecommunications in developing countries, and c) to promote the adoption of a broader approach to telecommunication issues in the global information economy and society. ⁶¹

⁶⁰ Pekka Tarjanne, Secretary-General of the ITU. "Trade in Telecommunications Services: The WTO agreement and the role of the ITU." *The World Business Agenda for Electronic Commerce*. ICC. Accessed on March 10,2000. Available at: <http://www.iccwbo.org>

CITEL

The Inter-American Telecommunications Commission (CITEL) is part of the Organization of American States (OAS), and is committed to the standardization of telecommunications in the Americas (North, Central, and South America). The commission has its origins back in 1890, when US telegraph companies were looking to establish the submarine cable to connect San Francisco to Valparaiso, Chile.⁶² Since then, the Commission has worked to co-ordinate telecom standards in the Americas. For the purposes of this research, this section focuses on CITEL's evolution from 1993 up to the present.⁶³

In 1993, the OAS decided that CITEL would become the OAS agency specializing in telecommunications. During the same session, a new 'associated member category' was also created. This new category allowed the participation of business, organizations and telecommunications operators. They paid 1,000 US\$ to become members with full voice in the meetings, but with no right to vote. But things changed in 1999:

The contributory level is based on a "unit" scale. The smallest share is "one" unit. The monetary value of the unit is two thousand United States dollars (US\$ 2,000.00) as of January 1, 1999, and covers membership prorated for one calendar year. Associate Members may choose how many units they want to contribute (CITEL, 2001).

⁶¹ ITU. (1999). *Strategic Strategic Plan 1999-2003*. Available at: <http://www.itu.org>.

⁶² The first American International Conference adopted two resolutions in March 1890: One about communications in the Atlantic, and the other one about communications in the Pacific. In resolution number 14, it was recommended that the 18 participant countries promote telegraphic lines with regular services and equitable tariffs as a means of improving communication across the region. CITEL's history is available at: <http://www.citel.org>

⁶³ <http://www.citel.org>

Another key change is that these days associate members, including transnational corporations' representatives, are able to vote and control the agenda. As we will see in the following paragraph, the associate member can speak on behalf of an OAS member nation.

When authorized in writing by a duly designated governmental representative of a Member State which is a Member of the PCC, an Associate Member may, in that PCC and on behalf of and in representation of that state: (1) vote, (2) submit papers, and (3) propose to include topics in the PCC's agenda (CITEL, 2001).

On December 1994, during the Inter-American Summit attended by 34 Heads of State of the Americas, the Commission approved an "Action Plan". The plan evaluates regulatory, technical and legal mechanisms and also provides general rules for the liberalization of telecommunications in the Americas. Currently, CITEL provides technical advice, organizes regional conferences and promotes the standardization of policies in the region. One of the mandates of CITEL is to promote and watch over the integration and strengthening of telecommunications networks operating in the Member States, and to co-ordinate activities and plans with the ITU.

At the 2001 Summit of the Americas⁶⁴, in Quebec, CITEL was reinforced. CITEL is actively working on harmonizing telecommunications policies applied in

⁶⁴ For the complete document on the resolutions taken during the 2001 Americas' Summit see: <http://www.americascanada.org/>

the Americas (North, Central and South America).⁶⁵ Currently, a committee is already preparing the telecommunications policies for the Americas for presentation at the CITEL Conference in Ecuador in 2002. CITEL also co-ordinates activities with sub-regional telecommunications organizations, such as the Telecommunications Commission for Central America COMTELCA, whose role is explained below.

COMTELCA

The Telecommunications Commission for Central America (COMTELCA), is the regional organization that deals with telecommunications policy and technical issues in Central America. It was created in 1962. In 1988, it was recognized by the ITU as the regional organization specializing in telecommunications. Currently, the organization has two subcommittees in which Central America's regulators and operators have equal participation.⁶⁶

Another important entity linked to processes of privatization of telecommunications is the World Trade Organization (WTO).

⁶⁵ The Americas' Summit called for the application of common regulatory telecommunications policies and democratic rights in the Americas. The governments quickly accepted the former. Among other things, they decided to reactivate CITEL to co-ordinate regional telecom policies. The latter was discussed in a summit that took place in Costa Rica, a few weeks after Quebec's meeting; the governments could not reach an accord on how to define "democracy" in the region. Source: Alberto Barrera. (2001a). Reuters news agency. Costa Rica, April 22, 2001.

⁶⁶ See <http://www.comtelca.org>

The WTO

The World Trade Organization (WTO) was created in 1944, near the end of World War II. The Bretton Woods Conference made recommendations to set up three international organizations: the International Monetary Fund (IMF), the World Bank (WB), and the International Trade Organization (ITO). There were many controversies about the latter. Therefore, in 1947 the United States, Canada, Cuba, Great Britain, and a few other nations created an interim organization about trade. It was named the General Agreement on Tariff and Trade (GATT). After that, developing countries started to join (Sen, 1994).

Most developing countries joined the GATT at a time in their history when they were largely suspicious of being integrated into the world economy. However, most of them were looking to expand their economic relations, and saw in the GATT an opportunity to do it (Kufuor, 1997).

Several agreements were struck using the GATT framework. By 1986, the Trade Ministers of the nations that belonged to the GATT initiated the Uruguay Round of Negotiations. Those negotiations lasted seven years. In 1994, they signed the final act of the Uruguay Round wherein they agreed to liberalize prices in many services.

According to the experts, "...by encouraging trade liberalization...the GATT supported the globalization process."⁶⁷ The Uruguay Round results also transformed the provisional multilateral trading system, which had existed under the GATT, into the permanent World Trade Organization (WTO).⁶⁸ This was a significant change because the WTO had a mechanism for resolving trade disputes multilaterally. This was not formerly possible under GATT.

The first meeting of the WTO took place in Singapore, in December 1996, with the participation of 125 trade ministers (Hart, 1997). Since then, its participation and control of international economic policy has been increasing. Today, the WTO is defined as "... a mechanism to induce countries to adopt non-discriminatory trade policies and reduce their barriers to trade, thereby enhancing efficiency and economic growth"⁶⁹

The working structure of the WTO consists of a General Council with three subsidiary councils on matters under the jurisdiction of the WTO (Hoekman and Kostecki, 1995). It is in this context of multilateral decisions and international free trade that agreements on telecommunications privatization are being made. The next section describes some important details regarding the WTO's Telecommunication Agreement.

⁶⁷ Bernard Hoekman and Michel Kostecki. (1995). *The Political Economy of the World Trading System: From GATT to WTO*. Oxford: University Press, p. 10.

⁶⁸ According to Michael Hart, Canada and the European Community proposed the creation of the WTO. Source: Michael Hart. (1997). "The WTO and Political Economy of Globalization", *Journal of World Trade*, p. 76.

⁶⁹ Hoekman and Kostecki, 1995, p. 51.

WTO Telecommunications Agreement

Back in 1989, James G. Savage defined telecommunications as “everything within the purview of the International Telecommunications Union.”⁷⁰ These days, one can say that telecommunications is everything within the purview of the ITU, and the WTO as well.

In the view of the WTO, the telecommunications sector, in its broader sense, includes both services and equipment.⁷¹ As we will see below, the “services” category covers a broad range of transactions. Both, services and equipment, are included in the WTO Telecommunications Agreement.

The WTO telecom agreement was signed on February 15, 1997. On that date, 69 World Trade Organization (WTO) member countries agreed on the basic telecommunications deal, which is supposed to create new opportunities for telecommunication operators and equipment vendors.

The agreement was expected to open 32 global telecom markets; those markets represent close to 90 percent of global telecom service revenues. One year later, in February 1998, the results of the WTO negotiations on market access for basic telecommunications services formally became policy.⁷²

At this point, It is important to mention that the changes in telecommunication ownership in the largest Latin American economies occurred

⁷⁰ James G. Savage. (1989). *The Politics of International Telecommunications Regulations*. Boulder, San Francisco & London: Westview Press, p. 2.

⁷¹ <http://www.wto.org>

before the WTO telecommunications agreement was signed. Latin American countries were involved in the process of structural adjustment since the late 1980s. In fact, several countries in South America, i.e. Chile, Argentina, and Mexico, had already initiated telecommunications privatization processes.

In the international sphere, the WTO agreement has great significance. As former ITU Secretary General, Pekka Tarjanne, recognized, the Uruguay Round, the GATS, and the new Basic Telecommunication Agreement introduced a powerful new player into the international telecommunication regulatory and policy arena. The "new player" is there to defend the interests of the corporations. Tarjanne points out "the promoters of market liberalization in telecommunications have used the WTO process well. They will continue to use it to ensure their objectives are attained."⁷³

According to Eli M Noam and William Drake, the agreement involves the access to and use of any public telecommunications transport network or service offered within or across the border of any member. It covers the free trade of voice telephone services, packet-switched data transmission services, Telex services, telegraph services, facsimile services, private leased circuit services electronic mail, voice mail, on-line information, database retrieval, electronic data

⁷² <http://www.wto.org>

⁷³ Pekka Tarjanne, Secretary-General of the ITU. (1997). Keynote Address at the 21st IC&C World Business Summit. San Francisco, US. Available at: http://www.itu.int/itudoc/otsg/ptspeech/chron/1997/40821_ww7.doc.

interchange, data processing, transaction processing, mobile cellular phone, paging, fixed and mobile satellite services, and teleconferencing.⁷⁴

The agreement intends to accelerate the global trend toward increased competition, and privatization and it is particularly important for international long-distance operators and for companies that are planning satellite telephony systems.

Obviously, corporations are content with the agreement. Two days after it was signed, Gerald Taylor, chief executive of MCI was quoted in The New York Times stating: "We see this as a really defining event... it is a shift in attitude toward embracing deregulation, open markets, and competition."⁷⁵ The new regulatory safeguards for competition have increased his company's odds when challenging entrenched operators in formerly protected markets. In addition, the agreement has two key implications for the operators: they can integrate and control their international marketing operations, and they now have improved trade dispute resolution procedures and enforcement mechanisms to support market access.

The countries that signed the agreement represent less than half of the world's population, and many of the countries that did not sign are among the least developed in the world. Additionally, Russia and China, with a combined

⁷⁴ William J. Drake and Eli M. Noam. (1997). "The WTO deal on basic telecommunications." *Telecommunications Policy*, Vol. 21 No. 9/10, pp. 799-818.

⁷⁵ Peter Sisson. (1997). "The New WTO Telecom Agreement " *Telecommunications*. September 1997. Available at: <http://telecom-mag.com>.

population of about 1.2 billion people, about a fifth of the world's population, did not participate in the agreement (Sisson, 1997).

According to communication scholar Dwayne Winseck, the WTO Agreement contains the same policies included in the North America Free Trade Agreement (NAFTA) on telecommunications. Furthermore, because the agreement does not include a 'cultural exemption' clause, television programming and film can be included as goods and services.

The Telecommunication Annex⁷⁶ also contains provisions that require countries to "allow foreign direct investment in the construction of private networks and that these networks be allowed to connect with, and provide enhanced services over, public networks."⁷⁷

The WTO agreement also has its own definition of universal service. According to the WTO, the concept implies that every individual within a country should have basic telephone service available at an affordable price. However, "the concept varies, among countries, from having a telephone in every home

⁷⁶ The Annex is composed of seven sections, but its core obligations are contained in a section on access to and use of "public telecommunications transport networks and services" (meaning essentially basic public telecommunications). It requires each member to ensure that all service suppliers seeking to take advantage of scheduled commitments are accorded access to and use of public basic telecommunications, both networks and services, on reasonable and non-discriminatory basis. December 20, 2000. Available at: <http://www.wto.org/wto/press/summary.htm> 6 March 1997.

⁷⁷ Dwayne Winseck. (1997). "Contradictions in the democratization of international communications." *Media, Culture & Society*. London, Thousand Oaks and New Delhi. Vol. 19. (129-246), pp. 238-239.

and business in the wealthier countries to most inhabitants' being within a certain distance or time away from a public telephone in developing countries." ⁷⁸

In conclusion, the trend in telecommunications is for states to assume the role of policy-makers and the role of protector of 'the public interest' is being assigned to an independent regulatory authority. ⁷⁹

In the case of LDCs, one can see several problems with this approach. For instance, in the framework of 'policy harmonization' most new telecom regulatory agencies, particularly those recently created in LDCs, follow the same policy design "recommended" by the WB and the IMF experts. Obviously, the main interest is focused on market performance, not in providing access to the less economically advantaged. Furthermore, in most LDCs the independent regulatory authorities lack the power to challenge the powerful TNCs that own and operate the telecommunications sector. Drawing from Mosco (1996), it is obvious that the market currently is driving the policy arena. Public interest does not seem to be a priority anymore.

In analyzing the role of the WTO, Winseck argues that "the WTO is part of efforts to implement limited democracy, where governance means managing the

⁷⁸ WTO 's Telecommunications Agreement: Glossary of Terms. <http://www.wto.org>

⁷⁹ This 'trend' is certainly applicable to some Latin American countries that have liberalized their telecommunication services. For instance, Argentina, which privatized its telecommunications on June 1990, has created its own independent regulatory authority, the Comision Nacional de Telecomunicaciones (CNT). Brazil, which in 1997 broke up its national monopoly into 13 companies, also has created an autonomous regulatory body, ANATEL, to foster competitive operations. In Mexico, where in 1989, former president Carlos Salinas de Gortari started the telecommunications' privatization process; the Secretaria de Comunicaciones y Transportes has been assigned the role of regulatory agency (Petrazzini, 1995).

technical and legal infrastructure of a global economy, not furthering the globalization of democracy" (2000: 18).

To conclude this chapter, it is important to note that the increased participation of transnational corporations and the private sector in the agenda and decisions formulated by entities such as the IMF, WB, WTO, ITU and CITELE, is leading us to a new way of corporate domination and international governance. In this context, we may see the creation of plenty of policies and plenty of regulatory entities, but their main interest will be to protect the interests of the private sector, not the interests of impoverished majorities.

For instance, in the case of telecommunications privatization processes in LDCs, some nations have regulations to provide service to poor populations, and to protect local consumers from the voracity of transnational corporations. However, most telecom regulatory entities created in LDCs are closely tied to governments, and do not have the power to enforce their own policies. The cases of El Salvador and Guatemala, described in chapter IV, are examples of this situation.

As stated at the beginning, this chapter intended to provide an overview of the main international entities and some of the policies related to the telecommunications privatization process. The next chapter provides a socio-economic and political overview of South and Central America, and details telecommunications privatization processes that have taken place in Mexico, Argentina, and Chile.

CHAPTER III

Latin America: South and Central America Socioeconomic-Political Overview and Telecom Privatization

Chapter III. Latin America: South and Central America

Socioeconomic and political overview, and Telecom Privatization

This chapter goes from the general to the specific. It is divided into two sections. Section A presents the Latin American social, economic and political context in which the changes in ownership of telecommunications systems are occurring. It offers an overview of the telecommunications privatization process that has taken place in the most developed Latin American countries. This section draws from Eli Noam and Ben Petrazzini's work on telecommunications in Latin America, and from documents produced by international agencies.

Section B provides an overview of the social, political and economic situation in Central America. It intends to provide a background on this region, where the telecommunications privatization process is a recent phenomenon. For the purposes of this research, this chapter provides data from the 1980s up to the present, the period in which the change from public to private has been taking place.

Tables and graphs, provided in the annex section, illustrate economic and demographic indicators. Among other things, the tables include data on income distribution and on the divide between the rural and urban population, which constitutes an important indicator in the distribution and access to telecommunications services. Most of the data for this section comes from documents produced by international, regional and local organizations.

A. Latin America: Social & economic overview

Latin America, which includes South and Central America, is a region of contrasts. As Rafael Roncagliolo (1995) comments, the region shows a 'mosaic of situations', where countries are similar but also different from each other. While in the wealthiest countries the average annual income can reach up to 7,550 US\$, in the poorest nation the annual income is 410 US\$. However, as we will see below, averages do not reflect the situation of those living in extreme poverty (World Indicators, WB, 2001).

Latin America extends from the US-Mexico border up to the southern parts of the continent, shared by Chile and Argentina.⁸⁰ Most of the countries share the same language (Spanish), except Brazil and Belize where Portuguese and English, respectively, are the official languages.

In this region, home to more than 500 million people, one can observe everything but homogeneity. Economic, social and political situations differ from one country to the other. However, despite all the contrasts, one characteristic is common to the whole area: inequality in the distribution of income.

Nearly 36 percent of the population in Latin America lives below the poverty line - the same proportion as a decade ago. It means that one out of three inhabitants has less than two dollars a day to survive. The portion of the population living in extreme poverty climbed to 16 percent in 1997 from 13

⁸⁰ See Annex 1. Latin America's map.

percent in 1987.⁸¹ From those figures, it seems evident that the 'structural adjustment' initiated in the 1980s did not bring about the benefits promised to the majorities.

In Latin America, a region where natural resources are abundant, about 159 million people cannot afford to pay for basic needs such as food and shelter. With extreme poverty also comes the lack of access to services such as water, electricity, or phone lines. In fact, "It is estimated that about 150 million of the region's 500 million people don't have safe water and 250 million don't have safe collection of sewage."⁸²

Inequality in income distribution is certainly one of the main causes of poverty and lack of access in the region. Latin America, where the poorest 20 percent of the population take just 4.5 percent of total income, quite possibly has the most inequitable income distribution of any region in the world (WB, March 2001, Regional Overview).

Economists measure inequality by using a summary statistic called the Gini coefficient. Carry A. Meyer states that the world average Gini coefficient is .4 on a scale of zero to one, with zero representing perfect equality. However, in Latin America "all countries have higher than average Gini coefficients and

⁸¹ Danny M. Leipziger. (2001). "The Unfinished Poverty Agenda: Why Latin America and the Caribbean Lag Behind." *Finance & Development*. March 2001, Vol. 38, N1. IMF Publication. July 29, 2001. Also available at : <http://www.imf.org/external/pubs/ft/fandd/2001/03/leipzige.htm>

⁸² WB Document. (2001). July 31, 2001. Available at: <http://www.worldbank.org/external/lac>

several countries, such as Brazil, Paraguay, and Guatemala – register as high as .6.”⁸³

As the World Bank recognizes, in Latin America the number of poor is almost equal to the total population in Brazil, or the total population of all the other countries of South America combined. The WB indicates that while economic growth is critical to reducing poverty, growth alone cannot do the job. For instance, despite the improvements reached in certain economies of the region, the level of poverty and inequality has not declined; on the contrary, income concentration has increased.

Juan Luis Londoño and Miguel Székely, argue that for decades the trend in income concentration has been persistent. According to them, the average Gini coefficient in Latin America was higher in 1996 (.56) than at the beginning of the 1980s (.53).⁸⁴ In fact, in a recent study, Miguel Székely contends that “Latin America is a good case for verifying if there is a tendency for poverty to improve during favourable macro conditions. There are several cases [Mexico, El Salvador, and Nicaragua among them] where the poverty and the GDP trends are at odds” (Székely, 2001:5-7).

Low salaries, job insecurity, and non-existent job benefits are also characteristics of Latin America. According to the Economic Commission for

⁸³ Carry A. Meyer. (2000). Globalization and Inequality in Latin America. July 27, 2001. Available at: <http://mason.gmu.edu/~cmeyer/inequality.htm>.

⁸⁴ Juan Luis Londoño and Miguel Székely. (1997). *Persistent Poverty and Excess Inequality: Latin America (1970-1995)*. Inter-American Development Bank. May 7, 2001. Available at: <http://www.iadb.org/RES/pdf/357.pdf>.

Latin America and the Caribbean, ECLAC, 47 per cent of the working population works in the informal sector. In fact, in the region it is estimated that 69 out of every hundred jobs created between 1990 and 1997 were in the informal sector (ECLAC: The Equity Gap 2000). Women and children constitute a large part of the informal sector, mostly represented by a large number of street vendors.

Latin America has the highest percentage of urban poor around the world. The contrast between poverty and richness is obvious in the cities. According to the World Bank, roughly three-quarters of Latin America's population, about 500 million, live in and around cities (WB, March 2001, Regional Overview).

Bryan Roberts' account of Latin American cities pictures very well the contrasts observed in the urban core. His description would fit any of the urban core in Latin America, where extreme poverty and extreme riches share the space:

Modern skyscrapers, sumptuous shopping, office and banking facilities still coexist with unpaved streets, squatter settlements and open sewage. The elegantly dressed are waylaid by beggars and street vendors; their shoes are shined and their cars are guarded by urchins from inner city slums whose earnings are a vital part of the family budget.⁸⁵

In Latin America, there are about 400 Amerindian indigenous groups; their total population is estimated at about 40 million people. These groups are

⁸⁵ Bryan R. Roberts. (1995). *The Making of Citizens: Cities of Peasants Revisited*. London, New York, Sydney, and Auckland: Arnold, pp. 1-2.

among the poorest members of society, and are also victims of social, cultural and political discrimination.⁸⁶

Social discrimination and lack of access to education are typical in the region. The WB claims that this is the only developing region where girls have a lower literacy rate than young boys.

However, literacy statistics are not the same for each country; they reflect the above-mentioned contrast. In Nicaragua, the country with the lowest income per capita on the continent, 35.7 per cent of the population is illiterate. In Argentina, one of the nations with higher income, the illiteracy rate reaches just 3 per cent (See Annex 3, table 5).

Inequality in telecommunications access is also evident among countries in the region. While in southern Chile there are 22.12 phone lines per 100 inhabitants, in Nicaragua the number is 3.04 lines per hundred people (ITU, World Indicators 2000).

Latin America: Politics

In the political as well as in the economic arena, Latin America has been considered by many as the US 'backyard'. In fact, Latin America is an area where political and economic changes occur very fast, and most of those changes have to do with the US. Consider the following examples:

⁸⁶ More on indigenous people can be found in: Richard L. Harris. (1997). "Capital, Inequality and Injustice in Latin America". In *International Journal of Comparative Sociology*. Vol. 38. George Psacharopoulos and Harry Anthony Patrinos. (1994). *Indigenous Peoples and Poverty in Latin America*. NY: United Nations.

- In the 1960s and 1970s, the region was an experimental field for development and modernization policies created and promoted by the US.
- In the 1970s, the US helped to overthrow Chilean president Salvador Allende, and provided support to general Augusto Pinochet's government (1973-1990). During Pinochet's government, 3,197 people were killed or disappeared, and thousands more went into exile. Pinochet was key to advancing neo-liberal economic policies in Latin America. As Mario Vargas Llosa recalls, during his mandate, Chile recorded the highest sustained rate of growth—between 6% and 7% annually—in the history of Latin America. "Chilean society and institutions have been transformed and modernized as a result. From this indisputable fact, many have drawn a false conclusion: that the most efficient way out of underdevelopment is to follow Pinochet's example."⁸⁷
- In the 1980s, the US was linked to several internal armed conflicts in the region, e.g. the Contras established bases in Honduras and received US military and financial support to overthrow Nicaragua's Sandinista government. El Salvador's army received millions of dollars in military and financial aid to fight the guerrillas.
- In the 1980s and early 1990s, Latin America, became, once more, an experimental field for neo-liberal policies strongly supported by the US

⁸⁷ Mario Vargas Llosa.(1998). "Pinochet. His stereotype still haunt Latin America politics." *TIME Magazine*. March 16, Vol 151. No.10.

(Reagan/Bush) governments, and international financial institutions such as the World Bank and the International Monetary Fund.

- In July 2000, the Clinton Administration approved "Plan Colombia", a controversial 1.3 billion US\$ plan which intends to fight the drug trade. These days, troops, guns, helicopters and even chemical warfare products are invading Colombia's countryside.⁹⁰
- Finally, one last detail shows the extent of US ties to Latin America. In the new century, two Latin American countries, Ecuador and El Salvador, have changed their currency to the US dollar. In Ecuador, dollarization started on January 2000. One year later, El Salvador began to use the US dollar as its national currency as well. Both countries have a high percentage of poverty. For instance, in Ecuador of 12 million people, about 5.1 million are considered impoverished. While in El Salvador, 52 per cent of its 6.1 million inhabitants live in poverty.⁹¹

Summing up, after the 'lost decade' of the 1980s, Latin America started a period of political and economic change. Hungry for fresh cash, governments accepted and embraced neoliberal policies as the path to save their ravaged economies. Whereas the 1980s were the years of political instability, the 1990s were a period of more stability and increased 'democratic' activity. Privatization

⁹⁰ Jeremy Mcdermott.(2001). "Hidden Costs of Plan Colombia." BBC. August 29, 2001. Available at: <http://news.bbc.co.uk/hi/english/world>.

⁹¹ OPIC. (2000). "Dollarization in Ecuador." July 27, 2001. Overseas Private Corporation. Available at: <http://www.opic.gov/OPICNews>.

of the public sector, particularly the telecommunications sector was part of the major changes initiated in Latin America. Larger nations –Mexico, Chile, Argentina and Venezuela among them— led the path towards privatization.

As stated in the introduction, Central American countries have been following the example of its southern, most developed neighbours. Therefore, in what follows this research provides an overview of the main privatization telecommunication processes that have taken place in the region.

Latin America: Telecommunications Privatization

Since the late 1980s, many Latin American countries, following the financial recommendations emanating from the World Bank, the International Monetary Fund, and the Inter- American Development Bank, have opened their markets and modernized, liberalized, deregulated, and even privatized their public services and infrastructure. Many Latin American countries, including Chile, Argentina, and El Salvador, have already announced or initiated the 'third wave' of privatization.

In the name of national development and global economic participation, Latin American countries have also sold their national telecommunications companies. Chile, Venezuela, and Mexico, were among the first Latin American nations that have privatized their national telecommunications carriers.

Geraldine Lievesley describes privatization as a double robbery in which the state puts up for sale public property -- paid with public money-- and the private sector makes huge profits playing in the highly speculative

business of foreign debt swap arrangements. "... debt swap is the practice of buying nationalized industries for far below their market value (a process of assets- stripping of the public sphere), with the state subsidizing domestic or foreign purchasers" (Lievesley, 1999: 167). Lievesley uses the case study of Mexico's TELMEX, where, after an insider deal with billionaire Carlos Slim, the telephone company became privatized.

The privatization of large state-owned business and services started in the late 1980s. According to Ravi Ramamurti (1996), until 1988, with the exception of Chile, most governments in the region were selling small public enterprises or reorganising the major business. However, things changed after 1988 when several Latin American governments started to sell valuable public property. Chile and Mexico led the privatization rush.

Argentina did not want to be left behind. From 1988 to 1994, under the government of Carlos Menem, air carriers, railroads, electricity, telecommunications, the subway system, and many other public properties were sold. Venezuela and Peru followed Argentina's example and sold large portions of their public enterprises as well.⁹⁰

The World Bank indicates that in Latin America, between 1988 and 1997, about 800 enterprises were privatized, most of them in the utilities sector.

Several scholars have tried to explain the reasons why these governments

⁹⁰ See also: Antonio Estache and Carlos Romero. (1997). "Winners and Losers from Utility Privatization in Argentina: Lessons from a General Equilibrium Model". Available at: <http://econ.worldbank.org/doc>.

began privatizing public enterprises. Some commentators argue that the economic crisis of the 1980s, and the governments' desire to take control of their finances were among the main reasons that led to privatization (Baer and Villela, 1994; Ramirez, 1994). Lack of efficiency, pressure from international financial entities and technological demands, are also mentioned among the main causes that triggered the privatization surge in Latin America.

Shamsul Haque argues that Latin American governments carried over the privatization, liberalization and deregulation in their countries, in the hopes of reaching economic efficiency and growth. He points out that some political leaders elected under populist platforms, such as Argentina's Carlos Menem and Venezuela's Carlos Perez, broke their pre-electoral promises and became supportive of neoliberal policies (Haque, 2000).

The privatization fever brought about profound changes in the role played by the state. Luigi Manzetti provides a brief account of the years from 1930 to the 1990s. He observes that after the global economic crisis of 1930, Latin American governments saw nationalization of key sectors as a resource to promote the welfare state. He cites the cases of Argentina, Brazil, Mexico, Uruguay and Chile.

By the 1950s, Latin American countries, trying to emulate the European example, applied Keynesian policies and started to pursue development through

the creation of public enterprises.⁹³ This model was also used as a tool to provide 'political favours' to those close to the parties in power (Manzetti, 1999).

In the views of other researchers, privatization in Latin America began because the Keynesian model simply was exhausted, and by the beginning of the 1990s the nations had to find another way to finance the external debt payments. "Instead of fostering the creation of public enterprises, the IMF and the WB now imposed conditions for structural adjustment loans that required a reduction in the role of the state in the economy" (Birch and Haar, 2000:1-3). Boron adds that in the last ten years, Latin American nations have sold key public enterprises that years before were considered as taboo e.g. electricity, telecommunications, and oil. The idea is to emulate the successful Chilean privatization process. However, what the financial entities never disclose is that 50 per cent of Chile's economic growth comes from its state-owned copper industry, expropriated during the government of Salvador Allende. The industry provides greater income than the taxes paid by all the private firms in Chile (Boron, 1996).

Privatization was supposed to attract foreign investment to Latin America, and some researchers argue that, at least up to 1997, privatization led to a sharp increase in private investment.⁹⁴ However, what the researchers fail to explain is

⁹³ In the views of John Maynard Keynes (1883-1946), governments should intervene to provide full employment. He proposed fiscal and monetary policies and government expenditures as a way to keep balance in the economies (Lyons, 1995).

⁹⁴ Claudio M. Loser and Martine Guerguil. (2000). "The Long Road to Financial Stability". *Finances: World Bank electronic publications*. Volume 37. No. 1. IMF publication.

that investment has been concentrated in a few countries.

For instance, in 1999 foreign direct investment in Latin America reached 76,727 billion US\$. However, the major beneficiaries were Brazil (41.6%), Mexico (13.3 %), Argentina (8%) and Chile (6%). Most of those investments went to Brazil, because the country was selling its telecommunications and electricity services. Argentina sold part of its oil fields to a Spanish transnational corporation, and Chile sold its electricity services, to another Spanish transnational corporation.⁹⁵

As the Economic Commission for Latin America and the Caribbean (ECLAC) recognises, the sale of public assets is what attracts investors to the region. The privatization of telecommunications and electricity generation is particularly attractive to transnational corporations (Foreign Investment Report, 2000). However, TNCs do not have the social obligation that the state used to have. In the area of telecommunications services, private telecommunications companies mainly respond to the interest and demand of big business. As Nicholas Garnham notes:

... typically 80 per cent of revenues and nearer 100 per cent of profits are generated from a few hundred major corporate customers....in an unregulated competitive market there is little incentive to provide the rest of the customer base with new services (Garnham, 1991: 32).

Nevertheless, this type of reasoning has not stopped countries such as Chile, Argentina, Mexico and Brazil from privatizing their telecommunications, and other

public services. Each country has allowed different approaches to privatization, but what is common to all of them is that transnational corporations now own their telecommunications sector.

In Latin America, Chile was one of the first nations to implement telecommunications privatization. In 1982, still under the rule of General Augusto Pinochet, the country passed a new general telecommunications law that allowed more private participation in the telecom sector. By 1985, the government started to sell shares of the Chilean Telephone Company (CTC), and four years later, the government sold 30 per cent of the CTC shares to foreign investors. At the beginning of 1990, Spain's Telefonica after paying 392 million US\$, became the major shareholder. Entel, the company in charge of long distance calls, was also sold, and Spain's Telefonica got a large portion of shares as well (Melo, 1998).

General Pinochet did not face significant opposition from the labour movement or other political forces. In fact, his repressive tactics discouraged any type of resistance. As Ben Petrazzini states, privatization of the telecommunications- and other state owned- businesses, in Chile 'was not a difficult task' (1995: 149).

Argentina tried to sell its telecommunications sector in several occasions since 1976. However, the attempts to sell did not succeed. It was during Carlos Menem 's administration, in 1989, that the telecommunications sector was

⁹³ Inversion Extranjera en Latinoamerica. (2000). Press release. Chile: CEPAL/ECLAD.

transferred to private hands. France Telecom, and Spain's Telecom became the main owners of Argentina's telecommunications sector (Petrazzini, 1995).

As in the case of Chile, there was not much opposition to the telecommunications privatization process. Years of military repression and political manipulation had debilitated the labour movement. In addition, to dismantle the remaining labour opposition, the government used the 'divide and conquer' tactic. According to Luigi Manzetti, Menem kept using a carrot-and-stick approach throughout 1989-98. The carrot came in a variety of forms. "Several cooperating union leaders were appointed to government positions, for instance, the leader of the telephone workers Julio Gullian was appointed secretary of communications" (1999: 96-97).

In Argentina, and due to the lack of regulatory policies, the new owners got monopolistic rights until the year 2001. Since the 1990s, Telefonica and Telecom, using profits from monopoly services, have been building a fiber optic network. They expect to control the market of value-added services when their exclusivity period ends. Currently, high tariffs imposed by the private duopoly affects the operations of TNCs operating in the country; therefore, it is expected that changes in the type of ownership will be made soon (Herrera, 1998).

Mexico privatized its telecommunications in December 1990. "The flagship target of the IMF and its Mexican allies and one of the most profitable SOEs [State-operated Enterprises] was the national telephone monopoly, Telefonos de Mexico (Telmex)...." (Sussman, 2001: 136).

The government in power used its political influence with the labour movement. As a result, the workers did not put up too much resistance to the telecommunications privatization plan. Unlike Argentina, Mexico had developed a basic telecommunications regulatory framework before starting the process. One of the main regulatory aspects was with respect to services for small and rural communities. For instance, cities of more than 5,000 people were required to have automatic switched services (Petrazzini, 1995). Some researchers argue that those regulations have had an important effect on Mexico's telecommunications services. For instance, in 1990 only 10,221 towns and hamlets had telephone services but by 1997 that number had increased to 24,691 (Ruelas, 1998). Other researchers, Gerald Sussman among them, argue that the general promises made by Telmex were not fulfilled:

From a teledensity rate of 6.4 percent at the time of privatization, the company achieved only half its goal (10.7 per cent) by target year. Further expansion will likely be limited mainly to the more affluent sectors of the populace still on the wait lists, that is, the top 20 per cent of households that control 58.2 per cent of the country's income... (Sussman, 2001: 137).

Ana Luz Ruelas points out that Mexico lacks an integrated telecommunications plan, which should include universal service provisions, fair geographical development of infrastructure, and the incorporation of new technologies. She argues that the government and the economic sectors have avoided public consultation, and since the 1990s, a series of ad hoc laws have been issued to justify what already has been done (1996:41).

Other researchers mention that one of the many downsides of privatization is the loss of jobs, Mexico is no exception. After ten years of privatization it is estimated that 250,000 people, including telecommunications workers, have lost their jobs as a result of privatization. The situation has increased poverty among the working class, but it brought about benefits to TNCs that now have at their disposition a cheap workforce (Ramirez, 2000).

Privatization and modernization of telecommunications in Mexico increased the demand for American telecommunications equipment and services. For instance, in 1999, Mexico imported about 22 billion US\$ in telecommunications equipment and services. In fact, in 1999, "Canada and Mexico were the two top markets for U.S. telecommunications equipment and services" (Mosco and D. Schiller, 2001: 20).

Brazil announced the privatization of its telecommunications sector on October 1997. As a first step, Telebras, the public telecommunications company, was being divided into 12 companies: three landline operators, eight cellular companies, and a long-distance carrier. To promote competition, the government announced the establishment of an autonomous regulatory body, ANATEL (Manzetti, 1999). With a population of about 167.99 million people, and only about 14.87 phone lines per hundred inhabitants (ITU, 2001), Brazil constitutes an attractive market for transnational telecom corporations. Recently, Spain's Telefonica became one of the major shareholders of Brazil's Telebras.

In the telecommunications privatization processes described above, there is one thing that it is common to most of the countries: Spain's Telefonica or France Telecom has become one of the main shareholders. Telefonica has become owner of telecommunications in Peru, Argentina, Venezuela, Chile, Puerto Rico and El Salvador as well.

Spanish transnational corporations now own a large part of the privatized Latin American telecommunications and financial sectors. By 1992, Spanish banks had already invested at least 4 billion US\$ in Latin America and Telefonica's holdings in Latin America were about 5 billion US\$. The corporation had defeated American rivals in bids leading to acquisitions in Argentina, Chile, and Peru.⁹⁴

Spanish researchers have questioned the increased participation of Spain's Telefonica in Latin America. They argue that the corporation has come to emulate the role played by American multinationals, and they fear that Spain's Telecom is just taking advantage of the social and economic inequality existing in developing nations, where public service or universal service never truly took root.⁹⁵

⁹⁴ Norman C. Lerner. (1998). "Telecom Privatization in Latin America: Trends in Competition and Regulation." *Telecommunications*. Vol. 32 No. 2, pp. 59-68.

⁹⁵ Enrique Bustamante. (2000). "Spain's Interventionists and Authoritarian Communication Policy: Telefonica as political battering ram of the Spanish right." *Media, Culture & Society*. London, Thousand Oaks and New Delhi: SAGE. Vol.22, pp. 433-445.

In conclusion, in Latin America, after almost twenty years of privatization, structural adjustment, and neoliberal policies, extreme poverty, social and economic inequality, and income concentration continue to be among the major problems. The contradictions are building up. The next section in this chapter provides a social, political and economic overview of Central America.

Central America: An Overview

Central America, the region located from the southern border of Mexico up to Panama⁹⁸, is an area characterized by its poverty, violence, political instability, political corruption and inequality. It is a region where on several occasions, the US has shown its economic, political and military power as well. Most countries in the area have been following neoliberal policies, structural adjustment, and privatization since the late 1980s.

Historically, Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica have comprised the area. Belize, located north of Guatemala, is part of continental Central America but its history, tied to England, and its language (English) make it different from the rest. Belize has English roots and English is its official language. Panama, located further south, is a country in which the US presence has been constant due to the Panama Canal and its strategic value. Panama seems to be an outsider in Central America as well. These days, there is an attempt to form an economic group that extends from the conflictive areas

in Chiapas, in southern Mexico up to Panama. However, for the purposes of this thesis, this research focuses on the traditional five Central American nations: El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica (See Annex 1).

The region shares many features with the rest of Latin America. In Central America's nations one observes the urban slums and the extreme poverty. In the region, thousands of street vendors, mainly women and children, constitute the 'informal economy'. Neoliberal policies have increased the number of children working in the 'informal' sector as well (Funes, 1991; Reuters 1998). In fact, as in the rest of Latin America, in Central America extreme poverty and extreme riches share the space.

However, there are differences between this region and the rest of Latin America. In the region the degree of development is lower and the distribution of population is different. For instance, while in the most developed Latin American nations about 80 per cent of the population live in urban areas, in Guatemala only about 45.7 of the people live in cities. In total, the region has a population of about 32 million, and 51.5 per cent of them live in urban areas (See Annex 2, table 1). In comparison to other Latin American nations, teledensity rates in the region are very low (See Annex 4, table 6). Income and literacy rates are also different from other larger Latin American countries such as Mexico, Brazil or Argentina. For instance, about 35.7 per cent of the population in Nicaragua cannot read (See Annex 3, tables 3, 4, and 5).

⁹⁶ See Annex 1.

Central America: Political Overview

The 1820s, when most of the nations in the region decided to break the ties with Spain, would be a good starting point for explaining the current political situation in Central America. That was when the land was distributed among a few people. With land ownership, the lines of power began to be drawn. Since then, land-owners and the military have long lived in a close relationship. From a political economy point of view, the history of Central America is an interesting issue because different types of power, from different internal and external sources, have intertwined to affect the lives of large masses of population. However, for the purposes of this research and due to reasons of space as well, this overview takes data from the 1970s up to the present.

In Central America, 1970 was a decade of military governments and political upheaval. It was a time when large masses of population, tired of oppression and exploitation started to defy the authoritarian and military governments that for several decades had dominated in the region.

In El Salvador, for instance, in the late 1970s the kidnappings of members of rich families marked the beginning of the political and military upheaval. The kidnappers were members of the several urban guerrillas groups that years later

got together to form the Farabundo Martí National Liberation Front (FMLN).

They used most of the kidnappings' 'proceeds' to buy guns and ammunitions.⁹⁹

In the late 1970s, Guatemala had already seen the results of a civil war that had started back in the late 1950s,"when the Guatemalan military led a CIA-backed coup against the administration of President Jacobo Arbenz."¹⁰⁰ By the end of the 1970s, the indigenous populations in the North of Guatemala were already suffering persecution from sections of the military forces.

In Nicaragua, the Sandinista National Liberation Front (FSLN) was also fighting against the dictatorship of Anastacio Somoza. At the end of the decade, the Sandistas were in power. Honduras was under military rule as well. Costa Rica, with no army at all, was occupied with providing education and health care services to its population, and also was trying to cope with the increasing flow of refugees and illegal immigrants arriving from neighbouring Nicaragua.¹⁰¹

The 1980s were not good years for Central America. In El Salvador for instance, violence was increasing. Death squads and paramilitary forces brought in a surge of terror. Guerrillas and military forces were killing one another. Under Ronald Reagan, US military aid was considerably increased. For instance, at the beginning of 1981, the US approved the first \$25 million dollars in

⁹⁹ Enrique Baloyra provides excellent information on the years previous to the civil war in El Salvador. See: Enrique Baloyra. (1986). *El Salvador en Transición*. San Salvador: UCA editores.

¹⁰⁰ Barbara Pando. (1997). *Guatemala-Maya Civil War*. July 20, 2001. Available at: <http://www.american.edu/projects/mandala/TED/ice/peten.htm>.

¹⁰¹ By the year 2001, about 227,000 Nicaraguan were living in Costa Rica. They represent 76.4 per cent of the total immigrant population in the country. Source: France Press. (2001). "La inmigración centroamericana hizo crecer a Costa Rica según un estudio oficial." August 21, 2001. Available at: <http://www.laprensa.cr>.

military aid for El Salvador. William M. LeoGrande, commenting on the importance of that decision, writes: "that amount was more than El Salvador had received in total since 1946 and more than all the rest of Latin America and the Caribbean had received in 1981."¹⁰⁰ In that decade, the rural southern and eastern regions of El Salvador became the battlefields where the guerrillas, (supported somehow by Cuba and the USSR), and the soldiers (fully supported by the US and the local elites) tried to test their strength. In twelve years of war, about 75, 000 people, many civilians among them, got killed.

In the middle of war, many people had to leave their land and their homes. Thousands of Salvadoran, most of them women and children- sought refuge in neighbouring Honduras.¹⁰¹

Thousands more, perhaps more than half a million, left in search of the American dream. Nowadays, they are the ones who send huge amounts of money, clothes, TV sets, stereos, and cell phones, to their families living in El Salvador. They provide enormous support to the Salvadoran economy.¹⁰² In 2000, for instance, they sent about 1,750 million US\$ to support their families in El Salvador. According to El Salvador's Ministry of Finance, that amount constituted 13 per cent of the total Gross National Product (GNP). The amount was even higher than the proceeds obtained from the coffee crops.

¹⁰⁰ William M. LeoGrande. (1998). *Our Own Backyard. The United States in Central America, 1977-1992*. North Carolina: NC University Press Chapel Hill & London, p.89.

¹⁰¹ Panos Institute. (1995). "El Salvador". *Armas para Luchar, Brazos para Proteger. Las Mujeres Hablan de la Guerra*. London: Panos, pp.235-264.

The 1980s were also difficult years for populations in Honduras and Nicaragua. The Contra, supported by US dollars, established its bases in Honduras. From there, they fought against the Sandinistas. The Sandinistas were also trying to survive the economic embargo imposed by the US.

For Guatemala, the 1980s represented another decade of civil war. Thousands of Guatemalans, most of them members of indigenous groups, had to seek refuge in camps located in the Mexican border.

By the end of the 1980s, the US had "sent" about five billion dollars in military aid to El Salvador. However, as Jose Napoleon Duarte, El Salvador's president during 1980–82, and 1984–89, mentioned in an interview, most of the money never left the US bank accounts; it was used to buy guns and war supplies from American corporations operating inside the US:

Decisions like how many planes or helicopters we buy, how we spend our money, how many trucks we need, how many bullets and of what caliber, how many pairs of boots and where our priorities should be--all of that ... And all the money is spent over there. We never even see a penny of it, because everything arrives here already paid for.¹⁰³

In El Salvador, the military and political elites were in charge of 'administrating' and distributing the American aid. These are the same people

¹⁰² The economic phenomenon caused by dollar remittances from Salvadorans living in the US, was firstly studied by Segundo Montes, one of the five Jesuits assassinated by the army on November 1989. Documents available at: <http://www.rtfcam.org/martyrs/UCA/introduction.htm>

¹⁰³ Napoleon Duarte speaking (1984) during an interview quoted by William Blum in: "El Salvador 1980-1994: Human Rights, Washington Style" from Killing Hope: U.S. Military and CIA Interventions since WWII. June 2000. Available at: <http://www.uakron.edu/worldciv/pascher/salvador.html>.

who have been accused in cases of corruption that occurred before, during and after the years of war.¹⁰⁴

By the end of the 1980s, still in the midst of civil wars, people in Central America started to hear about the programs of 'cambio estructural' (structural change). The change promised to bring better living conditions to the masses. Since that time, most people in the region have become familiarized with the word, and they are still waiting for the promised improvement of their lives.

The 1990s brought more political changes to the region. On April 25, 1990, Violeta Chamorro became Nicaragua's President, the Sandinistas accepted defeat, the US lifted the economic embargo, and, as US Senator Christopher Dodd pointed out, the country disappeared from the news. "Like Andy Warhol's 15 minutes of fame, issues seem to suffer the same plague...A few months ago, Nicaragua was the hot international issue. Now it's been forgotten" (LeoGrande, 1998:564).

At the beginning of 1992, the guerrillas and the government put an end to twelve years of war in El Salvador and signed a peace accord. In Guatemala, in December 1996, the guerrillas and the government ended 34 years of civil war as well. Since then, as in the case of Nicaragua, these countries also have almost vanished from the international news.

¹⁰⁴ U.S. Department of State, August 2000 Bureau of Western Hemisphere. El Salvador. August 30, 2001. Available at: http://www.state.gov/www/background_notes/elsal_0008_bgn.html

In the late 1990s, wars and political unrest ended, but the destruction caused by them was evident in the region. In addition, the flow of military and humanitarian aid to region, characteristic of the 1980s, started to decline.

Most Central America's countries began to ask for additional loans from international entities ¹⁰⁵, and governments intensified the implementation of neo-liberal policies in the region. Since then, they have tried follow closely the macroeconomic policies dictated by international financial organizations, particularly the International Monetary Fund (IMF), the World Bank (WB) and the Inter-American Development Bank (IDB). Following their recommendations, at the beginning of 2001, El Salvador adopted the US dollar as currency, and Guatemala plans to do the same early next year.

The policy of reducing government and increasing the private sector has been gladly embraced by the local political elites and by the business groups that predominate in the region. Transnational corporations also have increased their participation in the area.

Since the early 1990s, the maquilas (garment) industry increased their participation in the region. The "free tax zones" created by the governments, the lax environmental laws, and the huge pool of cheap labour have encouraged

¹⁰⁵ According to Noam Chomsky (1991), in August 1990 the IMF approved the first loan to El Salvador. IMF loans had stopped in 1982 when US funding began to arrive. According to Chomsky, this first loan was intended to give extra support to the Salvadoran army. See: Noam Chomsky "Lies of Our Times". Available at: <http://www.zmag.org/chomsky/articles/loot9301-el-salvador.html>.

them to move from Asia to Central America. Local governments see the expansion of free trade zones as the path towards development.¹⁰⁶

The maquilas are located in strategic sites where they can get access to roads, phone lines and ports that allows them to keep connections with major cities and ship their merchandise in an efficient manner. For the industry, telecommunications services are vital; they need to make transactions and conduct business. They also need to keep ties with central offices located around the globe. Most of the expensive brand name clothing (GAP for example) is made in Central American nations, and most of the shirts sold in North America are made in Honduras. The product is shipped to the US to be sold in stores ranging from discount clothing outlets to designer boutiques.¹⁰⁷

In the region, by the end of the century, almost half million people worked in the maquilas industry; most of them are young women who have not finished high school. Their daily wage, in the early 2001, was not higher than five dollars per day (8 hours). If the workers ask for higher wages, the maquilas simply move to another place where labour is cheaper (Ramos, 2001).

¹⁰⁶ AFP. (2001). "El Salvador: Seis nuevas zonas de maquilas empezarán operaciones este año." La Prensa. Honduras. Centroamerica. March 28, 2001.

¹⁰⁷ Sarah Cox. "The rag trade goes South". The New Internationalist. Issue 246, August 1993. Available at: <http://www.oneworld.org/ni/issue246/rag.htm>

"In El Salvador, where foreign investment has jumped since the end of the civil war, the big drawing card of late is a fast-sinking wage rate. In August 1990, an advertisement published in the US trade journal Bobbin featured a young Salvadoran woman bent over a sewing machine. The advertisement, sponsored by the US-funded Salvadoran Foundation for Economic and Social Development (FUSADES), was captioned: 'Rosa Martinez produces apparel for US markets ...You can hire her for 57 cents an hour'. A year later the journal ran the same advertisement – instead of 57 cents an hour, Rosa could now be hired for 33 cents an hour."

There is no hope that the labour movement will change the situation because in Central America's free trade zones unions are not allowed (Gonzalez, 2000). The industry's power is evident. It is able to surpass local constitutional laws that grant workers the right to become part of a union.

Since the 1990s, state owned enterprises such as hotels, sugar refineries, and banks have been sold to the private sector. Everything is on sale in those nations, from garbage collection to public safety.¹¹⁰ Curiously, while the IMF and WB provide long and detailed accounts about the 'benefits' that privatization brings to LDCs, not one of those financial entities provides details about the whereabouts of the funds obtained with the sale of public property.

Capital has been transferred from rural to urban areas. An example of this is El Salvador. In 1992, income concentration used to be higher in rural areas, however, after 1994 income concentration has reached the same levels in urban and rural areas (See Annex 5, table 8).

The macroeconomic policies imposed by the international entities, and implemented by the local elites, have certainly had an impact on the lives of more than 32 million people living in the region. According to the United Nations Development Programme (UNDP), in Central America 56 per cent of people in urban areas lives in conditions of poverty. In rural areas the level of poverty

¹¹⁰ Alberto Barrera. (2001b). Reuters. "La seguridad pública en manos privadas" Enfoque sobre la realidad centroamericana. San Salvador, (Reuters) June 4, 2001. Available at: http://www.elnorte.com.ve/2001_junio/04/Especiales83.html.

reaches up to 71 per cent.¹⁰⁹ Most people in the region are worse off than they were twenty years ago. For instance, in Nicaragua, annual income has fallen from 999 US\$ in 1975, to 410 US\$ in 1999 (See Annex 3, tables 3 and 4).

After almost twenty years of neoliberal policies and structural adjustment, the future of Central America's nations does not look very promising. Extreme poverty, inequality, corruption, violence, and environmental deterioration are serious problems affecting this region located in the heart of the Americas. In searching for development, natural resources in the region have been over exploited. Civil wars in the region also caused severe damage in conservation areas and forests.¹¹⁰ In 2001, a prolonged drought affected Honduras, Nicaragua and El Salvador (Funes, 2001). Additionally, the price of coffee, which is also manipulated by the IMF,¹¹¹ fell and many farmers and peasants in the region lost income and their jobs (Gonzalez, 2001b).

In the region, people are getting tired of promises, corruption, poverty and inequality. They are living under the same conditions that were identified as the determinants for the violent civil wars that took place in El Salvador (1980-1992) and Guatemala (1957-1996). Some writers wonder if current conditions of poverty, inequality, lack of access, income concentration, and corruption will lead

¹⁰⁹ UNDP .(199) .Desarrollo Humano. Estado de la Region, p. 176.

¹¹⁰ In the region, fighting, fires, and tons of bombs dropped on mountains devastated a large part of the forests. Deforestation put in danger thousands of species only found in the region. Source: Brunilda Funes (1992). "La Deforestacion en America Central," Eco-Reports 2. The Panos Institute. Washington DC.

¹¹¹ Some experts argue that the WB and IMF injection of dollars into Vietnam to promote coffee crops has led to the fall in the prices affecting the rest of countries. Source: Rodolfo A. Ruffati. "El Mundo Bizarro del Cafe". La Prensa Grafica. August 14, 20001. <http://www.laprensa.sv>.

to new civil wars in the region.¹¹² It is in this context of extreme poverty and inequality that the privatization of telecommunications has been taking place in Central America.

Before the 1980s, in Central America, as in the rest of Latin American nations, the telecommunications sector was considered to be a national asset that could not be allowed to fall into foreign hands. It was also generally agreed that telecommunications was a 'public' good, and that the state had the obligation to provide accessible service to everyone.¹¹³ In Central America those ideas are no longer applicable.

Since the late 1990s, the telecommunications sector in most Central America's nations either has been sold or is in process of being sold to private-foreign conglomerates. Most of the new owners are European and American corporations.

In this shift from public to private ownership, it has been evident that states were ill prepared to assume their role as regulator. Regulation of transnational corporations has fallen in the hands of highly politicized local regulatory entities. Most telecommunications regulatory entities report directly to the president in power (See Annex 10, table 17). As we will see in next chapter,

¹¹² "In his article "A Tension of the Times", Jorge Castañeda argued that "because in Latin America today there is more inequality than before, and because Latin America was already more unequal than any other part of the world, the fragile democracy whose birth or resurrection was witnessed in the past decade is likely to be short-lived. Castañeda." As quoted in Gerd Schönwälder and Nobina Robinson. (2001). "Addressing Poverty and Inequality in Latin America and the Caribbean: a Social Primer." Canadian Foundation for the Americas (FOCAL). Available at: www.focal.ca.

¹¹³ Eli Noam. (1992). *Telecom in Europe*. New York: Oxford University Press.

those regulatory entities frequently lack the power to enforce their own policies. While they have been able to guarantee the rights of private investors, the rights of consumers and the ideal of facilitating access to the poor have been put aside.

In these societies, where extreme poverty and extreme inequalities in the distribution of the income continues to be the norm, many people have no access to telecommunications services. The major beneficiaries of modern telecommunications are the transnational telecommunications corporations that have gotten exclusive rights, other corporations (such as the maquilas) and all of those who are able to pay for the services.

As Herbert Schiller asserts, in a society dominated by private companies, access has to do with income (Schiller, 2000). It is hard to imagine how citizens living in countries where annual per capita is just 410 US\$, will get access to telephone or more advanced telecom services. It is harder to imagine that for those millions of people living in extreme poverty, the main concern would be having a phone line.

This research has described how TNCs depend on modern telecommunications to keep their global ties. When they decide to open their shops, they also look for lower operational costs. A privatized telecommunications sector provides them with modern and inexpensive telecommunications networks that facilitate the accumulation of capital.

The next chapter, the case study section, provides details on telecommunication privatization processes implemented in several Central American nations.

Chapter IV
Central America
El Salvador, Guatemala, Honduras, Nicaragua, and Costa Rica

CHAPTER IV

Central America: The Political Economy of Telecommunication Privatization

Case Studies:

El Salvador, Guatemala, Honduras, Nicaragua, and Costa Rica

This chapter provides a series of case studies that detail the telecommunications privatization process in El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica. The case studies start by providing a brief overview of the country, and then present particular aspects regarding the privatization process. The chapter includes some data on the use of wireless (mobile) telephony in the region as well.

To facilitate the data analysis, in this chapter the countries have been separated into three groups. The first group consists of El Salvador and Guatemala. These two nations show an advanced stage in the telecommunications privatization process and have followed a similar model of “privatization and full competition” (Pisciotta, 1997). The second grouping is Honduras and Nicaragua. Currently, both countries are in the process of selling their telecommunications sectors. Finally, Costa Rica will be discussed. This nation has followed a different approach and is slowly opening competition without privatizing the sector.

In the cases of El Salvador and Guatemala, group 1, the study focuses on the privatization process, the role of telecommunications regulatory agencies,

and some of the problems faced after privatization had occurred. In group 2, Honduras and Nicaragua, the research focuses on the privatization process preparations and the pressures exerted by lending entities such as the WB and IMF.

Group 1- El Salvador and Guatemala. Frantic privatization-weak regulation

El Salvador

El Salvador is located in the heart of the Americas. With its 20,000 km², and a population 6.2 million people (242 inhabitants per km²), the country is considered as the most overpopulated in the Americas. The World Bank has catalogued the country as "primarily agriculture exporter". In the last twenty years the country has undergone twelve years of civil war, a devastating hurricane (Mitch), and at least three powerful earthquakes. Currently, more than half of the population lives below the poverty line (Mejía, 2002).

The country has been designated as one of the most dangerous places to live in the world. The number of murders, kidnappings and all types of illegal transactions have increased in the last ten years.¹¹⁴ In the year 2000, for instance, 7,640 people were killed (Dalton, 2001). Paradoxically, despite the violence and destruction left by the war, the country is considered as one of the most technologically advanced in the region.

¹¹⁴ According to the Pan American Health Organization (PAHO), in Central America, after the civil wars, there are still a large number of weapons in circulation (PAHO, 1997).

The military, which controlled the country for several decades, still retains a lot of power. It has an annual budget of 100 million US\$, and at the beginning of 2001, the government disbursed another 30 million US\$ to buy new helicopters (Breny Cuenca, 2001). Evidently, military expenses are still high for an army whose enemies have now converted to the political life. These days, most former guerrilla 'comandantes' have become business people or political leaders.¹¹⁷

In the late 1980s, President Alfredo Cristiani (1989-1994) introduced major changes to the economy. Following a neoliberal agenda, the government began to sell state owned property. Sugar refineries, banks, financial institutions, hotels, fish plants, and distilleries became privatized during his mandate. Armando Calderon Sol (1994-99) and current President Francisco Flores (1999-to date) have continued with those reforms. However, as Salvadoran scholars contend, one of the major flaws in the economic model imposed in El Salvador is that it is unable to address the needs of the population (Proceso 747, 1997).

The political and business elites have supported the privatization of state owned enterprises, including telecommunications. They argue that a privatized, more efficient telecommunications system will solve economic problems, will attract foreign investment, and will insert the country into the global economy.

Researchers from El Salvador's Jesuit Catholic University point out that many accepted privatization as a justified imposition which was needed to reach

¹¹⁷ Guillermo Mejía. (2000). "El Salvador: La revolucion que no fue," 20 de Abril, 2000. *La*

a sustainable development. Privatization promised to reduce the size of the state and diminish the fiscal deficit. The assumption was that the state would use the money to pay the external debt and to increase social spending. However, none of these goals have been attained. In the words of local researchers:

The privatized banks are certainly more efficient, but their interest is higher, so they have not stimulated production. As for the privatization of electricity, as soon as the distribution of electricity was privatized the rates went up. Legal conditions impeded the government to stop the price increase, and the private Electricity Company has exclusivity rights for the next ten years. Regarding telecommunications privatization, it is too soon to say whether or not it will offer a better service. However, the experience in other nations shows that service might become better, but also the price goes up. In addition, corporations distribute the market amongst themselves, and the idea of competition becomes just an illusion.¹¹⁶

Despite the domestic complaints, opening markets and selling public property pleased the multilateral organizations and the US. According to the US Information Service, El Salvador offers great investment opportunities. The country has an open investment regime, and the government officially promotes foreign investment in virtually all sectors of the economy. The law allows unlimited remittance of net profits for most types of business.¹¹⁷ Manufacturing TNCs such as the maquilas, are considered as a crucial element in the country's economy.¹¹⁸

Opinion. Los Angeles, U.S.A. Available at: <http://www.laopinion.com/archivo.html>.

¹¹⁶ Central America's Catholic University. "La privatización: el fanatismo económico de la modernización." Editorial. <http://www.UCA.ES.1998.593edi>. San Salvador, March, 30 1998.

¹¹⁷ El Salvador. US Embassy, commercial information. <http://www.usinfo.org.sv/econcomm3.htm>

¹¹⁸ Guillermo Mejía, (200). "El Salvador: Un aniversario gris," *La Opinion*. Los Angeles U.S.A. Mayo 26,2000. Available at: <http://www.laopinion.com/archivo.html>.

In 1996, following instructions from the international lending entities, the Salvadoran government decided to privatize the telecommunication system. One of the first steps was to increase tariffs. The basic monthly fee was doubled to 6.02 US\$ for residential subscribers and to 12.05 US\$ for businesses. The local rate per minute was more than doubled to 1.80 cents US\$, but the rate to the United States was reduced to 0.80 US\$ (Raventos, 1988:44).

In the media, the idea of implementing the telecommunications privatization plan was promoted as a local initiative rather than one supported by international lending entities. However, the labour movement and political opposition parties were opposed to the privatization of telecommunications. Instead of privatization, they proposed an alternative plan for modernizing the telecommunications sector. In the plan they argued that basic telephone service was a public need and a right:

...it is generally accepted that a modern telecommunications infrastructure is necessary for the economic development of a nation. At the same time, the UN now recognizes basic telephone service as a necessary service that should be available to everyone.¹¹⁹

To implement the telecommunications privatization plan, the government needed to change the Telecommunications Law. The first privatization law concerning the National Telephone Company (ANTEL) was approved on April 2, 1997. However, one month later, the opposition repealed the law.¹²⁰

¹¹⁹ Internal Document . (1997). Telecommunications Union of El Salvador. ASTTEL.

¹²⁰ ACAN-EFE. (1997). "Sale of Salvadoran telecom company approved." November 8, 1997. La Nacion Digital. <http://www.nacion.cr>.

The ruling National Republican Alliance (ARENA in Spanish) made some changes to the project and a new telecommunications law was finally approved in July 1997 (Proceso, 779, 1997).

El Salvador's telecommunications law is now considered as one of the most liberal telecommunications regimes in Latin America. The law encourages maximum competition in all aspects of telecommunications and permits foreign investment in all areas. The only functions reserved to the government are resolution of interconnection charge disputes and spectrum allocation, and in those cases the discretionary power of the government is limited (Raventos, 1998).

When the current telecommunications law was enacted at the end of 1997, the government argued that the new legislation was designed to fulfil the government's social task of protecting consumers, and also to establish a legal framework capable of promoting market competition.¹²¹ In the text of the Telecommunications Law, it is interesting to see how the policy-makers shifted from the term 'citizens' to 'consumers'. The law states:

That with the intention of guaranteeing to *the citizens* the benefit of having essential public services in the community, it is necessary that the dispositions allow the State- -in accordance with the effective constitutional frame—to fulfil the social function of protecting *the consumers* in obtaining these services.¹²²

¹²¹ SIGET. 1997. Telecommunications section, Spanish version. <http://www.siget.gob.sv/>

¹²² El Salvador's Telecommunications Law. Spanish. Introduction. (Italics and bold added). 1997.

One year after the new Telecommunications Law was passed the sector became private. On July 24, 1998, the National Telecommunications Company (ANTEL) changed its name to Compania Telefonica de El Salvador (CTE) and was sold to France Telecom for 275 million US\$. France Telecom acquired 51 per cent of the total shares, the government kept 25%, 10 % was to be sold to the telecommunication workers, and 14 % would be sold to telephone line holders. In the same month, July, the government sold INTEL, the B band (for wireless communications) and collected \$41 million US\$. Spain's Telefonica became the new owner.¹²³

The public telecommunications company had been very profitable, providing about 50 million US\$ in annual profits. However, it needed new investments because seventeen per cent of its exchanges were analog. The government argued that it could not provide the capital to convert those exchanges to digital. According to the government, France Telecom offered to invest a thousand million dollars over a term of ten years, and the number of phone lines would be increased from 387,000 up to 512,000.¹²⁴ Privatization also opened the market to increase the sale of telecommunications equipment. It was expected that France Telecom would use French suppliers (e.g. Alcatel) to purchase equipment.¹²⁵

¹²³ AFP. (1998). "France Telecom compra 51% de acciones de telefonica estatal." July 1998.

¹²⁴ AFP. (1998). "France Telecom destina mil millones de dolares a telefonía salvadoreña." September 17, 1998.

¹²⁵ US Embassy. El Salvador. Available at: <http://www.usinfo.org.sv/econcomm.htm>.

In total, in 1998, El Salvador's government made 1.2 billion US\$ with the sale of state owned enterprises, such as the telecommunications sector, pension plans, and distribution of electricity. That amount represented more than 10 per cent of the GDP for that year. With the privatization wave going on, the US embassy in El Salvador called 1998 "a wonderful year" (US Embassy, San Salvador, July 1998).

For hundreds of telecommunications workers, however, 1998 was not so 'wonderful'. A few months previous to the sale, on January 2, 1998, 71 union members were fired from the reorganized telecommunications sector. According to newspapers' reports, the government was preparing to sell and did not want to have 'obstructions'. From a legal point of view, the changes in ownership and the change of name, was enough to dismantle the four unions that had operated in the sector.¹²⁸

In fact, for the government and its local supporters dismantling the unions meant, "pay back time". During the long years of civil war, the telecommunications workers and their unions had strongly supported the guerrillas of the Farabundo Marti Liberation Front (FMLN), and with the peace accord their support had shifted towards the new FMLN political party.¹²⁹

For consumers, privatization did not bring good news. As researchers from the Salvadoran Catholic University pointed out, once the privatization of the

¹²⁸ EFE- Wire Services. (1998). "Union leaders could mar privatization" January 8, 1998. Available at: La Nacion Costa Rica. <http://www.nacion.cr>.

¹²⁹ At that time, the researcher used to cover labour and social issues in Central America.

telephone service was implemented, charges tended to go up instead of going down (Proceso 884, 1999).

The privatization of telecommunications was only one of the recommendations 'suggested' by international financial entities. Health care, roads, and many other services will soon become private. The World Bank argues that El Salvador needs to go further on with the reforms, in order to "implement the social and competitiveness agendas" (WB: El Salvador: country brief, 1999).

SIGET: Regulations, for whom and in whose benefit?

The telecommunications regulatory entity in El Salvador, the General Superintendence of Electricity and Telecommunications (SIGET), was created in 1996, and its role was modified in 1997 with the creation of the new Telecommunications law.

The General Superintendent of Electricity and Telecommunications (SIGET) controls the telecommunications and electricity sectors, and a Board of Directors, composed of three titular members and two alternates, is its top authority. The Chairman of the Board, who also occupies the post of Superintendent, is appointed by the president and reports directly to him (ITU-

BTD). The other four members are chosen by the Supreme Court of Justice (2) and (2) by the organizations that comprise the private sector.¹²⁸

In El Salvador, it has become evident that the Superintendence is just another political post controlled by government and market interests, and that the entity lacks the power to apply regulations that negatively affect the interests of transnational corporations. In short, the regulatory entity lacks the power to apply its own policies. Consider for example:

- **In the year 2000, CTE- Telecom (France Telecom) the private owner, was taken to court and found guilty of spying on journalists, politicians, business people, and members of NGOs. Following regulatory procedures, SIGET issued a fine: Telecom had to pay 60,000 US\$.¹²⁹ CTE-Telecom evaded paying the fine; SIGET could not enforce its own rules and retracted the fine.**
- **In July 2001, the Supreme Court overturned SIGET's September 2000 decision to retract a 60,000 US\$ fine imposed on Telecom for alleged wire-tapping. Telecom had to pay the fine.¹³⁰**
- **In January 2001, SIGET granted an automatic 15 per cent rate hike based on CTE-Telecom meeting network expansion goals. SIGET is in charge of authorizing rate increases, but, according to the law, in order to authorize any rate**

¹²⁸ Wellenius (2000:218) in one of his recent articles indicates that "unions" have to do with the selection of these board members. According to him, labour unions have voice in the decisions regarding the telecommunications sector. However, that is a mistake. Those members are chosen by the most powerful business organizations in El Salvador: The National Association of Private Enterprises (ANEP, in Spanish). See SIGET/Organization: <http://www.siget.gob.sv>

¹²⁹ Data from: Diario de Hoy June 8, 2000. "Telecom sancionada por intervencion." 2. La Prensa June 9, 2000 "Escandaloso espionaje telefonico en El Salvador" <http://www.laprensahn.com>

increase an audit confirming network expansion is required. In the case of Telecom, there was no audit. Telecom presented documents and the rate hike was approved. It became evident that future hikes were built into the concession. The five year contract signed by the government allows Telecom to impose 15 and 20 per cent rate increases as many times as it wishes. Telecom controls 92 per cent of the main lines.¹³¹

- In June 2001, Telecom announced another 20 per cent rate increase. Telecom argued that in two years, the transnational corporation had expanded the local network, from 375, 000 lines to 634,554, and that it had become 100 per cent digital.¹³² However, at that time, there was no audit to prove such a claim.
- On August 24, 2001, SIGET Superintendent, Ernesto Lima Mena, criticized the contract signed by the government and said that it could be renegotiated in order to protect consumers. Neither Telecom nor the government was willing to do that. On September 1, the Superintendent was “voluntarily” dismissed. In El Salvador, the telecommunications regulatory entity, and its Superintendent of course, responds directly to the Head of State (See Annex 10, table 17). According to Eduardo Geovany Lozano, Director of SIGET’s telecommunications sector, Lima was trying to avoid further increases to the tariffs applied to local

¹³⁰ Source for this and next paragraph: CNN-Business. (2001). July 25, 2001. Available at: <http://www.cnn.com/2001/BUSINESS/06/05/bna.summary>.

¹³¹ Diario de Hoy El Salvador June 5, 2001. Available at: <http://www.elsalvador.com>

¹³² Idem.

consumers. By September 2001, the government was still seeking a new Superintendent.¹³³

In conclusion, in El Salvador the telecommunications privatization process has brought about an increase in the number of phone lines, and also private companies have been able to introduce wireless mobile communication services. However, it does not mean that the poor have better access to those services (See Annex 6, tables 9 and 9.1 and Annex 9, tables 15 and 16).

Most of these services are concentrated in urban areas, particularly where the population with higher income lives and works. And even urban areas are divided between "haves and have nots". For instance, fiber optic networks run in the wealthy sector of the city. Moreover, not everyone can afford to pay for these services. Monthly services including TV cable, phone and internet connection cost about 70 US\$, and in El Salvador the minimum wage is about 120 US\$ per month (Barrera, phone interview, March 20, 2001).

According to Geovany Lozano, Director of SIGET's telecommunications sector, the idea of universal service and rural telecommunications was not taken into consideration at the moment of privatization. Therefore, rural areas still have low coverage (E-mail Interview, Lozano May 16, 2001).

Finally, the case of El Salvador shows that in some LDCs it is difficult to keep the distance between regulatory agencies and TNCs. It also shows that market interests dominate the telecommunications scene.

¹³³ With data published in *Diario de Hoy*, electronic version. El Salvador August 24 and

B. Guatemala: A contested telecommunications privatization

Guatemala, as most nations in the region, has great natural resources; however, social and economic inequality keeps a large portion of its population living in conditions of extreme poverty. According to the World Food Programme, in Guatemala 80 per cent of the people already live under the poverty line and malnutrition is the third- leading cause of death. The country has about 11 million inhabitants and about 32 per cent of them are illiterate.¹³⁴

According to the World Bank, Guatemala is the nation with the largest economy and the largest population in Central America (See Annex 2, table 2). About 60 per cent of the population belong to indigenous groups.

During the 1990s, Guatemala started to implement a neoliberal economic plan which, among other things, included the privatization of state-owned enterprises such as pension plans, health care, electricity and telecommunications.¹³⁵

By the early 1990s, Guatemala —still in the midst of a civil war that ended in 1996—did not have very extensive phone coverage. There were about 231,000 lines, equivalent to 2.3 lines per 100 inhabitants. In 1993, the government began a rural telecommunications modernization project that would

September 1, 2001. Available at: <http://www.elsalvador.com>.

¹³⁴ AFP. (1999). "Guatemala. Crisis financieras no afectarán a Guatemala, afirma presidente Arzú." June 30, 1999.

¹³⁵ The company of Electricity, Empresa Eléctrica, was privatized in July 1998. It was sold to a corporate group (from Spain, the US, and Portugal) in US\$520 million. After one year of

add 17,700 lines. At that time, Guatel (which later on changed its name to TELGUA), had revenues of 168.3 million US\$ and had 5,333 employees.¹³⁶

In the years prior to privatization, the government invested about 75 million US\$ in developing wireless loops, a fiber optic connection to Mexico and two fiber optic rings in Guatemala city (Raventos, 1998).

The privatization process of the telecommunications sector in Guatemala began almost at the same time as El Salvador's. In 1997 international lending entities provided consultants and loans to initiate the shift from public to private telecommunications services. Pedro Raventos, a researcher who has studied the privatization processes in the area, notes that Guatemala's telecommunications laws were done under the direction of the same consultants that designed El Salvador's telecommunications privatization: Pablo Spiller and Tom Hazlett. However, in the case of Guatemala, the consultants made a few changes. For instance, while in El Salvador spectrum concessions will last 20 years, in Guatemala they are for 15 years. (Raventos, 1998:45).

Another particular aspect in Guatemala's telecommunications legislation was the creation of a 30 million US\$ fund to support the development of rural telephony. According to the law, 70 per cent of the sale of telecommunications spectrum would go directly to this fund.¹³⁷

privatization, the consumers were paying 41 cent more than they paid before. In response, on June 2000, the government menaced to sue the corporation. Prices went down.

¹³⁶ Sheryl Russell. (1998) "Guatemala". In *Telecommunications in Latin America*. Eli M. Noam (ed.) New York-Oxford: Oxford University Press. pp. 44-51.

¹³⁷ Guatemala. Superintendencia de Telecomunicaciones. Available at: <http://www.sit.gob.gt>

However, unlike El Salvador, in Guatemala the privatization process did not go smoothly. In December 1997, the government attempted, for the first time, to sell TELGUA, Guatemala's telecommunications enterprise. The government did not succeed. The only bid it received was from Telefonos de Mexico, Telmex. The offer, (529 million US\$) did not fulfil Guatemala's government expectations.¹³⁸

Almost one year later, in October 1998, the telecommunications sector was sold, and it changed from state monopoly to private monopoly. The government sold 95 per cent of the shares of TELGUA (Guatemala's Telephone Company) to Luca S. A., a local corporation which included capital from Guatemala and Honduras. Luca S. A. offered to pay 700 million US\$. The remaining shares, five per cent, were to be sold to TELGUA's employees. According to Alvaro Arzú, then Guatemala's president, "It was a good business because currently telephony only can be managed by big corporations because it requires high investments to provide the latest technology."¹³⁹

TELGUA was sold, but the story of TELGUA's privatization did not stop there. The new owner had to pay the 700 million US\$ within a period of three years. However, Luca S.A., the new owner, declared bankruptcy and sold the shares to Telmex, the Mexican corporation whose main shareholder is Carlos Slim.

¹³⁸ Maricel Sequeira. (1998). Inter Press Service (IPS). "Se busca nuevo dueño para tres telefónicas." July 1998. Archives: <http://www.laprensahn.com>

In March 2000, TELMEX took control of 80 per cent of TELGUA's total shares. In June that same year, Guatemala's president, Alfonso Portillo, considered that the sale had not benefited the country because TELGUA had not invested money in the telecommunications infrastructure, and it had increased the tariffs on several occasions (Excelsior, June 13, 2000).

The new private monopoly had raised rates up to a 400 per cent higher than before privatization. However, in June 2000 TELGUA was forced to drop out of its announced phone rate increase.¹⁴⁰

In September 2000, Guatemala's government took TELGUA to court. The government wanted to revert the privatization process and argued that TELGUA's sale had been illegal because it was sold to a corporation registered only five months before the transactions were made. In addition, the government argued that the buyer at the moment of the transactions had practically no capital, just five thousand (5,000) Quetzales, about 800 US\$.¹⁴¹ The American embassy in Guatemala, in its commercial section, mentioned that there were other irregularities involved in the sale:

The Government's case will be aimed at having the sales contract declared invalid because it was signed in New York and is written in English, both contrary to Guatemalan law. In addition, Vice President Francisco Reyes questioned publicly why TELGUA was allowed to retain radio frequencies that

¹³⁹ AFP. (1999). "Guatemala. Crisis financieras no afectarán a Guatemala, afirma presidente Arzú." June 30, 1999.

¹⁴⁰ ACAN-EFE. (1999). "Guatemala. Estado guatemalteco amenaza con procesar a empresa si no baja tarifas." June 28, 1999.

¹⁴¹ La Hora. (2000). "Guatemala. MP se prepara para actuar en caso TELGUA". June 9, 2000. Available at http://www.lahora.com.gt/9-06-2k/paginas/nac_1.htm.

could have been auctioned for 400 million Quetzals (approximately \$50 million), but for which the company paid nothing.¹⁴²

Guatemala was seeking a compensation of about 80 million US\$ from Carlos Slim, main shareholder of Mexico's Group Carso, owner of Telmex and TELGUA. Guatemala's president and his advisers, in an interview with Mexican newspaper La Jornada, said that Slim was involved in "serious and scandalous irregularities in the acquisition of TELGUA."¹⁴³

The power of the TNCs started to show in November 2000. TELGUA's lawyers argued that that the office of the Attorney General is an autonomous entity and Guatemala's President had no power and no right to instruct the office to issue a demand against the corporation. The process against TELGUA stopped while the Constitutional Court (CC), top legal entity in the country, decided whether the president had the right to instruct the office of the Attorney General. In March 15, 2001, the Constitutional Court (CC) decided that President Alfonso Portillo had the right to use the power of the Attorney General to revert the telecommunications privatization process. At the end of 2001, TELGUA's ownership was still in dispute.¹⁴⁴

In Guatemala, as in El Salvador, power relations among several sectors were involved in the telecommunications privatization process. The government,

¹⁴² U.S. Commercial Service in Guatemala City. July 20, 2001. Available at: <http://www.telecom.ita.doc.gov/>

¹⁴³ La Jornada .(2000) Irregularidades de Slim en la compra de TELGUA" September 12, 2000. Available at: <http://www.jornada.unam.mx/2000/sep00/000912/022n1eco.html>

¹⁴⁴ Prensa Libre.com .(2001). "Reactivan proceso contra TELGUA" March 16, 2001. Available at: <http://www.prensalibre.com>.

TNCs, and international entities showed their interests in controlling the sector. And there was no indication that privatization had advanced the cause of the poor or facilitated their access to telecommunications services.

SIT: The (Invisible) Regulator

In Guatemala, the Superintendence of Telecommunications (SIT), created in 1996, is in charge of regulating the telecommunications sector. The Minister of Communication, Transport and Public Works appoints the Superintendent. The minister can overturn any regulatory decision made by this entity as well (Wellenius, 2000).

In comparison to El Salvador's SIGET, SIT has kept a lower public profile. Most of its involvement has to do with technical issues such as enumeration, spectrum assignation, and licenses. The president in power has led most of the legal and public battles related to rate increases and the telecommunications privatization process.

To conclude this case, it is important to note that telecommunications privatization in Guatemala was supposed to bring development to the country and it was also supposed to open the market and bring immediate competition. However, competition did not occur in the way that it was planned. During more than six months there was a private telecommunications monopoly in the country: TELGUA.

In 1999, two other corporations, Espanola Telefonica (Spain) and COMCEL (investors from El Salvador, Honduras and Guatemala) started operations in Guatemala. Another 15 telecommunications businesses had also asked for licenses to operate in the market. In 1999, Telefonica became the owner the digital wireless services. At that time the corporation had about 40,000 customers using digital cellular phones.¹⁴⁵

But, for the millions of Guatemalan living in conditions of poverty and inequality neither privatization nor the arrival of new telecommunications businesses means increased access to services. The majority of people simply cannot afford those services.

Group 2.

Honduras and Nicaragua: Telecommunications privatization IMF-WB style

A. Honduras: A failed telecommunications privatization

Honduras, a land of an almost savage natural beauty and extensive natural resources, is considered to be one of the poorest and most undeveloped nations in the Americas. About 6.3 million people inhabit this nation and about 65.9 per cent of them live below the poverty line.¹⁴⁶ In Honduras, as in the other Central American nations, inequality in income distribution is one of the causes of

¹⁴⁵ AFP .(1999). "Madrid. Telefónica invertirá en Guatemala 400 millones de dólares." July 30, 1999.

¹⁴⁶ See: Interim Poverty Reduction Strategy. (2000). Honduras's government. July 2, 2001. Available at: <http://www.imf.org>.

poverty. According to the United Nations the richest 10 per cent of the population gets 44.4 per cent of the national income (Report on Human Development, UNDP, 2001). According to the World Bank, by 1999, the annual income per capita was 760 US\$, and more than a quarter of the population was illiterate (See Annex 3, tables 4 and 5).

In the search for foreign capital, the government has allowed the exploitation of mineral and natural resources, and as a result environmental deterioration is rising. Every year, 100,000 hectares of old forests are cut and several ecologists fear that at this rate Honduras forest will disappear in twenty years.¹⁴⁷ Environmental changes and Hurricane Mitch (1998),¹⁴⁸ which devastated a large part of the country's infrastructure, have also contributed to make things worse.

Honduras also has one of the largest external debts in the region. In the last twenty years, the external debt has increased from 341 million US\$, to 4,500 million US\$ in 1998 (Garcia Morales, 1998).

¹⁴⁷ "Destruccion Ecologica". Available at: <http://www.laprensahn.com/natarc/0107/n05005.htm>.

¹⁴⁸ Hurricane Mitch, Oct 26 - Nov 4, 1998, is considered as the deadliest hurricane since 1780. In Honduras it left an estimated of 6,500 dead with up to 11,000 missing (presumed dead). Up to 1.5 million people were displaced and homeless. Estimates of the total damage in Honduras reached about 5 billion US\$. Honduras' president, Carlos Flores, claimed that the storm destroyed 50 years of progress. The resulting floods and mudslides virtually destroyed the entire infrastructure of Honduras and devastated parts of Nicaragua, Guatemala, Belize, and El Salvador. Whole villages and their inhabitants were swept away in the torrents of flood waters and deep mud that came rushing down the mountainsides. In the region, several villages and hundreds of thousands of homes were destroyed. More details can be found in Mitch: The Deadliest Atlantic Hurricane Since 1780. 2. La Prensa de Honduras www.laprensahn.com. Available at: <http://www.ncdc.noaa.gov/ol/reports/mitch/mitch.html>.

Economic problems have put this highly indebted nation in the hands of international lending entities. The World Bank and International Monetary Fund currently exert tight control over the country's macroeconomic operations. In order to get further loans, or to be considered for debt forgiveness programs, Honduras has to follow the structural plan designed by the WB and IMF experts. The deal is part of the Enhanced Structural Adjustment Facility (ESAF), a program designed by the IMF which "provides assistance on concessional terms to low-income member countries, in support of macroeconomic adjustment and structural reforms, to lay the basis for high and sustainable growth and external payments viability" (www.imf.org). In short, ESAF involves a shift of power from governments to the IMF-WB.

Honduras signed the first ESAF in 1999, and became one of the 60 LDCs that have accepted that type of loan. The loan covers a period from 1999 to 2001. In that period, the IMF will disburse 215 million US\$ to support macroeconomic programs.¹⁴⁹ The loans, however, are conditioned: If the country does not follow IMF-WB instructions, they will stop. In the ESAF framework, the government was expected to accelerate the privatization of water services, airports, electricity and telecommunications by early 2000.¹⁵⁰ At the same time.

¹⁴⁹ La Prensa. A empresa extranjera será vendida Hondutel. La Prensa. May 22, 1999. Available at: <http://www.laprensahn.com>.

¹⁵⁰ La Prensa. Proceso de privatización culminará en primer semestre del otro año. July 8, 1999. Available at: <http://www.laprensahn.com>.

and to attract possible bidders, public services' rates had to be increased.¹⁵¹

Honduras also has to reduce subsidies to public services, keep the current table of salaries, and increase social security payments.¹⁵²

According to the government, the ESAF program will provide better social conditions, and will increase economic and social stability. Those were the same promises that the population heard at the beginning of the 1990s, when the structural adjustment and privatization programs began in the country.

Since the early 1990s, telecommunications, the most profitable Honduras' state-owned enterprise, was on top of the list of enterprises in search of new owners. The privatization process of the sector started back in early 1990s, but "at that time it was impossible to pass legislation that would allow the sale of the company, partly due to strong union opposition" (Raventos, 1998: 37). The Telecommunications Law was reviewed in December 1995. The reforms allowed for the sale of the sector and divided Hondutel, the National telephone company, into two different corporations: Conatel and Hondutel. The former became the regulator and the latter the operator. In early 1996, through decree 216-96, the government approved a 25 years concession, and also 10 years of exclusivity to Hondutel.¹⁵³

¹⁵¹ La Prensa. Tres centavos más por cada minuto valen las llamadas telefónicas .April 6,1999. Available at: <http://www.laprensahn.com>.

¹⁵² La Prensa. "FMI pone de rodillas a Honduras." April 6,1999. Available at: <http://www.laprensahn.com>.

¹⁵³ Ley de Telecomunicaciones. July 20,1999. Available at: <http://lanic.utexas.edu/project/sela/privatizacion/estudios/privhon.htm>

At the beginning, the law allowed the sale of 47 per cent of the shares to a strategic client. Additionally, 2 per cent were to be sold to the workers while 51% would be controlled by the state (Raventos, 1998). However, in order to approve the shift from public to private, further reforms were needed. It was not until September 1998 that these reforms were completed. This time, the government would sell 50 per cent to the foreign buyer, 4 per cent would be distributed among workers and local users, and the state would have control over 46 per cent of the shares. The law would allow signing a 25 years concession, with any foreign buyer.¹⁵⁴

In July 1998, the government received the first offers. Initially, seven transnational corporations were interested in buying the telecommunications business. However, by the end of September only four corporations had shown real interest in the bidding process: Telmex, Spain's Telecom, France Telecom, and AT&T.¹⁵⁵ In October 1998, Hurricane Mitch put a halt to the privatization of the telecommunications sector.

In early 1999, the pressures from abroad were increasing. The IMF and other creditors wanted to see advancements in the telecommunications privatization process. Because of delays in the process, the IMF threatened to

¹⁵⁴ Available at: <http://www.conatel.hn/Legal/reglamento.htm>.

¹⁵⁵ La Prensa "Siete Multinacionales interesadas en telefonica Hondureña." July 24, 1998. Available at: <http://www.laprensahn.com>.

stop the loans. Moreover, in order to be considered for debt forgiveness programs, Honduras had to pursue the privatization process.¹⁵⁶

In October 1999, Honduras approved a new law authorizing the sale of 51 per cent of Hondutel to a foreign client. The government argued that the change was necessary to attract foreign bidders interested in having total control of the telecommunications business.¹⁵⁷ The reforms would allow workers to buy 2 per cent of the shares, local business two per cent, and the government would keep 45 per cent.¹⁵⁸ The new law, similar to Mexico's Telecommunications Law, would require the new owner to install a minimum of two public phones in communities of 500 or more people.

By November that same year, a new bidding process began. In December 1999 there were six corporations interested in buying Hondutel. However, the government expected more offers and extended the bidding period up to January 2000.

By January 2000, eight corporations had shown interest in making an offer. Finally, in September, at the end of the bidding process, there were only three corporations interested: Telmex, Spain's Telefonica, and France Telecom. The government had to stop the privatization process because the companies participating in the bidding process asked for an extension to put together an

¹⁵⁶ La Prensa. "Si no se capitaliza Hondutel no hay acuerdo con el FMI." August 22, 1998. Available at: <http://www.laprensahn.com>.

¹⁵⁷ La Prensa. "Socio de Hondutel debe tener el control." May 22, 1999. Available at: <http://www.laprensahn.com>.

offer. The sale was postponed until October 2000.¹⁵⁹ On October 16, 2000, the government was ready to sell Hondutel.¹⁶⁰ However, by this time the only bidder was Telefonos de Mexico (Telmex) and the offer it made (106 million \$US) was well below the 300 million US\$ expected by Honduras' government.¹⁶¹

In January 2001, the government once again began preparations to launch a new bidding process.¹⁶² In order to attract buyers, Hondutel announced the elimination of 20 per cent of its workforce. Hondutel employed about 4,000 people and the downsizing would affect 800 of them.¹⁶³

In February 2001, when an independent agency appraised the value of Hondutel, it was discovered that the corporation had an active capital of about 359.5 million US\$.¹⁶⁴

On May 3, 2001, the government stopped the telecommunications privatization process. The government argued that downturns in the international economy, together with downturns in technological markets, made it impossible to sell the telecommunications sector at a reasonable price.

¹⁵⁸ La Prensa. "A recibir ofertas para la privatización de telefonía". November 8, 1999. Available at: <http://www.laprensa.com>

¹⁵⁹ Reuters. (2000). "Honduras pospone nuevamente privatización de telefónica" September 14 2000. Yahoo news.

¹⁶⁰ La Prensa. "Fracaso de Hondutel." October 19, 2000. Available at: <http://www.laprensa.com>

¹⁶¹ Latin.com. (2001). "Hondutel sale runs aground." Vol.4, N20. November 3, 2000

¹⁶² Governance World Watch. (2001). February 2001, issue 24. Available at: <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan000206.pdf>.

¹⁶³ Reuters. "Honduras recortará 20 pct plantilla Hondutel para privatización" May 15, 2001. Yahoo news.

¹⁶⁴ La Prensa. "Hondutel sostiene mora de 222 mil millones de dólares" 27 de febrero de 2001 www.laprensa.com.

On May 15, 2001, the government announced its decision to invest 100 million US\$ for improving telecommunications in the country. In a nation where most people live in conditions of extreme poverty, and where hunger is killing many of its children, the idea seems contradictory. However, according to the government, the investment would make the telecommunications sector more attractive to international bidders. The modernization plan includes the installation of fiber optic in strategic areas, installation of cable linkages in Puerto Cortes (the area where the maquilas industry is located), and expansion of wireless telephone networks.¹⁶⁷ On the same day those investment were publicized, the public and members of Congress became aware of new data on Hondutel's operations. An official inquiry discovered that Hondutel was a very profitable corporation. Hondutel's annual net profits reached 120 million \$US, that amount surpassed the amount offered by Telmex in the last bidding process.¹⁶⁸

The telecommunications privatization process has stopped. Currently, the IMF/WB alliance is not exerting pressure to continue with the telecommunications privatization. It seems that they will wait until more public money is invested in the sector. These days, the IMF- WB interest has shifted to the banking and electricity sectors. Honduras has signed an accord with the IMF to let the

¹⁶⁷ La Prensa. "Hondutel valdrá más de 300 millones de dólares." May 15, 2001. Available at: <http://www.laprensahn.com>.

¹⁶⁸ La Prensa. "Hondutel gana al año mas de lo que ofrecen por su compra." May 17, 2001. Available at: <http://laprensahn.com>.

International Finance Corporation (IFC)¹⁶⁷, which provides financial and technical support to the private sector, run all the details regarding the privatization of electricity.¹⁶⁸

The Regulator: CONATEL

In Honduras, the National Telecommunications Commission (CONATEL),¹⁶⁹ created in 1995, is in charge of formulating and implementing a national telecommunications plan. It also promotes private investment in the sector. The entity classifies services, assigns tariffs, and provides licenses to telecommunications operators.

Reforms made to the Telecommunications Law also introduced changes regarding Conatel's priorities and the way in which the regulator is governed. Currently, CONATEL has to help the country's president in power to formulate and implement telecommunications policies. The Commission has three permanent members, and two substitute chosen by the president through his

¹⁶⁷ The IFC is a member of the World Bank Group. It was established in 1956 and is the largest multilateral source of loans and equity financing for private sector projects in LDCs. www.ifc.org The WB and the IMF work together in establishing loan conditions. See: "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality." Available at: <http://www.worldbank.org>.

¹⁶⁸ La Prensa. "Acelerar Privatization y reducir el gobierno, compromiso con el FMI". June 10, 2001. Available at: <http://laprensa.com>.

¹⁶⁹ La Comision Nacional de Telecomunicaciones (CONATEL)

finance ministry. Members serve for a period of four years, and they can be re-elected; the president in power can fire them.¹⁷⁰

As in the case of Guatemala, the regulatory entity keeps a low profile because power is concentrated in the hands of the ruling president. Therefore, policies emanating from CONATEL have to be co-ordinated with the general national policy followed by the president. The entity mainly focuses on technical aspects and linkages with regional and global telecommunications entities such as CONTELCA, CITEL and ITU.

Nicaragua: A lengthy and unclear privatization process

Nicaragua is the largest country in the region. The nation has a population of 4.6 million; 71.1 per cent live in conditions of extreme poverty.¹⁷¹ According to the World Bank, the annual per capita income is one of the lowest in Latin America (See Annex 3, tables 3 and 4). Lack of food is a constant in the life of thousands of Nicaragua's inhabitants.¹⁷²

In Nicaragua, income concentration is higher than the Latin American average. It even surpasses the Gini index top measure assigned to extreme income concentration (.6). For instance, in 1998 the Gini index was .603.

¹⁷⁰ Reglamento General de la Ley Marco del Sector Telecomunicaciones. Available at: <http://www.conatel.hn/Legal/reglamento/T2C2.htm>.

¹⁷¹ ACAN-EFE. (2000). Nicaragua. "Pobreza extrema llega al 71,1 por ciento en Nicaragua." May 1, 2000.

¹⁷² AFP. "El hambre en Nicaragua es crónica, según el Programa Mundial de Alimentos" August 5, 2001. Available at: <http://www.laprensa.hn.com>.

Currently, in Nicaragua, 48.8 per cent of the income goes to the richest 10 per cent of the population (UNDP, Human Development report 2001).

Since 1990, after the Sandinistas were defeated, Nicaragua has been following a neoliberal political agenda. That year, when Violeta Chamorro was elected president, the change of government not only put aside the Sandinistas' aspirations for social change but also brought about a new economic program. The economic program— designed by experts from international entities such as the IMF, USAID, and the WB— was accepted by the new government. In fact, the government had no option. Years of American blockage and years of internal military and political disputes had destroyed the economy and a large part of the nation's infrastructure. Since 1990, the external debt also began to accumulate.¹⁷⁵ In 1991, Nicaragua began signing loans with the IMF, and in 1994 and 1997, like Honduras, Nicaragua also accepted ESAF loans.¹⁷⁶ The ESAF program included monthly increases of up to 1.5 per cent in electricity and water tariffs. The most recent ESAF signed in 1997, was intended to reduce

¹⁷⁵ In the last twenty years, the country has accumulated an enormous external debt. According to several researchers, in 1975 Nicaragua's external debt was about 493 million US\$. After 1985, when the US started to provide financial aid to the Contras, there was no relationship between Nicaragua and the financial entities. However, from 1990 to 1997, Nicaragua's foreign debt rose to 12,987 million US\$, approximately 6.8 times what the country produced in a whole year (Proceso 831, 1998). In the late 1997, after a series of diplomatic and business dealings, the country's debt was reduced to 6,000 million US\$ (Garcia Morales, 1998).

¹⁷⁶ Report: The IMF and Financial-Sector Reform in Nicaragua. May 1, 2000. Available at: <http://www.developmentgap.org/imfnicaragua.html>.

even more the role of government. It included the discharge of about 5,000 public employees.¹⁷⁵

The economic program initiated in the 1990s was aimed to rebuild Nicaragua's ravaged economy, but it also was intended to compensate the owners of property that, in the judgment of Chamorro's government, was improperly seized by the Sandinistas. In that context, in 1990 the government issued decree 11-90, the Ley de Revision de Confiscaciones (Amendment to the Expropriation Law). In 1992, another law- decree 56-92- authorized the government to sell state owned property and use the money to pay for compensations. The National Telecommunications corporation, together with other public owned businesses, was part on the list of enterprises to be sold.¹⁷⁶

The telecommunications privatization process was planned to begin in the early 1990s. According to Alejandra Herrera, it was "a condition for assistance, and the Nicaraguan government had agreed with the World Bank, the International Development Bank, and the International Monetary Fund to implement privatization within this [four years] period."¹⁷⁷ However, lack of legislation delayed the privatization process and despite the external and local

¹⁷⁵ AFP. "IMF and Nicaragua approve fiscal plan." January 18, 1998. Available at: <http://www.nacion.com/n>.

¹⁷⁶ Nicaragua. Ministerio de Hacienda. Decrees. Available at: <http://www.hacienda.gob.ni/propiedad/leyes/decretos/devoluciones/>

¹⁷⁷ Alejandra Herrera. (1998) "Nicaragua". In Telecommunications in Latin America. Eli M. Noam ed. New York-Oxford: Oxford University Press. (pp. 52-59).

¹⁷⁸ ACAN-EFE. "Nicaragua: Law allows privatization of telecom" June 18, 1998. Available at: <http://www.nacion.co.cr>.

pressures, the government's efforts to privatize the Empresa Nicaraguense de Telecomunicaciones (ENITEL) did not succeed.

Changes made to the telecommunications law in 1998 established other uses for the funds produced from the sale of the telecommunications sector. The government decided that 60 million US\$ should be used to start a rural credit fund to support development in rural areas.¹⁷⁸

At the beginning of 1999, ENITEL was put on sale. There were two bidders: Telefonica de Espana (Spain) and Telmex (Mexico). However, by March the two corporations had retired their offers.¹⁷⁹ The government wanted to sell 40 per cent of ENITEL; the price was 200 million US\$. However, it seemed that international corporations were looking to control more than 40 per cent of ENITEL. In August 1999, Nicaragua's Telecommunications Institute (TELCOR), the organization that regulates the telecommunications sector, increased phone rates up to 66.6 per cent for local calls.¹⁸⁰ As in the case of Honduras, they were trying to make the company more attractive to new buyers.¹⁸¹

¹⁷⁹ AFP. "Nicaragua. Telefónica de España renuncia a licitación en Nicaragua" March 16, 1999. Available at: <http://www.laprensahn.com>.

¹⁸⁰ Sources: ACAN-EFE. Managua. "Gobierno de Nicaragua ajusta tarifas del servicio telefónico". August 02, 1999. AFP. Managua: "Telefónica de España renuncia a licitación en Nicaragua". March 16, 1999.

¹⁸¹ ACAN-EFE. "Gobierno de Nicaragua ajusta tarifas del servicio telefonico." August 2, 1999.

¹⁸² ACAN-EFE, AFP "Telefónica nicaragüense a juicio por venta de acciones". Available at: <http://www.laprensahn.com> and <http://laprensa.com.sv>.

In April 2001, the government announced, once again, the sale of the telecommunications sector. The new owner would receive a 20 year concession, with a period of three years of exclusivity. ENITEL also would have 10 years of exclusivity to operate the B frequency, dedicated to wireless telephony. According to the Telecommunications Law, 40 per cent of the shares would be sold to a private corporation, 10 per cent can be sold to ENITEL's workers and one per cent would be donated to ENITEL's workers. The government would keep the rest of the shares until the end of the three-year exclusivity period.

ENITEL was sold, on August 31, 2001. Two corporations: Telia (Sweden) and EMCE (Honduras) bought 40 per cent of the shares for 83.1 million US\$. However, the government did not get the money right away. It was going to be collected in a five year period. When the conditions of the sale were announced, the political opposition showed its discontent. They claimed that ENITEL was sold at a price well below the 450 million US\$ value assigned to the corporation, and pointed out that the sale of the telecommunications business was not in favour of the majority. On September 2001, the opposition and the city of Managua contested the sale.¹⁸²

The main argument was that the national telecommunications carrier was sold in very 'secretive' and 'obscure' circumstances. Additionally, Managua's

mayor, Herty Lewites, contested the sale because ENITEL refused to pay taxes, and owed 29 million US\$ to the city.¹⁸³

There were also complaints regarding the pressures exerted by international lending agencies. Several commentators noted that the World Bank chose the price and with its pressures forced the government to sell the telecommunications sector right away. In such a context, the government was only fulfilling foreign demands.¹⁸⁴

In conclusion, the sale of Nicaragua's telecommunications sector occurred at the end of a presidential period, during a political campaign, and it was done in a hurry. In this case study, and from the data available at the time this research was done, there was no indication that the sale of the telecommunications monopoly will serve the interest of the impoverished majorities. It seems that the sale of public property, which will be paid by installments, was done to favour a particular group of people. The case shows that external pressures, in this case from lending entities such as the WB and IMF, contribute to the lack of accountability demonstrated in the privatization processes implemented in the region.

¹⁸³ AFP. "Sandinistas acusan a Arnoldo Alemán de vender telefonía nicaragüense a empresa de hondureño" September 6, 2001. Available at: <http://laprensaahn.com>.

¹⁸⁴ AFP-AP. (2001). "Nicaragua. Banco Mundial puso precio a telefonica." September 2, 2001. Available at: <http://laprensa.com.sv>.

The Regulator: TELCOR

TELCOR, Instituto Nicaragüense de Telecomunicaciones y Correos, is the entity that controls telecommunications and postal services in Nicaragua. It was created in 1995. A director, appointed by the president in power, is in charge of the regulatory entity. TELCOR assigns licenses, draws telecommunications policies and controls the B (wireless) frequencies. The Director represents the country in international telecommunications organizations.¹⁸⁵

In 2000, Bell South challenged TELCOR's regulatory role. The corporation refused to lower its tariffs and refused to follow the guidelines established by the regulatory entity. At that time, Bell South's rate increase went from 8 to 26 per cent.¹⁸⁶ The regulatory entity was not able to protect the local consumers from the voracity of the transnational.

In conclusion, in this case, as in El Salvador, the telecommunications regulatory entity had no power to enforce its own policies. The transnational corporations operating in the country were able to impose their will. In order to get services, consumers have to pay the price imposed by the service providers. In such a context, the poor have no hope of getting access to services.

Group 3. Costa Rica: Competition without privatization

The World Bank describes this Central American nation as a 'robust democracy' committed to economic growth and social development. About four

¹⁸⁵ See TELCOR <http://www.telcor.org>

million people inhabit this nation of 51, 000 Km². The country has the highest annual per capita income in the region (See Annex 3, table 4), and also has one of the highest literacy rates in the Americas (95.6 %) (See Annex 3, table 5).

The country has the largest number of phone lines in the region, and the network expands faster than in other countries of the region. For instance, while in 1999 in El Salvador there were 7.6 phone lines per 100 people, in Costa Rica there were 20.41. Since 1980, telephone coverage has gone from 6. 9 lines to 20.41 lines per 100 people (See Annex 6, tables 9 and 9.1).

The Instituto Costarricense de Electricidad (ICE) is the state owned entity that has controlled the monopoly of electricity and telecommunications since 1949. Currently, ICE is considered to be one of the most modern and efficient public enterprises in Latin America. For instance, in 1997, ICE 's revenue reached 77 million US\$.¹⁸⁷

Since 1996, there have been several attempts to privatize the telecommunications sector in Costa Rica. However, the government has faced intense opposition from labour, student, and other political groups. On several occasions, those organizations have defeated the official initiatives towards privatization.¹⁸⁸

¹⁸⁶ BellSouth no bajará tarifas BellSouth no bajará tarifas. Available at: www.laprensa.com.ni.

¹⁸⁷ AFP. (1999). "Costa Rica: Gobierno costarricense arremete contra opositores a apertura de telecomunicaciones. 12 de abril de 1999 Available at: La Prensa Honduras, C.A.

¹⁸⁸ ACAN- EFE (1996) "Costa Rica: Trabajadores costarricenses desfilan contra privatización." Mayo 2, 1996. Available at: <http://www.laprensahn.com>

One of the key government initiatives, regarding telecommunications privatization was discussed in 1999. During that Legislative session period, the government proposed to modify the Constitution. The change would have allowed the government to privatize several state- owned properties, including the telecommunications sector. The government wanted to split ICE into several companies that would be sold in a term of four years. The proposal, however, was rejected by the opposition and by the unions.¹⁹¹

In March 2000, after weeks of public protests, the neoliberal government led by President Miguel Angel Rodriguez, decided to withdraw several privatization proposals that had been sent to Congress for discussion. The proposals intended to privatize electricity and other public services. Nevertheless, the government still persisted in its idea about privatizing the telecommunications sector, because, according to the government, a privatized telecommunications industry would be able to increase the country's economic growth.¹⁹²

Costa Rica's Constitution forbids the sale of any state owned enterprises, including ICE, but it does allow for privatization provided there is a Constitutional amendment.¹⁹³

¹⁹¹ ACAN-EFE. "Fracasa intento de romper el monopolio estatal de telecomunicaciones y energia en Costa Rica," Costa Rica. April 10, 1999. Available at: <http://www.laprensahn.co>

¹⁹² Presidente de Costa Rica acelera fin de monopolio y advierte sobre violencia March 21, 2000. Available at: www.laprensahn.com.

¹⁹³ US Department of Commerce. July 20, 2001. Available at: <http://www.Infoserv2.ita.doc.gov/ot/mktctry.ns>.

The proposal regarding telecommunications privatization was discussed and approved by Congress. With that Legislative decision, the government got authorization to pursue the telecommunications privatization process.

However, the political opposition, unions, student organizations, and public associations asked the Constitutional Chamber, the top legal mechanism in the country, to review the privatization proposal. On April 18, 2000, the government's telecommunications privatization proposal was defeated. The Constitutional Chamber declared 'unconstitutional' the decision regarding the privatization of telecommunications.¹⁹²

Certainly, the idea of privatizing public property does not have many supporters in Costa Rica, a nation that during the last 50 years has built a strong net of public institutions that guarantee social welfare. Public investment in social programs such as education and health care, have placed Costa Rica in fourth place-- after Argentina, Chile and Uruguay-- in the Human Development Report.

However, implementing development policies costs a lot of money and in the last fifteen years, to keep the social safety net, Costa Rica has contracted huge debts with international lending agencies. In 1998, Costa Rica's domestic

¹⁹² Máximo tribunal declara inconstitucional plan de apertura de telecomunicaciones en Costa Rica. April 19, 2000. Available at: www.laprensahn.com.

debt reached 4 billion US\$. The government proposed to sell state assets, including the telecommunications sector, to alleviate the debt.¹⁹³

Despite the economic pressures, the population does not approve the proposed shift from public to private. For instance, a poll conducted in 1998 revealed that in Costa Rica “72 per cent of people believed that the State should have even more power”. Costa Rica's population seems very loyal to state institutions and are not willing to dismantle them.¹⁹⁴

In the telecommunications sector, however, local researchers argue that although privatization is controversial; some reforms are needed. According to Giannina Segnini, the country lacks a general telecommunications law. The Constitution states that wireless frequencies (Mobile phone, Internet, radio and TV) are under total control of the state. However, the Constitution does not make reference to wired services such as Internet, phone and TV cable services. Because of the absence of adequate regulations, the state is losing income in the areas of TV cable and other business networks including radio-stations, that pay a small amount for the frequencies (Giannina Segnini, 2000).

The government also controls regulation. However, in the case of Costa Rica, those who are in charge of the regulatory aspects do not report to the President in power; they report to Congress and have more independence than other regulatory entities in the region.

¹⁹³ ACAN-EFE. (1998). "Costa Rica: President elect will lead Costa Rica to era of privatization. February 4, 1998. La Nacion. Costa Rica. <http://www.nacion.cr>.

ICE

The Instituto Costarricense de Electricidad (ICE) was created in 1949 to solve the problem of electricity scarcity that impeded development in Costa Rica's rural areas. Currently, ICE is the monopoly provider of electricity, water and basic telecommunications services. Its subsidiary, Radiografica Costarricense (RASCA), provides telex, telegraph, video conferencing, data transmission, Internet access, facsimile, data and value-added services, as well as acts as a regional data network for neighboring countries without packet switching networks (El Salvador, Honduras and Nicaragua).

Costa Rica's telecommunications are regulated by the Autoridad Reguladora de los Servicios Públicos (ARESEP), an entity that regulates all the public services in the country, including electricity and public transportation. The entity, was created in 1996 and reports to the Legislative Branch. It is independent of political power. There is a Regulator General and a board of directors, two of whom are women. The board of directors reviews and decides on appeals against the Regulator.¹⁹⁵ The mission of ARESEP is to establish and control tariffs and address complaints and concerns regarding public services.¹⁹⁶

¹⁹⁴ La Nación. (1998). "Ticos seem dead-set against privatization." Costa Rica. Monday, May 11, 1998. Available at: <http://www.nacion.cr>.

¹⁹⁵ ITU-BDT Regulatory Database. <http://www.itu.org>

¹⁹⁶ <http://www.aresep.go.cr/>

ICETEL¹⁹⁹

In Costa Rica, by 1950 the Telephone Company had 10,000 subscribers, and there were a few other small networks operating in urban areas as well. In 1962, to expand the services, ICE created a new section dedicated to telecommunications: ICETEL. In 1963, ICETEL began the modernization of the telecommunications system.

In 1966, Costa Rica had established four automatic networks but the number increased very quickly. By 1970, the country had 24 of those networks distributed throughout the nation and was providing service to a large rural and urban population. Since its creation, ICE was concerned with providing universal service and the expansion of automatic networks made possible the connection capabilities and access in rural areas. According to ICE, by the year 2000, 94 per cent of Costa Rica's towns had access to telecommunications services and the organization planned to extend coverage to a larger percentage of people.

Currently, the country has already attained an enviable coverage of 23 phone lines per 100 inhabitants. One of ICE new projects, to be concluded in 2002, intends to increase coverage to 30 phone lines per 100 inhabitants.

The country, which expects to have a 100 per cent digital network this year, has opened the market to foreign suppliers such as Mitel, Alcatel, Nortel, and Siemens and it is buying 400,000 lines from these corporations. Yet, the

¹⁹⁹ ICETEL-Spanish. Data available at: <http://icetel.ice.go.cr/esp/proyectos/proip.html>

country still owns and keeps control of the whole telecommunications network system. Other projects under way are related to wireless mobile communications and community Internet services. The community Internet services project, to be concluded by 2002, is intended to establish Internet services in several communities around the country. These services will include e-mail, Internet access, chat, fax, video conferencing, e-commerce and TELEVOTO (to be used during election times).

Costa Rica's telecommunications plan also includes the expansion of broadband connection. ICETEL is using its current copper and fiber optic network to develop a large project, whose first phase was concluded in April 2001, that would bring faster and cheaper communications. The project intends to use the current infrastructure of copper, wireless, and fiber optics to provide broad band services that eventually will give coverage to the whole country. ICETEL's main goal is providing access to schools, hospitals and libraries and also to promote Internet coffee shops where the public can have access to records, jobs, merchandise, health care information, and official documents.

To conclude this case study, it is important to point out that Costa Rica without privatizing has allowed the entrance of business corporations into the market, has one of the most advanced telecommunications infrastructures in Latin America, and about 94 per cent of its population has access to services. The case study shows that extensive telecommunications coverage can be attained by a state owned entity, and that privatization is not always the best way

to provide access to the majority of population. Also, from this case it can be inferred that there might be other factors such as income distribution and literacy rates, which are linked to access to telecommunications services.

Finally, considering the pressures from abroad, the internal pressures, and the mounting external debt, it remains to be seen whether Costa Rica will have the political will to keep stay away from privatization and keep the current public system. It also remains to be seen whether in the future labour groups, the public, and the opposition parties will continue to have the same strength to fight against the privatization of the telecommunications sector.

Central America and the rise of wireless (mobile) telephony

Wireless, in simple terms, is the transfer of information without the use of wires. It implicitly means using the electromagnetic spectrum, typically the part of the spectrum known as "radio". Wireless communications are also being used to provide competition to current telephone companies (Webb, 2000: 5-6). In many Latin American nations, this type of communication is being suggested as an alternative to solve the scarcity of phone lines and problems of access.

According to the World Bank, Latin America's population surpasses 500 million, and a large number of people in the region do not have access to telephone services.²⁰⁰ Obviously, companies offering wireless mobile phones have a large market in which to offer their services. In Brazil for instance, in 1990

²⁰⁰ The World Bank. (1999) Latin America: Regional Overview.

there were 12 million users. By the year 2003, it is estimated that the number of users will rise to 23 million.¹⁹⁹ Mexico is another example of telecommunications transformations and market growth. By 1998, there were about 1.1 million cell phone subscribers. One year later, the number had increased to 2.36 million subscribers.²⁰⁰ The trend has reached other less developed countries such as those located in Central America.

The telecommunications privatization process in Central American countries has opened new markets for transnational telecommunications corporations that sell wireless mobile phones services. In this region, where phone lines are still scarce, wireless telephony tries to compete against wireline services.

Researchers, marketing specialists, and international organizations try to promote wireless as one of the new tools for development; however, wireless telephony is far from solving problems of access in the region. Although wireless-mobile phones could be used to satisfy the telecommunications needs observed in isolated communities, one of the main obstacles is their cost. For instance, in Guatemala, Honduras and Nicaragua there are many rural and indigenous towns without access to public phones. But wireless telephone services are expensive and the majority of residents in those communities do not have the means to pay for that type of services.

¹⁹⁹ Norman C. Lerner. (2000) "Latin America and Mexico: A change in Focus. Telecommunications. March.

²⁰⁰ Norman C. Lerner. (1998) "Trends in Competition & Regulation". Telecommunications. Feb.

As ITU figures show, the use of wireless phone has increased in El Salvador and Guatemala, and also there is growing demand in Costa Rica. However, in Nicaragua and Honduras, countries with the lowest income per capita in the region, wireless telephony has not expanded at the same speed (See Annex 9, table 15).

In El Salvador, where a large number of families receive financial support from family members working in the US, the number of wireless mobile phone users has increased faster than in the rest of the countries studied in this research. According to the ITU, in 1993, in El Salvador there were 1500 wireless mobile phone users. By 1999, that number had increased to 382,600 (See Annex 9, tables 15 and 16).

In Central America, Guatemala occupies second place in the number of cell-phone users. Income and the modern wireless loops installed in the early 1990s have facilitated the expansion of wireless mobile telephony. According to the US Department of Commerce, in Guatemala wireless is one of the fastest growing sub-sectors within the telecommunications sector industry. In 1997, COMCEL then the only wireless service provider offered the service to more than 100,000 customers. In August 1997, before being privatized, TELGUA awarded Nortel a contract to install a wireless network. The first phase of the project was

finished by the time TELGUA was sold.²⁰¹ In 1999, there were about 340,000 wireless phone users in Guatemala (See Annex 9, table 15).

Wireless phone services are in huge demand in Costa Rica as well. The country began providing wireless mobile phone services in 1994. It started with 2000 customers, and initially, a foreign company, Millicon, got a concession from the government to provide mobile wireless telephone services. However, in 1995, a decision from the Constitutional Chamber reverted that decision and ICE got total control of wireless services. By 1997, there were 67,000 mobile phone users. Currently, ICE is buying services and equipment from foreign providers to satisfy internal demand²⁰². To meet increasing demand, in November 2000, ICE put up an international bid for 600, 000 mobile subscriber lines. Early in 2001, Alcatel won an exclusive contract for 160, 000 new lines.

TNCs see Costa Rica as an attractive market for wireless equipment and services. For instance, in the year 2000 the US exported 36 billion \$US, in telecom equipment to Costa Rica. Costa Rica is a member of the WTO and has no import quotas. The country has agreed to eliminate all tariffs on IT and telecom-related imports by 2005 (US Department of Commerce, 2001).

In conclusion, the shift from public to private and the ongoing changes in the telecommunications sector in Central America have opened a market for companies offering wireless mobile telephony. It is obvious that in the last five

²⁰¹ US Commerce Department. US Embassy, Guatemala. Available at: <http://www.usinfo.org.gt/econcomm.htm>.

²⁰² May 27, 2000. Information available at: Contelca; <http://www.contelca.org>

years the number of wireless mobile phone users has increased in some Central American nations. It is also obvious that in developing countries wireless technology might be able to close the telecommunications gap existing between rural and urban communities.

However, considering the cost of the services and the current per capita income, particularly in Honduras and Nicaragua, it is also obvious that the poor do not have access to this type of telephony. Telecommunications technology, and particularly wireless mobile services, is expensive and most people in these countries cannot afford it. The majority of people living in poor communities have other unsatisfied needs such as access to clean water, electricity, basic health care, food and literacy; therefore, wireless telephony might not be on top of their list of priorities.

Chapter V

Conclusion

Chapter V

Conclusion

This research has described the importance of telecommunications and its relationship to transnational corporations. It has described how TNCs need modern telecommunications to keep their global ties.

The thesis stated that a privatized telecommunications sector provides TNCs with modern and inexpensive telecommunications networks that facilitate the accumulation of capital. It has described how many Latin and Central American nations, following structural adjustment plans and neoliberal policies designed by international lending entities, have been selling their state owned telecommunications industry.

In this thesis it has been argued that in Central America, given the existing conditions of inequality and poverty, the main beneficiaries of the telecommunications privatization process are the transnational corporations, and regional and local business groups which now have access to more diverse and less expensive communication connections. The promised development, and access to the poor, has not arrived

Chapter I provided a theoretical framework based on the political economy of communication. It offered key theoretical views expressed by several scholars. The chapter explained terms such as telecommunications, globalization,

development, advanced capitalism and privatization, frequently used in the research.

Chapter II described the role of telecommunications regulatory agencies and financial entities, particularly the World Bank and International Monetary Fund. The chapter also described the role played by regional telecommunications regulatory entities such as CITEL and COMTELCA. It also pointed out the relationship among the WTO and telecommunications privatization processes. The chapter suggested that policies emerging from international organizations such as the IMF, WB and the WTO seem to be leading us to what Dwayne Winseck has described as the rise of a "limited democracy" (2000: 21).

Chapter III provided an overview of Latin America. It offered data on the economic and social inequality affecting the region. The chapter described some of the telecommunications privatization processes that took place in large countries such as Argentina, Brazil, and Mexico. Privatization was supposed to bring development. Governments, liberated from the tasks of controlling public property, were supposed to have more resources to be allocated in services to help the poor and the less advantaged in society. The chapter described how in Latin America, after ten or more years of privatization nothing of that has happened. Poverty and inequality continue to be among the major problems in the region. Additionally, it offered specific data on Central American nations and

provided a summary of the economic, political, and social situation in each country.

Chapter IV, the case studies detailed telecommunications privatization process in Central American nations. It included a large amount of information from Spanish newspapers published in Central America; therefore, a large part of the data had to be translated. The chapter provided important data on the region and the shift from public to private ownership of the telecommunications sector. The significance of this particular chapter is that it provides recent data from a region where telecommunications research is scarce.

The chapter was divided into three groups. The chapter described the regulatory problems faced by El Salvador and the legal fight between Guatemala's government and the corporations that now own the country's telecommunications sector. It also described how in Honduras and Nicaragua, the IMF and WB have made telecommunications privatization one of the requirements to provide loans to those nations. The chapter also described the case of Costa Rica, where several attempts to privatize the telecommunications sector were defeated by the unions and political opposition. The case described how Costa Rica, using a different approach has been able to provide modern, accessible and efficient services to its population. The chapter concluded by providing information on the rise of wireless mobile telephony in the region.

In conclusion, public services and particularly telecommunications services in Central American countries have become highly privatized. Following

structural adjustment programs and neoliberal policies formulated by lending entities, these nations are selling or have sold public property. In most of the case studies described in this research, states are retreating to exert minimal functions. The shift from public to private is evident in many areas from health care to garbage collection, from water and electricity to telecommunications services.

Privatization has shifted power from governments to TNCs. In theory, regulatory entities are supposed to be in charge of protecting consumers; they are supposed to be the intermediaries to keep equilibrium between the public good and corporations. However, in most of the cases, regulatory entities are ill equipped to deal with such a responsibility. As described in this research, controlling and regulating the telecommunications sector has become even more difficult because these days the private sector also has a strong participation in the decisions taken by international entities such as ITU, COMTEL, and CONTELCA

In addition, telecommunications regulation is a highly politicized area. In most of the countries described in this research, governments in power control the regulatory entities. In the region, governments are prone to fluctuations dictated by political and economic pressures. Therefore, regulatory entities do not have power to defend the interests of local consumers.

Another problem observed in the telecommunications privatization processes in this study is the lack of accountability. In most cases, there is no

reference as to where the proceeds obtained from the sale of telecommunications have been allocated. Moreover, in the same way international lending entities such as the WB and IMF exert their power to pressure governments into making financial decisions, they should use their power to force the governments to allocate those proceeds to benefit the majorities.

Poverty and lack of access to education and public services afflict the majority of inhabitants in the region. Illiteracy rates are also high, particularly in Honduras and Nicaragua. However, many researchers, consultants and governments promote the idea that telecommunications will bring development to these nations. For them, modern telecommunications-including wireless telephony- a higher number of telephone lines, and more Internet and cell phone users constitute proof of development. They argue that with modern telecommunications LDCs, such as the ones described in this section, will increase their economic growth, will reach development, and will be able to overcome poverty. Reality shows that they are wrong.

For instance, in comparison to ten years ago, Central America does have more phone lines (See Annex 6, tables 9 and 9.1). Also, it is evident that some groups have access to modern telecommunications systems such as wireless and Internet services (See Annex 9, table 15). However, considering the conditions of inequality and the poverty that afflicts the majority of citizens, it is also evident that the full benefits of these technologies do not yet reach the

majority of people living in Central America. It seems that the promised development that the privatization and modernization of telecommunications was supposed to bring to the region has not yet arrived.

In countries such as El Salvador, Guatemala, Honduras and Nicaragua, it is clear that governments need to adopt new policies to combat hunger, poverty and illiteracy, otherwise, the cycle of dependency, violence, and political instability will continue.

Finally, as stated at the beginning, this research intended to set up the basis for further research in the areas of telecommunications ownership and economic and social development in Central America. At the moment of completing this thesis, it remains to be seen what impact the ongoing privatization of telecommunications will have in the long run. What is obvious is that the technological divide between those who can afford telecommunications services and those who cannot- in Herbert Schiller's words the "haves and have nots"- will deepen even more the economic, social, educational and cultural gap that separates the poor from the rest of the world.

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ANNEXES

Annex 1

Latin America: Central and South American nations
Latin America

Annex 2

Table 1			
Central America: Urban and rural population % 1999			
	Urban	Rural	Approx. (millions)
El Salvador	50.4	49.6	6
Honduras	50.5	49.5	6
Guatemala	45.7	54.3	11
Nicaragua	69.8	30.2	5
Costa Rica	48.1	51.9	4
With data from: IDB and WDI-World Bank, 2001			

Table 2				
Central America: Population				
1998 and 1999				
	1998		1999	
	Total in millions	Per km2	Total in millions	Per km2
El Salvador	6.03	282	6.15	288
Honduras	6.26	56	6.32	56
Guatemala	10.80	99	11.09	102
Nicaragua	4.69	39	4.94	41
Costa Rica	3.84	75	3.93	77
With data from: ITU Basic Indicators 2000, 2001.				

Annex 3

Table 3					
Central America: Income per capita (in 1995 US\$)					
	1975	1980	1985	1990	1998
El Salvador	1,779	1,596	1,333	1,378	1,716
Honduras	614	733	681	682	722
Guatemala	1,371	1,598	1330	1,358	1,533
Nicaragua	999	690	611	460	452
Costa Rica	2,231	2,482	2,176	2,403	2,800
With data from: PNUD El Salvador: Human Development Report 2001.					

Table 4	
Central America: GDP /Income per capita/ in US\$ (1999)	
El Salvador	1,920
Honduras	760
Guatemala	1,680
Nicaragua	410
Costa Rica	3,570
With data from: WDI-World Bank, 2001	

Table 5	
Central America: Illiteracy rate/percent of population aged 15 and over/	
El Salvador	21.3 %
Honduras	27.8 %
Guatemala	31.3 %
Nicaragua	35.7 %
Costa Rica	4.4 %
With data from: WDI-World Bank, 2001	

Annex 4

Table 6		
	Main Telephone Lines	
	1998	
Country	Total lines (in thousands)	Per 100 inhabitants
El Salvador	482.6	8.00
Guatemala	517.0	4.79
Honduras	249.7	3.99
Nicaragua	140.0	2.98
Costa Rica	660.0	17.18
	More developed countries in South America	
Chile	2'753.0	18.57
Argentina	7'132.0	19.74
Brazil	19'986.6	12.05
Mexico	9'926.9	10.36
	Comparing to Canada	
Canada	19'206.0	63.50

With data from: ITU Indicators, 2000.

Annex 5

Table 7				
El Salvador: Poverty Levels				
1990-2000				
Year	Extreme	Relative	Total	Not Poor
1991/92	28.2	31.5	59.7	40.3
1992/93	27.0	30.5	57.5	42.5
1994	23.9	28.5	52.4	47.6
1995	18.3	29.4	47.7	52.3
1996	21.6	30.3	51.9	48.1
With data from: United Nations Program for Development (PNUD), <i>El Diario de Hoy</i> , Thursday, April 9, 1998, and Revista Proceso No.802. San Salvador. UCA editores.				

Table 8								
El Salvador: Income Distribution per capita/ Gini* Coefficient								
	1992	1993	1994	1995	1996	1997	1998	1999
Urban	.48	.49	.49	.47	.48	.47	.48	.47
Rural	.52	.50	.52	.46	.45	.44	.47	.47
With data from: Informe del Programa de Desarrollo Humano, PNUD-El Salvador, 2001								

*The world average Gini coefficient is .4 on a scale of zero to one, with zero representing perfect equality. All countries in Latin America have higher than average Gini coefficients and several countries, such as Brazil, Paraguay, and Guatemala – register as high as .6." Carry A. Meyer. (2000). *Globalization and Inequality in Latin America*. July 27,2001. Available at: <http://mason.gmu.edu/~cmeyer/inequality.htm>

Annex 6

Table 9					
Central America: Number of Phone lines Comparison between 1998 and 1999					
	1998			1999	
Country	Total lines (thousands)	Per 100 inhabitants	Country	Total lines (thousands)	Per 100 inhabitants
El Salvador	482.6	8.00	El Salvador	468.1	7.61
Guatemala	517.0	4.79	Guatemala	610.7	5.51
Honduras	249.7	3.99	Honduras	279.2	4.42
Nicaragua	140.0	2.98	Nicaragua	150.3	3.04
Costa Rica	660.0	17.18	Costa Rica	802.6	20.41
With data from: ITU, 2001 World Indicators					

Table 9.1			
Lines per 100 inhabitants			
Country	1980	1990	1995
El Salvador	1.7	2.5	5.1
Guatemala	1.4	2.1	2.7
Honduras	0.9	1.7	3.3
Nicaragua	1.1	1.3	2.2
Costa Rica	6.9	9.3	14.1
With data from: ITU 1996 –1997			

Table 10		
Central America: Internet providers and users (2000)		
	Providers	Users
El Salvador	7	40,000
Guatemala	10	65,000
Honduras	23	20,000
Nicaragua	7	20,000
Costa Rica	2	150,000
With data from: TELCOR, Honduras and ITU, Internet indicators 2000.		

Annex 7

Table 11			
Access: Low income countries			
	1995	1999	
Increases- telephone lines (%)	21%	27%	
Distribution of Mobile telephone (%)	6%	12%	
Host Internet (%)	. 7 %	1.7 %	
With data from: ITU			

Table 12			
Access: Internet distribution (%) year 2000			
Canada and the US	64.1 %	Canada, the US, Europe, Australia, New Zealand and Japan = 95.4 % of internet users.	
Europe	24.3 %		
Australia, New Zealand and Japan	7.0 %		
Asia Pacific	2.9 %		
Latin America	1.2 %		
Africa	.05 %		
With data from: With data from: ITU 2000 World Indicators			

Annex 8

Table 13					
Access: Comparing Latin America and the Caribbean (LAC) to North America (NA)					
	1996		2000		
	(LAC)	(NA)	(LAC)	(NA)	
Phone lines	20 %	60%	25 %	75 %	
Mobile phones	10 %	90 %	29 %	71 %	
Internet hosts	2 %	98 %	2.7 %	97.3 %	
With data from: Ben Petrazzini. <i>IP en las Americas y el Mundo</i> . UIT-ITU					

Table 14			
Access: Number of Phone Lines and Internet hosts in low and high income countries (1995-1996)			
	Lines per 100 inhabitants	Internet host per one million inhabitants	
Countries	1995	1996	
Low income	1.35	2.45	
High income	10.75	54.2	
With data from: ITU/Petrazzini. July 30, 2001. http://www.comms.uab.es/inet99/inet98/5d/5d_4.htm			

Annex 9

Table 15

Central America: Number of cell phone users		
Country	1998	1999
El Salvador	106,100	382,600
Guatemala	111,400	337,800
Honduras	34,900	78,600
Nicaragua	18,300	44,200
Costa Rica	108,800	138,700

With data from: ITU (2001) Indicators: Cellular subscribers.

Table 16

	1993	1994	1995	1996	1997	1998	1999
Cellular-subscribers	1,500	6,500	11,500	28,500	N/A	106,100	382,600
Digital network	66 %	75 %	79 %	83.8 %	N/a	N/a	N/a

With data from: UNDP (2001) EI Salvador. Desarrollo Humano and ITU (2001) Indicators: Cellular subscribers.

Annex 10

Table 17				
Central America: Telecommunications Regulatory Entities				
Country	Regulatory Entity	Year of creation	Reports to	Independent from political power?
El Salvador	SIGUET	1996	The Head of State	N
Honduras	CONATEL	1995	The Ministry of Economy	N
Guatemala	SIT	1996	The Ministry of Economy	N
Nicaragua	TELCOR	1995	The Head of State	N
Costa Rica	ARESEP	1996	Legislative Branch	Y
With data from: ITU-BDT and CONTELCA				

Table 18	
Central America: Telecommunications operators	
El Salvador	CTE
Honduras	HONDUTEL
Guatemala	TELGUA
Nicaragua	ENITEL
Costa Rica	ICETEL
With data from: Comision Tecnica Regional de Comunicaciones (CONTELCA)	