

## «Multilatinas» in the Americas: dynamics of nation champion policy and asymmetrical behaviour

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### Abstract

*From the 1990s, two former telecoms monopoly incumbents —Telefonica of Spain and Telmex of Mexico— emerged as world player Multinationals and soon dominated this sector across Latin America. This paper argues that, in both cases, national champion policies by domestic governments coincided with an «asymmetrical behaviour» on the part of the firms, which helped them in their quest to successfully internationalise. Empirical findings support some newly emerging theories on the asymmetrical behaviour of former monopolies which stress the importance of the timing and extent of domestic policies which can combine with ambitious internationalization strategies on the part of the firms.*

*Keywords: Multinationals, Latin America, National champions, telecommunications.*

### Resumen

*Desde la década de 1990, dos de los ex-monopolios de telecomunicaciones –Telefónica de España y Telmex de México– surgieron como multinacionales y pronto dominaron este sector a lo largo de toda América Latina. Este artículo sostiene que, en ambos casos, las políticas de campeón nacional de los gobiernos domésticos coincidieron con un «comportamiento asimétrico» por parte de las empresas, que ayudó a las compañías en su búsqueda de una internacionalización exitosa. Los resultados empíricos apoyan alguna de las nuevas teorías sobre el comportamiento asimétrico de los antiguos monopolios que destacan la importancia de la secuencia temporal y el alcance de las políticas nacionales que coinciden con la estrategia empresarial.*

*Palabras clave: Multinacionales, América Latina, Campeón nacional, Telecomunicaciones.*

## 1. Introduction<sup>1</sup>

«Multilatinas» —Multinationals based in Ibero-American countries— are becoming increasingly visible and significant in the world economy (ECLAC 2006). The rise of the Multilatinas reflects in part a broader shift in patterns of FDI flows and, particularly, the consolidation of world-player Multinationals in countries based outside the core economies (Goldstein, 2007; Sauvart, 2008). This article focuses on two leading Multilatinas that operate in the telecoms sector: Telefonica of Spain and Telmex of Mexico. Combined, Telefonica and Telmex (along with its sister company, América Móvil) constitute a «regional duopoly» across the Latin American telecoms market. Telmex and América Móvil, whilst formally separate, are both part of the Grupo Carso, controlled by multi-billionaire Carlos Slim, today one of the world's richest men. Now, the emergence of Mexican and Spanish Multilatinas has already been documented (see Guillén, 2005 and Clifton, Comín and Díaz-Fuentes, 2007 for Spanish Multinationals and ECLAC 2005 and Santiso 2008 for Mexican Multinationals). In addition, the trajectory of individual firms Telmex and Telefonica has received attention (Clifton, 2000 for Telmex; Bel and Trillas, 2005 for Telefonica). The main objective of this article is to examine the relevance of government policy and firm strategy for their internationalization. It is argued that, in both cases, national government's pampering of the incumbents —particularly via «national champion» policies— were highly influential in their emergence as world player Multinationals. First, in Spain, in the shadow of imminent telecoms liberalization in Europe, and, later, in Mexico, as a consequence of policies related to the so-called Washington Consensus, governments elected to protect their telecoms incumbents from possible foreign takeover or control which was threatened as a result of the introduction of new waves of economic policies, principally, privatization, liberalization and deregulation. Simultaneously, liberalization was restricted at home relative to other countries. In both Mexico and Spain, the former incumbents, whilst enjoying low-risk and protected markets at home, went abroad aggressively, using this capital to venture abroad taking unprecedented risks not usually associated with the traditional «public utilities». «Asymmetric behaviour» was also important in providing a solid base for their internationalization. By analysing Spanish and Mexican government policy, and Telefonica and Telmex strategy in the international context, this article seeks to shed some light on understanding common reasons for success of these leading Multilatinas, a new breed of Multinationals.

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The rest of this article is structured in the following way. In the second section, a brief synthesis is provided of the economic and technological features of the telecommunications sector and what consequences can be derived from these characteristics when understanding the problems and dynamics of internationalization of these firms. In the third section, the internationalization activity of Telefonica and Telmex are analysed comparatively in the international context in order to identify quantitative relationships between firm internationalization, on the one hand, and the timing and extent of domestic policy, namely, privatization and liberalization. Conclusions follow in the fourth section, where findings are explained in qualitative terms, particularly a brief discussion of Telefonica and Telmex's evolution based on company reports, interviews with company executives and policy-makers.

## 2. Insights into telecoms internationalization

Each industrial sector has its own peculiarities and degree of complexity. Telecoms have traditionally been considered to exhibit particular economic and technological features which set them apart from most industrial sectors. In addition, the provision of telecoms has been associated with military, political-strategic and social needs. For these reasons, telecoms have traditionally been grouped together with other so-called «public utilities» such as energy and water. Despite this, some observers have claimed that the new Information and Communications Technology —such as mobile telephony, satellite, the internet and possibilities of data convergence— have undermined the traditional distinctions making telecoms different (Bonardi, 2004). Interestingly, as the profile of telecoms Multinationals increases in the recent period, more attention has been turned to analysing their characteristics particularly in regard to the consequences for their internationalization activity (Bonardi, 2004; Sarkar, Cavusgil and Aulakh, 1999).

Telecoms were long considered a natural monopoly due to sunk costs, externalities and economies of scale. These observations were used to justify state ownership and management of this sector in most countries around the world from the post-war period, sometimes, even earlier (Aharoni, 1986; Millward, 2005). Since the proliferation of new communications technologies, it has been argued that, as entry is cheaper as sunk costs and economies of scale are reduced, telecoms' former monopoly status is much less relevant or indeed irrelevant, and must be subject to competition. Despite these claims and with hindsight, many policy-makers are now admitting that reforming telecoms —amongst other sectors— has been much harder than first thought. In the European Union, the European Commission has drawn up a list of 27 sectors

where competition is still being blocked to a significant extent (Ilzkovitz, Dierx and Sousa, 2008). Leading World Bank consultants admit that the problems are much more severe in less developed countries and even stated that the difficulty of reform had «humbled» reformers (Estache, 2006). These debates are occurring from the supply side but there are new debates also emerging from the demand side (OECD, 2008; Ilzkovitz, Dierx and Sousa 2008; Australian Government, Productivity Commission, 2008; Federal Trade Commission, 2007).

In the light of the special characteristics of telecoms and, given their increasing incidence in the profile of Multinational Corporations, a number of scholars have attempted to reinterpret the international business literature in order to improve our understanding of the issues surrounding strategies of telecoms firms that internationalize as well as the kinds of government policies associated with internationalization. Sarkar, Cavusgil and Aulakh (1999) depart from the premise that the telecoms sector still exhibits oligopoly characteristics despite technological change, increased volatility and more new entrants. Based on this characterization, these authors use a firm-centred approach to analyse the point of entry, or the nature of the internationalization process. In so doing, they pay significant attention to privatization, since it is privatization in the host country which «enables» internationalization by making it possible. Telecoms privatization in the host country opens up a transient and often «once-off» opportunity for investment by another firm. In the telecoms sector, it is frequent that large volumes of money need to be invested quickly. Whilst some international business literature argues that the internationalization process tends to follow several stages, often developing at a cautious rate, it would seem that telecoms internationalization is more rapid. Investment in telecoms not only needs to be fast, it is also usually large and involves considerable risk, since the success of the investment depends on many exogenous factors such as the behaviour of the national government, regulator and incumbent. Opportunities to invest abroad in telecoms firms being privatised are quite limited. This means that it is common for a number of telecoms and other enterprises to aggressively pursue a limited number of international investment opportunities knowing that only one interested party can be successful in their bid.

Now, given these characteristics of market entry associated with telecoms privatization, it is logical that it is the firms which enjoy large cash reserves, such as those operators that have enjoyed near-monopoly privileges for extended periods at home, may be in an especially advantageous position to assume fast, large and risky investments abroad. Similar findings have been found in the behaviour of firms in the energy sector (Haar and Jones, 2008). From these perspectives, it has been argued that there is evidence of «asymmetric behaviour» in that the firm is interested in restricting liberalization at home whilst enjoying opportunities opened up by privatization and some

liberalization abroad. From the firm perspective, Sarkar, Cavusgil and Aulakh (1999) argue that it is particularly convenient that the internationalizing telecoms enterprise enjoys relatively restricted liberalization at home in order to access low-risk capital needed for high-risk «adventures» overseas. Moreover, though it is not necessary that the internationalizing enterprise is State-owned, it is useful if that firm has support or contacts in the government who may be able to help in the complex series of international negotiations surrounding entry during telecoms internationalization. On the other hand, clearly, privatization in the host market is a fundamental requirement of internationalization, hence the resulting asymmetry.

Bonardi (2004), also from a firm-centred perspective, explores the entry process when telecoms and other utility incumbents are privatized. Whilst Sarkar, Cavusgil and Aulakh (1999) described policy such as privatization as «environmental forces», Bonardi (2004) attempts to explore the dynamics of government policy for internationalization using game theory techniques. The policy environment is dynamic, rather than given, and is important in influencing the behaviour of the enterprise whilst, conversely, the enterprise will seek to influence domestic policy. Fundamentally, Bonardi (2004) argues that, as a rule, incumbents seeking to internationalise will opt for aggressive internationalization abroad whilst seeking to protect their domestic markets. This is qualified, however, by questions of reciprocity in international investment agreements. Because the incumbent's outward expansion may be dependent upon the home market opening up in a reciprocal fashion, enterprises face a range of options from which to lobby, including partial, conditional liberalization at home. In addition, there may be occasions when the government and the incumbent's interests do not coincide: the government may for instance be unable or unwilling to support an incumbent's preference for blocking a market due to other economic and political pressures to liberalize. In these situations, the preference for liberalization may well be a compromise. Government policy therefore is a fundamental consideration when an incumbent telecoms (and other utility) enterprise internationalizes (Sarkar, Cavusgil and Aulakh, 1999; Bonardi, 2004, Haar and Jones, 2008). According to these authors, it could be expected that telecoms enterprises that enjoy relatively greater domestic protection will have the resources to undertake international adventures. In this way, we could expect that the internationalization (I) of a telecommunications incumbent depends on privatization (P) and liberalization (L), as well as other factors (X):

$$I=f(P, L, X)$$

In the third section we examine this by analysing the relationship between internationalization, privatization and liberalization in the telecommunications sector.

### 3. Comparative Analysis

This section analyses the emergence of Telefonica and Telmex in a comparative context by analysing them along with other major OECD telecoms Multinationals using cluster analysis. The hierarchical method is applied, using the single linkage or nearest neighbour on the square of the euclidean distances between the standardized variables. This technique allows us to classify different firms into groups with a good degree of internal homogeneity. The variables used for this analysis are: the internationalization of the firm; privatization in that sector at the country level; and liberalization reached in that sector at the country level. Two proxies for liberalization are used. First, the extent of liberalization in legal terms in that sector at the country level; second, a proxy of «real» liberalization, measured as the market quota held by new entrants in that sector. This second proxy, market quota, is important for two main reasons. First, nearly all OECD countries had reached a «complete» liberalization —in legal terms— of the telecoms sector by 2003 and, being standard, becomes less useful for the analysis as regards sequencing of internationalization. Second, whilst nearly all countries reached «legal» liberalization, this was not translated into similar levels of market share for new entrants. For a diversity of reasons, barriers and other impediments remained to entry unevenly across national settings.

Data on firm internationalization was collected from company annual reports calculated as assets abroad as a percentage of total firm assets, capital and workers abroad. Privatization and sectoral legal liberalization were calculated according to the OECD's Indicators of Regulatory Reform (REGREF) as explained in Conway and Nicoletti (2006). Unfortunately, in the case of telephony, the OECD indicators for fixed and mobile telephony are not disaggregated. The proxy of «real» liberalization is calculated by the percentage of sales in that market corresponding to the new entrants once that sector has been opened up. For the sake of clarity, in this article, the indicators for privatization, legal liberalization and market share are expressed as numbers between 0 and 1. So, for privatization, 0 means that all firms in that sector are in public hands; for liberalization, a monopoly provider is permitted by law; and for market structure, there are no new entrants. Conversely, 1 for privatization means private property is complete in that sector; for liberalization, that no legal barriers exist for new entrants; and for market structure, the entire market is in the hands of new entrants.

The sample of telecoms Multinationals analysed, as listed in Table 1, includes all twenty-six major telecommunications Multinationals operating in the OECD area. Telecoms Multinationals are ranked following the UNCTAD (2008) methodology used in the annual *World Investment Reports*. According to this methodology, internationalization is measured according to assets, capital and number of workers abroad.

Using the OECD's REGREF, data on the extent of privatization and liberalization in the telecoms sector in that country can therefore be contrasted with the extent of firm internationalization.

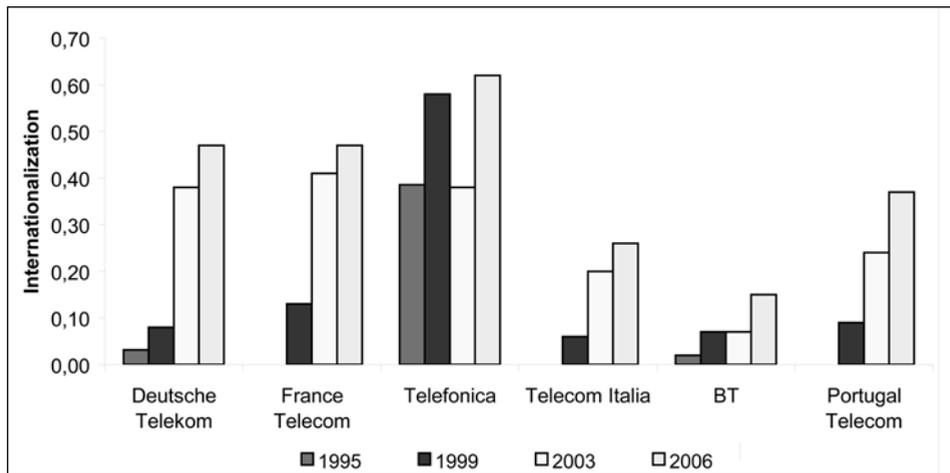
Of the twenty-six major telecoms OECD Multinationals, the vast majority are former national monopolies, though there are also some new entrants. Clearly, it would be expected that the relevance of privatization and liberalization at home will be of much more direct consequence for these former monopolies than for the new entrants. Most of the new entrants were never in public hands and most did not exist prior to liberalization. One option in this article is to exclude the new entrants, since the main point for analysis is the extent to which delayed privatization and liberalization helped the former incumbents, particularly Telefonica and Telmex. The problem here is that the traditional division between a former national monopoly and a new entrant is gradually merging, literally, through Mergers & Acquisitions. Because of this, the new entrants are kept in the analysis, though, it should be stressed, this article pays more attention to the former incumbents.

The first point for analysis concerns the relative timing of internationalization. Figure 1 compares Telefonica's emergence as a Multinational with its main European peers. Telefonica was a very early pioneer of internationalization, reaching an internationalization level of 39% in 1995 and, after a decline largely due to the financial crisis in Latin America, increased again to 62% in 2006. Telefonica's expansion anticipated the process of liberalization of telecommunications in the European Union, so, it was able to go abroad to newly reformed telecoms markets in Latin America as a virtual monopoly. By 2006, Telefonica was the most international of its European peers, followed by France Télécom, Deutsche Telekom, Portugal Telecom, Telecom Italia and BT. As mentioned previously, Telefonica's early internationalization efforts were oriented towards the Latin American markets as they opened up earlier than most European ones, due to structural reform in the aftermath of the debt crisis (Mariscal and Rivera, 2005 and Rozas, 2005). So, in 1995, the majority of Telefonica's foreign assets were held in Latin America and, to a much lesser extent, in the United States, Portugal and Romania. By 2006, Telefonica's strategy abroad had become more diversified: though the majority of foreign assets were still in Latin America (35% of firm profits were obtained from this region), it was increasingly turning to Europe, from where 26% of its profits were derived.

Telmex, in contrast, emerged as a Multinational Corporation much later on in comparative terms. In contrast to Telefonica, Telmex's priority after privatization was to continue to exploit home markets until its six-year monopoly privilege came to an end. Even then, Telmex continued to enjoy strong market power at home thanks to regulatory weaknesses of the newly established regulatory body, COFETEL. Telmex's

international business was organised into América Móvil, a spin-off, which was listed separately in the stock market though still part of the Grupo Carso. Still by 2003 the international activities of Telmex were negligible since they had effectively been siphoned off to América Móvil. Indeed, it was only once home markets came to be perceived as more vulnerable to new entrants and a slightly more mature national regulator that Telmex seriously embarked on foreign adventures. By 2006, Telmex had overtaken Telecom Italia in terms of the level of firm internationalization. Both Telmex and América Móvil focused their internationalization efforts almost exclusively in Latin America, particularly Brazil, though they also have a presence in the United States. So, in terms of timing, Telefonica was a «first- mover», enjoying monopoly at home whilst exploiting privatization and liberalization abroad. In contrast, Telmex was a «second mover», remaining as a monopoly as long as possible, whilst creating its spin-off which conducted the international business. Only once its monopoly started to erode did Telmex start to take internationalization seriously. Despite differences in timing, however, both exhibit strong asymmetrical behaviour in exploiting their privileges at home whilst profiting from adventures abroad.

Figure 1. Timing of Internationalization: Telefonica and its European peers



Source: Elaborated by the authors based on company reports (various years)

Next, the evolution of the proxies for privatization, legal liberalization and market share for the telecoms sector by country are shown in Table 1. It can be seen how the three variables evolve over time and that, by 2003 there is full legal liberalization in all the OECD countries studied. It is revealing that, though both in Mexico and Spain legal liberalization has been achieved, market share suggests there remained significant barriers for new entrants. In fact, along with Portugal, Mexico and Spain score lowest

for market share for telecoms in all the OECD countries included here. Telefonica and Telmex continued to enjoy significant market power at home. This discrepancy between legal liberalization and market share is important. Despite the fact that governments removed legal barriers to foreign investment and allowed for competition, substantial barriers to competition remained.

**Table 1. Privatization, Liberalization and Market Share**

Company	Country	1995			1999			2003		
		Priv	Lib	MS	Priv	Lib	MS	Priv	Lib	MS
Vodafone	UK	0,99	1,00	0,35	1,00	1,00	0,63	1,00	1,00	0,77
Verizon	US	1,00	1,00	0,66	1,00	1,00	0,87	1,00	1,00	0,89
Deutsche Telekom	Germany	0,00	0,07	0,07	0,43	1,00	0,51	0,57	1,00	0,64
France Telecom	France	0,00	0,15	0,07	0,39	1,00	0,39	0,41	1,00	0,56
Telefonica	Spain	0,78	0,07	0,01	1,00	1,00	0,30	1,00	1,00	0,38
AT&T	US	1,00	1,00	0,66	1,00	1,00	0,87	1,00	1,00	0,89
Telecom Italia	Italy	0,50	0,07	0,02	0,96	1,00	0,31	1,00	1,00	0,49
BT	UK	0,99	1,00	0,35	1,00	1,00	0,63	1,00	1,00	0,77
Vivendi	France	0,00	0,15	0,07	0,39	1,00	0,39	0,41	1,00	0,56
Telstra	Australia	0,00	0,57	0,24	0,42	1,00	0,39	0,49	1,00	0,56
America Movil	Mexico				1,00	0,83	0,34	1,00	1,00	0,38
Bell Canada Enterprises	Canada	1,00	0,93	0,43	1,00	1,00	0,55	1,00	1,00	0,60
Telmex	Mexico				1,00	1,00	0,34	1,00	1,00	0,38
KPN Telecom	Netherlands	0,45	0,15	0,03	0,57	1,00	0,35	0,81	1,00	0,64
TeliaSonera	Sweden	0,00	1,00	0,16	0,15	1,00	0,36	0,54	1,00	0,55
Telenor	Norway	0,00	0,07	0,03	0,11	1,00	0,23	0,38	1,00	0,48
Portugal Telecom	Portugal	0,27	0,07	0,05	0,88	0,34	0,21	0,94	1,00	0,32
Swisscom	Switzerland	0,00	0,00	0,00	0,27	1,00	0,20	0,37	1,00	0,57
TDC	Denmark	0,49	1,00	0,05	1,00	1,00	0,56	1,00	1,00	0,63
OTE	Greece	0,04	0,15	0,07	0,42	0,34	0,20	0,66	1,00	0,49
Tele2 AB	Sweden	0,00	1,00	0,16	0,15	1,00	0,36	0,54	1,00	0,55
Cable & Wireless	UK	0,99	1,00	0,35	1,00	1,00	0,63	1,00	1,00	0,77
Telekom Austria	Austria	0,00	0,07	0,02	0,13	1,00	0,28	0,53	1,00	0,66
Telecom, NZ	N. Zealand	1,00	1,00	0,30	1,00	1,00	0,35	1,00	1,00	0,45
Colt	UK	0,99	1,00	0,35	1,00	1,00	0,63	1,00	1,00	0,77
Elisa	Finland	0,00	1,00	0,70	0,24	1,00	0,71	0,81	1,00	0,75

Source: OECD (various years)

Note: Priv=Privatization; Lib=Liberalization; MS=Market share. All variables are bounded between 0 and 1.

The cluster analysis of our sample of telecoms Multinationals is shown in Table 2. Our results are organised into two columns, cluster membership (1), which considers the three variables internationalization, privatization and liberalization in 1999 and 2003, and cluster membership (2), which considers the same variables in the same years but replaces liberalization with market share of the new entrant. Data for 1995 is not included due to a lack of information about the level of internationalization reached by the majority of the firms. For each period, firms are grouped into four differentiated clusters. The extent of firm internationalization and country levels of privatization, liberalization and market share for new entrants are expressed as high, medium or low in relative terms to the rest of the sample in temporal terms (at that moment in time). Analysis of the positioning of the firms is done chronologically, for 1999 and then for 2003.

In 1999, Cluster 1 comprises the new entrants Vodafone and Colt, along with former commonwealth provider Cable & Wireless, plus two European former monopolies, Telefonica and Telecom Denmark. These firms all exhibit high levels of internationalization and are based in countries with high levels of privatization and legal liberalization. Interestingly, although Spain was granted an extension to meet the EC Liberalization Directive, it opted to meet the original earlier deadline of 1997. In Cluster 2, firms with low or low-medium internationalization are included based in countries with high privatization and medium-high or high levels of liberalization. Here we can find various former national monopolies (Bell Canada, BT, Telecom Italia, Telmex, Telecom of New Zealand) plus América Móvil, AT&T and Verizon. In Cluster 3, firms with low or medium levels of internationalization based in countries with low or medium levels of privatization and high liberalization are listed: Deutsche Telekom, France Telecom, KPN, Swisscom, Telstra, TeliaSonera, Telenor, Telekom Austria, plus Elisa, Tele2 and Vivendi. Finally, in Cluster 4 includes two former monopolies with low levels of internationalization, based in countries with medium-high privatization and low-medium liberalization: Portugal Telecom and OTE of Greece.

Table 2. Cluster Analysis

Company	Country	Cluster Membership (1)		Cluster Membership (2)	
		1999	2003	1999	2003
Vodafone	UK	1	1	1	1
Verizon	US	2	3	3	4
Deutsche Telekom	Germany	3	2	2	2
France Telecom	France	3	2	2	2
Telefonica	Spain	1	3	1	3
AT&T	US	2	3	3	4
Telecom Italia	Italy	2	3	4	3
BT	UK	2	3	3	4
Vivendi	France	3	2	2	2
Telstra	Australia	3	4	2	2
America Movil	Mexico	2	3	4	3
Bell Canada Enterprises	Canada	2	3	3	3
Telmex	Mexico	2	3	4	3
KPN Telecom	Netherlands	3	4	2	4
TeliaSonera	Sweden	3	2	2	2
Telenor	Norway	3	2	2	2
Portugal Telecom	Portugal	4	3	4	3
Swisscom	Switzerland	3	2	2	2
TDC	Denmark	1	1	1	1
OTE	Greece	4	4	2	2
Tele2 AB	Sweden	3	2	2	2
Cable & Wireless	UK	1	1	1	1
Telekom Austria	Austria	3	4	2	2
Telecom, NZ	N. Zealand	2	3	4	3
Colt	UK	1	1	1	1
Elisa	Finland	3	4	2	4

Notes: (1) Cluster analysis with variables Int, priv and Lib.

(2) Cluster analysis with variables Int, priv and MS.

1999 is still relatively early days for the internationalization of the former telecoms monopolies, Telefonica and TDC being the main exceptions. At this stage, Cluster 1, which comprises the most internationalised telecoms MNCs, is dominated by new entrants mostly specialised in new ICTs that emerged out of the UK market. As regards the relationship between internationalization, privatization and liberalization, the most internationalised firms are based where privatization and legal liberalization both advanced most, this being dominated by new entrant firms. In contrast, the least internationalized firms are former monopolies from some southern European countries where privatization was quite advanced but where liberalization was relatively delayed. Clusters 2 and 3 both contain firms with a low to medium level of internationalization, based in countries where either privatization or liberalization is to be completed. Summing up, it appears in 1999 that there is a positive relationship between privatization and liberalization and internationalization ( $\frac{\partial I}{\partial P} > 0$  and  $\frac{\partial I}{\partial L} > 0$ ). Indeed, it appears that the «ideal» situation for internationalization is the combination of advanced liberalization and privatization policies.

What happens when we look at market share instead of liberalization in 1999? Cluster 1 remains largely unchanged, as the most internationalized firms are still the new entrants from the UK, plus TDC and Telefonica. However, though market share is high-medium in this cluster, this is less accurate for Spain, which only had a low-medium level. So, at this time, Telefonica enjoyed significant protection from the government relative to the other internationalizing firms in this cluster. Telefonica stands out sharply from the rest due to its lower market share.

Cluster 2 groups firms with low-medium internationalization in countries with low-medium privatization and low-medium market share including former monopolies Deutsche Telekom, France Telecom, Telstra, KPN Telecom, OTE, TeliaSonera, Telenor, Swisscom, Tele2 and Telekom Austria, plus Tele2 and Vivendi. In Cluster 3, only BT and Bell Canada plus AT&T and Verizon remain as firms with low internationalization, high privatization and medium-high market share. These companies were based in countries which suffered more inroads from competition and were subject to deeper privatization: the outcome was that they internationalized less. Together with Cluster 2, it seems that the hypothesis of internationalization being linked to protection at home holds well.

The firms that comprise Cluster 4 (Telecom Italia, Telecom Portugal, Telecom NZ, Telmex and América Móvil) are characterised in 1999 by low levels of internationalization, high levels of privatization and low-medium market share. Again, as regards the former monopolies, the extent of internationalization seems to be related to the presence of both lower privatization and lower liberalization, as characterises those former monopolies in cluster 2.

We now turn to 2003 using the first three variables, internationalization, privatization and legal liberalization. As previously, Cluster 1, composed of highly internationalised firms from countries with high levels of privatization and liberalization is comprised of Vodafone, Colt, Cable & Wireless and TDC. TDC is the only former monopoly remaining in this cluster. Telefonica is no longer grouped here.

In Cluster 2, we find medium or medium-highly internationalized firms based in countries with medium levels of privatization and high levels of liberalization: this cluster includes former monopolies Deutsche Telekom, France Télécom, TeliaSonera, Telenor, Swisscom plus Tele2 and Vivendi. Telefonica has «moved» to Cluster 3, composed of firms with low-medium internationalization based in countries with high levels of privatization and liberalization. Along with Telefonica are other former monopolies Bell Canada, BT, Telecom Italia, Telmex, Portugal Telecom, Telecom NZ plus AT&T, América Móvil and Verizon. In Cluster 4, firms with low levels of internationalization, based in countries with medium or medium-high privatization and high liberalization are grouped: KPN, OTE, Telekom Austria, Telstra and new entrant Elisa.

As regards legal liberalization, all countries have attained «1» by 2003 this is no longer a useful indicator when analysing sequencing. Regarding privatization, it appears that more internationalization of the former monopolies tends to be negatively correlated.

For 2003, a more useful proxy of liberalization is market share enjoyed by the new entrant. Again, Cluster 1 includes Cable & Wireless, Colt, Vodafone and TDC as firms with high internationalization, high privatization and high or medium-high market share. Cluster 2 comprises firms with a variable level of internationalization (from medium-low to medium-high), medium or medium-high privatization and medium market share. Most of these firms are former monopolies: Deutsche Telekom, France Télécom, OTE, Swisscom, Telstra, TeliaSonera, Telenor, and Telekom Austria plus Vivendi and Tele2. In Cluster 3, characterised by low or medium levels of internationalization, high privatization and medium or low market share we find: Bell Canada, Portugal Telecom, Telecom Italia, Telefonica, Telmex, and Telecom NZ and América Móvil. Finally, Cluster 4 is comprised of firms with low levels of internationalization, high or medium-high privatization and high or medium-high market share: BT and KPN represent the former monopolies, plus AT&T, Elisa and Verizon.

Some general trends can be highlighted. First, there is a trend whereby firms based in countries with relatively higher privatization and market share underwent relatively less internationalization. In contrast, the reverse holds, and is particularly clear in Cluster 2. In Cluster 3, where firms with low or medium levels of internationalization are included, it is worth noting how those firms based in countries with relatively more

protection at home, such as Telefonica, are among those with higher levels of internationalization. Indeed, it could be argued that the «ideal» situation for incumbent internationalization is when both privatization and liberalization are relatively limited.

In sum, there is a trend whereby former monopolies that underwent relatively lower levels of privatization and liberalization at home tended to internationalize more. Indeed, there appear to be two contrasting logics, one for the former monopolies, another for the new entrants. For the former, relatively less privatization and liberalization (more protection) favoured their internationalization ( $\frac{\partial I}{\partial P} < 0$  and  $\frac{\partial I}{\partial L} < 0$ ). In contrast, for the new entrants, particularly those based in the UK, more liberalization and privatization at home is positively associated with their internationalization ( $\frac{\partial I}{\partial P} > 0$  and  $\frac{\partial I}{\partial L} > 0$ ).

## 4. Discussion and conclusions

The analysis of Telefonica and Telmex in comparative perspective confirms a generalised trend whereby former telecoms monopolies were more likely to internationalize when they enjoyed relatively greater protectionism at home, confirming the theories by Sarkar, Cavusgil and Aulakh (1999) and Bonardi (2004). Not all governments opted to protect «national champions», however, as exemplified particularly by the UK. Telefonica and Telmex, in contrast, were both quite extreme cases of firms benefiting from «national champion» privileges and used asymmetrical strategies to go abroad. There are important differences, too, since Telefonica represented a «first-mover» whilst Telmex was a «second-mover». More insight into the evolution of the two Multilatinas will be gleaned from a brief qualitative analysis.

In contrast to the majority of European telecoms incumbents, Telefonica was never a full public company and differed to the traditional European model of a PTT. Indeed, State ownership of Telefonica never exceeded 47 per cent and the company was managed by the Spanish private banks, although the government selected its presidents. As has been shown, Telefonica was one of the early pioneers to internationalize, commencing well before the majority of European telecoms operators. It is likely that its private management by banks influenced the fact that the internationalization of Telefonica's capital commenced in 1987 when it was listed on the New York Stock Exchange as well as other international markets. Telefonica established a strategic alliance with Unisource (tightly linked to AT&T) jointly with other smaller European operators including KPN, Telia and Swisscom. In 1985, Telefonica set up an international filial Telefonica Internacional (TISA) and rapidly embarked on an in-

ternationalization programme, acquiring 43.6 per cent of Chilean company CTC in 1990, followed by more acquisitions across telecom markets in several Latin American countries (Argentina, Brazil, Colombia, Ecuador, El Salvador, Morocco, Mexico, Peru, Puerto Rico and Venezuela). In October 1995 the Spanish socialist government privatized a further 12 per cent of Telefonica through a public offering raising US\$ 1.1 billion. Two years later, the new Popular Party used Telefonica as a key example of its «total privatization» policy by selling the remaining 20.9 per cent of capital for US\$ 4.2 billion. A golden share of 0.11 per cent was retained by the government allowing them to avoid hostile takeovers and block mergers and acquisitions from other state-owned or private companies. Telefonica was favoured by «national champion» policies at home whilst its internationalization strategy was encouraged. Furthermore, the Popular Party chose a new company president, Juan de Villalonga, who maintained close links to that party and was supported by the financial investors in the company, BBV, Argentaria and La Caixa. After an ambitious expansion strategy, Villalonga was replaced by César Alierta after the stock market crash. The new president changed the strategy, focusing on asset consolidation centred in Europe, bidding for third generation licenses in Austria, Germany, Italy and Switzerland (even though they did not have network). In June 2005 Telefonica acquired 69.4 per cent of Cesky Telecom and six months later it acquired 100 per cent of the British company O<sub>2</sub> for 1.2 billion euros. An idea of the importance of Telefonica comes from the fact that since 1998 has been listed among the world's 50 largest Multinationals by UNCTAD and, since 2000, among the top 70 companies in the Financial Times Global 500 List. Telefonica has been the European public telephone network operator that most has expanded and diversified its markets and operations beyond the European Union. In 2005, only one third of its 173,500 employees, and only one quarter of its customers were based in Spain and most of its international activities were localized in Latin America where Telefonica penetrated as the first-mover telecom operator.

Now we focus on Telmex. In the aftermath of the debt crisis, Latin American governments embarked on a new set of economic policies now under question labelled in 1989 the «Washington Consensus» (see for instance Williamson 1993). Deep privatization in most countries helped fuel a boom in inward FDI flows to the region in the first half of the 1990s. This was a «first wave» of internationalization, usually characterised by Multinationals from the industrialised world entering and taking advantage of the opportunities opened up by privatization across Latin America. Both fixed and mobile telephony were attractive investment options for foreigners and, in general, governments in the region prioritised maximising inward FDI rather than introducing competition, with the exception of Brazil (ECLAC 2000). Latin America became a playground for operators, mostly from industrialised countries, which saw

its underdeveloped networks and unexploited technologies as offering attractive ways to extend their markets.

Mexico stood out from other Latin American economies in the telecommunication sector. First, from the post-revolutionary period, Mexican governments had continually used the policy of «Mexicanisation» with a view to ensuring that the telecoms sector was controlled by Mexicans either through private or public means (Teichman, 1995 on Mexicanization; Clifton, 2000 on Mexanisation of Telmex). Second, and related to this, the overall priority of Mexican governments was to nurture a national champion. Though the De la Madrid (1982–8) government commenced privatization, it was the Salinas de Gortari administration (1988–1994) that pursued privatization most aggressively. Telmex was one of the «jewels in the crown» put up for sale earlier on in the process (Ramamurti, 1996). Revenue generated by the sale for the Treasury, totalling US\$ 6 billion, was the largest sum obtained from the sale of any single enterprise until then. Indeed, this sale consisted around 30 percent of all the proceeds generated during Salinas' administration.

The way in which Telmex was privatised was decisive in explaining the subsequent trajectory of that enterprise and of its spin-off, América Móvil. When Telmex was sold and, following the Mexicanisation policy, it was a top government priority that the new owners would be Mexican. Prior to the sale, the government modified Telmex's ownership and corporate governance in an innovative way to ensure that Telmex would be affordable to Mexican investors. Special controlling shares restricted to Mexicans were reduced and concentrated, so that, with only a relatively modest amount, domestic investors could take control. The sale was announced in August 1990: of the three bids, the controlling 20.4 percent was awarded to a consortium comprised of the Grupo Carso (10.4 percent), Southwestern Bell and France Télécom (5 percent each). Foreign partners with technological expertise were welcomed, particularly when they had restricted voting power and were relatively unthreatening.

The new Telmex owners were privileged since they were awarded an official period of a six-year monopoly over national and international services which would be gradually opened up to competition afterwards. As regards new communications technologies such as mobile telephony and internet services, Telmex also enjoyed a headstart. When mobile telephone licences were awarded in 1998, Telmex, under the name Telcel, was awarded one licence to operate in each of the nine regions, competing as a duopoly with a different operator in each region. Telcel was the only operator with national coverage. As the six-year monopoly came to an end, an independent regulatory body was established: *Comisión Federal de Telecomunicaciones* (COFETEL), and a new regulatory framework for telecommunications was designed. Rumours abounded that Slim had acted as Salinas' «straw man» though this has not been proved.

Telmex's internationalization must be understood in this context. Telmex benefited from special treatment, such as the Mexican government's decision to protect it as a «national champion», allowing it to remain vertically integrated and to enjoy financial stability via its six-year monopoly over fixed-line telephony and its duopoly in the mobile market. Telmex has come under increased pressure from national and international organizations to better facilitate the entrance of competitors into the market through interconnection services and agreements, whilst the Mexican government has been critiqued for maintaining inward FDI restrictions. In 1993, FDI restrictions on telecoms were loosened, so that foreigners could buy over 49 percent of mobile telecommunication companies, subject to approval from the National Foreign Investment Commission, though foreign ownership of fixed-lines is still formally restricted to 49 percent and management of Telmex by Mexican citizens is guaranteed in the Foreign Investment Law and Regulations (OECD 2007).

Gradually, as Telmex's monopoly came to an end from 1996, and institutions were established to supervise competition, some Multinationals entered the telephony sector competing with Telmex, and plans to expand abroad commenced. In the late 1990s, local telephony was opened up, and concessions were granted to Axtel, SPC and Amaritel. In the mobile telephony sector, as had happened in the first awarding of licences, Telmex's Telcel was awarded one licence for each of the nine regions. This time, however, Telmex was not the only operator with national coverage as Pegaso, a partnership between a local group and Leap Wireless of the US, subsequently bought by Telefonica in 2002, also gained national coverage. Long-distance calls were also liberalised and new players with foreign and Mexican capital quickly won one quarter of Telmex's former share. On the one hand, Telmex executives feared imminent change, on the other hand, the incumbent still dominated local telephony (95 percent); long-distance (66 percent); mobile (72 percent) and data/internet services (60 percent) in 2000.

Telmex made a few small acquisitions abroad from 1998 but the key moment for its internationalization was in 2000 when it restructured the business dividing basic telephony, data and internet services (Telmex) and spun off Telcel, plus its interests in television and international assets, creating América Móvil. From then, internationalization was pursued by both enterprises, but particularly by América Móvil, both taking advantage of acquisition opportunities as the «first-mover» internationalizers from industrialised countries moved out.

América Móvil, in alliance with SBC and Bell Canada International, established a short-lived platform, Telecom Américas, with the aim of establishing a large digital footprint across the Americas. By 2002 strategic differences in the alliance caused América Móvil to buy out the two foreign partners. América Móvil's initial and main

focus was on the Brazilian market. In 2003, it unified its regional operators under the brand Claro and, by 2005, had a solid position in Brazil, though Telefonica was the leader. The Claro group had 18.7 subscribers in 2006 (OECD 2007) compared to 30 million of the VIVO group (Telefonica and Portugal Telecom) and 30 million (Telecom Italia).

For its part, Telefonica was a first-mover that exploited government protection in the domestic market in order to expand into Latin America first, and then, Europe. As a consequence, it is the most internationalized of the European telecoms incumbents. Telmex, in contrast, emerged as a leading Multilatinas as an outcome of its privatization and government treatment, emerging to complete head-on with Telefonica in Latin American markets. Telmex was, however, a second-mover, whilst the vast majority of its profit is still heavily dependent on its home market.

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