THE TELECOM CRISIS AND BEYOND
Restructuring of the Global Telecommunications System

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Abstract / The global telecom system has undergone dramatic change under neoliberal globalization. A swift restructuring of the telecom industries, which began in the early 1980s, was possible because governments around the world adopted neoliberal telecom polices, as they confronted intensifying pressure not only from corporations but also directly from international organizations and the US government. Telecom companies, however, have in recent years begun to present symptoms of what appears to be the same life-threatening disease. This in turn has expedited new strategies such as spin-off and/or split-off strategies as well as counter-deregulation. This article examines who set the agenda for telecom policy over the last two decades to analyze a long-term change in the global telecom system. It investigates how transnational corporations were involved in the reshaping of the global telecom system by exploring the consolidation through mergers and acquisitions. It also examines the relationship between national policies and institutions on the one hand and international organizations on the other. Then, it attempts to clarify whether the transformation of the global telecom system has influenced the telecom crisis in recent years, and to find new strategies and/or new business models.

Keywords / mergers and acquisition / neoliberal reform / telecom crisis / telecommunication / telecom policy / transnationalization

Overcapacity and destructive competition, old economic scourges, have come to haunt the frontier of twenty-first century capitalism. (Schiller, 2003: 66)

Over the last two decades, the global telecommunications system has undergone dramatic change. The number of telecom industries has soared, and the market size and investment increased enormously with deregulation in the sector. The swift restructuring of the telecom industries, which began in the early 1980s, was possible because governments around the world adopted neoliberal telecom polices such as deregulation, privatization and liberalization, as they confronted intensifying pressure not only from corporations but also directly from international organizations and the US government. The neoliberal telecom policy gained momentum in the US and the UK in the 1980s, and has finally become a driving force for consolidation and reform of the telecom industries toward a market-oriented system around the world (Jonquierees, 1997; Thussu, 2000).

Telecom companies, however, have begun to present symptoms of what appears to be the same life-threatening disease in recent years (Schiller, 2003).
In the US, dozens of companies have gone bankrupt, and the situation is no better abroad. Canada, the UK, South Korea and Malaysia have shown severe financial difficulties in the telecom sector over the last few years due to overcompetition and overinvestment. From western countries to developing countries, overcapacity and severe competition among telecom companies have led to bankruptcies and financial deficits. Consequently, many telecom companies in several countries have sought new survival strategies, such as spin-off and/or split-off strategies as well as counter-deregulation in the post-telecom crisis era.

This article examines what and who set the agenda for telecom policy over the last two decades to analyze a long-term change in the global telecom system. It investigates the role of transnational corporations (TNCs), mainly examining how they were involved in the reshaping of the global telecom system. In particular, I explore the changing structure of the global telecom industries by examining the consolidation through mergers and acquisitions (M&As) in the telecom industry. I also discuss the relationship between national policies and institutions, on the one hand, and international organizations, including the International Telecommunication Union (ITU) and the WTO, on the other. Then, I attempt to clarify whether the transformation of the global telecom system has influenced the telecom crisis in recent years, and I thereafter articulate how many telecom companies around the world are trying to find new strategies and/or new business models, differentiating them from neoliberal telecom restructuring. Through the discussion, I hope to shed light on current developments and place them in perspective that has relevance for future telecom policy directions.

Theoretical Framework/Methodology

The global telecom industry between the early 1980s and early 21st century was an exemplary case of the neoliberal transformation thesis. The restructuring of the telecom sector was conducted under the banner of deregulation and liberalization not only in western countries where this trend was most pronounced, but around the world, including the countries of the old socialist bloc as well as Latin American and Asian countries.

Several communication scholars, including Dan Schiller and Robert McChesney, point out that the global telecom system has become increasingly transnational with the rise of neoliberalism, which refers to the policies that maximize the role of markets and profit-making and minimize the role of non-market institutions through deregulation and privatization. Across the world, a majority of governments also introduced economic liberalization measures, including opening the domestic telecom market.

As Dan Schiller (1999: 2–3) points out, neoliberalism comes by its name because of its adherents’ primary aim – paring unwanted state regulation of the economy to gain more freedom of action for private firms. For neoliberal theory proponents, ‘markets should be left alone to obey their presumed natural logic; so goes the laissez-faire doctrine that was reenshrined as domestic orthodoxy during the 1980s and assumed global pre-eminence during the 1990s’. Robert McChesney (2001: 2) also argues that neoliberalism unleashed national
and international politics maximally supportive of business domination of all social affairs. According to him, 'the centerpiece of neoliberal policies is invariably a call for commercial communication markets to be deregulated'. To take one documented case, after conducting a case study of the transformation of mass communication in Chile, Matt Davies (1999: 112–13) concluded that privatization, deregulation and reliance on foreign direct investment all removed the state from participation in economic activities and communication policies, which resulted in a series of rapid boom and bust cycles in the Chilean economy and communications industry over the last two decades. As these communication scholars emphasize, neoliberalism engineers the restructuring of national economies and boundaries, and this has consequences for telecom industries. The telecom industries in Latin America and Asia as well as in the US underwent a dramatic transformation commonly referred to as neoliberal reform.

This article is an investigation of the recent history of the global telecom industry, focusing on changing telecom policy worldwide and its impact on the global telecom system in the context of the broader social structure of society. I therefore examine the political economy of the global telecom industry by means of historical and institutional analyses.

**Transformation of the Telecom Industry**

Since about 1980, telecom has been regarded as an important infrastructure for economic development around the world not only because of its size, but also because of its indispensable role in communication and information dissemination. Telecom has become a key to socioeconomic development within a national, regional, or global context over the last two decades. Since telecom has functioned as the basic infrastructure for the emerging information technology as well as the major driving force in economic development, construction of telecom systems is taking place on a large scale throughout the world. Except in the US, telecom systems were operated almost entirely as national monopolies prior to the mid-1980s, but each state has transformed the state monopoly system into a profit-driven private system over the last two decades (Cabanda and Afiff, 2002).

The telecom sector has developed enormously in terms of telephone lines, market size, and investment with its transition to market-oriented private corporations. To begin with, the recent expansion of the telecom sector has been notable in both main telephone lines, referring to the telephone lines connecting a customer's equipment to the public switched telephone network (PSTN) and which have a dedicated port on a telephone exchange, and wireless lines. The number of main telephone lines reached over 1 billion for the first time ever in 2002. Main telephone lines had jumped from 142 million in 1960 and 272.7 million in 1970 to 689 million in 1995 and to 1.1 billion by the end of 2002 (ITU, 2003b; UN Statistical Office, 1972). The increase in the number of mobile phones is far steeper than that of main telephone lines because the expansion began from a tiny base of the development. The number of mobile phone subscribers increased 12.6 times from 90.6 million in 1995 to 1.14
billion in 2002 and exceeds the number of subscribers to fixed telephone lines (ITU, 2003a).

A few developed countries, including the US, Japan and several European countries, have dominated telecom businesses for a long time by the number of main telephone lines and mobile phones. However, the emerging market in the telecom sector in recent years is also showing remarkable growth in Africa, Asia and Latin America, while western countries’ portion has shrunk, reflecting saturation of the market. For instance, in 1981 non-OECD countries (with 81 percent of the world’s population in 1999) had only 7 percent of all phones (fixed and mobile), but this increased to 11 percent in 1993 and to 43 percent in 1999 (Wellenius et al., 2000). This growth partly resulted from the addition in the last decade of 170 million mobile customers outside the OECD mainly in China, Brazil and India. In particular, China, due to the state’s initiative for developing infrastructure for information technology, became the largest country, followed by the US, in terms of numbers of both main telephone lines and cellular mobile phone subscribers, with 214 million main telephone lines in 2002 and with 144 million cellular phone subscribers in 2001 (ITU, 2002, 2003b).

As a reflection of the rapid growth of the telecom sector, the telecom service market has also expanded. Telecom services has become one of the largest and most profitable economic fields in recent years. In 2000, total worldwide telecom revenues in constant dollars1 in service markets were at more than US$925 billion, representing a 10 percent increase over 1999 (US$841 billion), as opposed to US$300 billion in 1990 (ITU, 2002). The global telecom equipment export market also witnessed substantial growth from US$62.5 billion in 1995 to US$141.7 billion in 2000 (ITU, 2002). As usual, several western countries enjoyed tremendous benefits from the growing telecom services market. For example, in 1999 revenues in telecom services markets in OECD countries accounted for as much as 89.8 percent of worldwide revenues (OECD, 2001).

Governments throughout the world and transnational capitals have invested an enormous amount of money in the telecom industry, including basic telecom services over the last decade because of its significance as infrastructure for IT as well as the economy. When governments around the world invested US$202 billion in telecom in 2000, Japan as one of the advanced technological nations invested US$32.8 billion, while the US invested US$28.8 billion (ITU, 2002). The importance of the telecom industry has also led to some very ambitious projects in developing countries. In 2000, for example, the total investment in telecom in China was as much as US$26.8 billion (ITU, 2002). India, with a per capita income of under US$400 in 1999, has devoted massive resources to developing satellite communications since the 1970s, and the last of its second-generation satellites was launched in 1999. ‘Telecom system build-outs, at every scale from local loops to the global grid, are occurring on an unparalleled scale throughout the world, although examples such as these are rare in the developing countries’ (Schiller, 2001: 52).

Dramatic growth and transition in the telecom sector over the last two decades have occurred since governments across the world began to transform telecom companies into a competitive market structure from a state-owned
monopoly. In other words, transformation of the telecom sector has been expedited with the adoption of neoliberal economic policy, although several significant factors were considered major reasons for restructuring such as efficiency and performance of the firms. These forms of transformation in telecom are very significant because these strategies interact in determining the ownership of telecom firms and the industry structure of the whole sector, which result in concentrating the ownership structure to a few shareholders and board members as well as conglomerating the telecom industries (Trillas, 2002). As Dan Schiller (2001) points out, by elevating the precepts of privatization, liberalization of market entry and specialized services aimed at privileged groups, policy changes have resulted in enriching and empowering a few thousand giant companies and their affiliated strata.

**Liberalization in the Telecom Industry**

Liberalization is leading to a restructuring of global telecom. There has been a trend toward the liberalization of telecom services since the mid-1980s. As is well documented, the trigger for neoliberal reform in the telecom industry can be traced back to 1982 when the AT&T was restructured in the US, and British Telecom (BT) was privatized in the UK. During Margaret Thatcher’s term, the UK privatized BT and allowed the authorization of a competitive carrier, Mercury, which became a part of Cable & Wireless in 1997. These measures permitted the UK to offer itself as a hospitable site for the information system operations of major US firms needing access to European markets (Schiller and Fregoso, 1993). In other words, telecom liberalization comprised a spur to foreign investment in the UK. At the same time, the wake of the continuing liberalization of the US market led to the AT&T divestiture of 1982–4.

Since then, a number of countries have made significant changes in their telecom regulatory structures and allowed for substantial liberalization of markets. The changes made in telecom market structures in the 1980s indicated that competition, once the exception in telecom, was quickly becoming the norm (OECD, 1990). As a result of a series of deregulating markets, transnational capitals were active in domestic telecom markets in the world. TNCs were intent on achieving access to an increasingly sophisticated, seamless communications network, enabling them to conduct business around the clock and around the world (Oh, 1996). Capital investment not only occurred in domestic markets in developed countries, but also occurred in developing countries because telecom giants extended their investment for high profits, reflecting their advanced technologies and saturation of domestic markets in developed countries, which resulted in the rapid growth of transnationalization of the telecom sector.

A process of alliances, mergers and acquisitions was an important part of the operators’ answer to these changes beginning in the mid-1980s. Mergers and joint ventures – such as the deal struck by BT and AT&T – merely climaxed a trend that has been fermenting for more than a decade, a trend that was accompanied by a growing need for new markets. In particular, two main events, the Telecommunications Act of 1996 in the US and the WTO telecom
agreement in 1997, have sent shock waves through the telecom sector around the world in recent years (Schiller, 2003).

In the US, the 1996 Telecommunications Act allowed for an unprecedented level of competition in the sector. The Act has eliminated market entry barriers for entrepreneurs and other small businesses in the provision and ownership of telecom services, and thereafter triggered a huge M&A across the greater communications industry. Since the passage of the Telecommunications Act, companies in the long-haul fiber-optic, cable television, satellite, local telephone, wireless and other sectors of the industry have undertaken massive capital expenditures to develop and upgrade networks. For instance, the US$53 billion marriage of GTE and Bell Atlantic in 1998 resulted in the creation of Verizon, the largest provider of local phone services and wireless communications as well as one of the world’s largest providers of telecom services, exemplifying the wave of telecom mergers designed to enable global players to expand their strategic and geographic reach (Bradbury and Kasler, 2000).

On the global level, the drive for liberalization culminated in the 1997 WTO telecommunications agreement. Signed by 69 countries, the Agreement on Basic Telecommunications Services requires them to open their domestic markets to foreign competition and to allow foreign companies to buy stakes in domestic operators (Jonqueres, 1997). This agreement was not the first or the only such attempt. Over the years, communications have appeared on the agenda of almost every major negotiation concerned with international trade, including meetings of the Asia-Pacific Economic Council (APEC), the European Commission (EC) and agreements such as the Maastricht Treaty and the North American Free Trade Agreement (NAFTA). In Europe, the European Union (EU) decided as a general rule to liberalize the telecom sector in 1998, with each country implementing liberalization via different strategies. The IMF and the ITU also each enrolled in the liberalization effort in the 1990s. They have pressed governments to open markets to foreigners over the last decade. More importantly, ‘as US power groups’ confidence increased, bilateral negotiations, US trade law, and encompassing multilateral initiatives all were pursued, which resulted in transformation of the institutional basis of world telecom’ (McChesney and Schiller, 2002: 15).

However, the launching of basic telecom negotiations at the WTO sent a strong message to the telecom officials and telecom companies across the country (McLarty, 1998). The WTO agreement on basic services attracted widespread attention because it succeeded, on a global scale, in establishing the free trade principle in an area previously closed to foreign intervention. The 1997 WTO telecommunications agreement finally ignited a wave of M&As because each of the giant telecom firms has moved aggressively into deregulated domestic telecom markets around the world, and transnational corporations have formed joint ventures with other global giants and local investors. Several major global M&As occurred beginning in 1998. In Canada, Bell Canada Enterprises (BCE) completed its purchase of Teleglobe for US$7.6 billion to broaden its reach beyond Canada in 1999 (Hamilton, 2002). In Japan, KDD, DDI and Ido merged to become KDDI in 2000, and became a
main competitor to Nippon Telegraph and Telephone (NTT), the largest Japanese telecom company (OECD, 2001).

Consequently, telecom became one of the most active industries in the M&A market, which resulted in mega-transnational corporations, beginning in the late 1990s. For example, telecom was the second largest industry in the global M&A market at US$105.9 billion in 196 deals worldwide in 1998, only behind commercial banks. The magnitude of M&A in telecom jumped exponentially from only US$4.4 billion in 1992 to US$10.5 billion in 1993. Telecom also became the largest industry in the M&A market by dollar value at US$213 billion with 245 deals in 1999, and US$235 billion in 319 deals in 2000, respectively. Those years were recorded as the golden age of telecom companies in the global M&A market. With the rapid growth of M&A, telecom was the second largest industry in the M&A market between 1990 and 1999, valued at $524.3 billion in 1293 deals, just behind commercial banks ($547.2 billion; 2663 deals). In addition, in the late 1990s, the world’s largest telecom firms raced to put together global alliances. For instance, AT&T allied itself with Singapore Telecom and four major European national firms to form World Partners. Sprint, Deutsche Telekom and France Télécom also formed Global One in 1997 (Maney, 1997).

Privatization of Telecom Companies

Privatization of telecom companies has been noticeable over the last two decades. Privatization involves the change in legal status of an incumbent carrier from public to private ownership in telecom. Typically, but not always, privatization is also coupled with deregulation. The pace of privatization opportunities has increased, particularly because many states have made market access commitments, under the auspices of the WTO, which relax or eliminate foreign ownership and licensing restrictions in telecom.

The UK’s BT in 1984 triggered privatization, as well as liberalization of the telecom sector, and during the 1980s a politics of neoliberal telecom reform took hold in dozens of nations following the US and UK. Before 1989, only nine countries had privatized an existing telecom system operator. With the collapse of the Soviet Union in 1991, however, the scale of the neoliberal privatization project in telecom rapidly expanded and gained devotees within scores of countries (Thussu, 2000).

Privatization occurred in such diverse nations as Argentina, Australia, Brazil, Canada, Japan, Mexico, Peru and Venezuela. Overall, between 1984 and July 1999, within a broader context of state-asset privatization, around US$244 billion worth of privatization of state-owned systems occurred (US Federal Communications Commission, 2000). No region of the world has embraced the privatization of telecom as enthusiastically as Latin America. Of the 89 incumbent public telephone operators worldwide that had been privatized by 1999, one-quarter of operators were in the Americas region. Even more impressive is the degree of private participation in the sector. More than two-thirds of the countries of the Americas region have either partially or fully privatized their telecom companies, while in other regions like Africa and the
Middle East, the proportion drops to 28 percent and 33 percent, respectively (ITU, 2000).

In 2000, the number of ITU members states with partially or wholly privately owned operators outnumbered those with state-owned operators for the first time since the 19th century. And as of the end of 2001, some 106 ITU member states had privatized their incumbent operators, in part or in whole. In the Middle East and Africa, state-owned operators were in the majority, but in the other regions private operators were in the ascendancy (ITU, 2002).

Privatization in telecom industries resulted in massive investment in the global telecom market. Incumbents facing competition at home in mainly western countries strongly pursued foreign markets for investment opportunities as a form of a consortium or joint venture (Frieden, 2001). The privatization and liberalization of telecom have also been stimulated by the desire for profits by telecom firms and the investment bankers who coordinate the neoliberal reforms (Herman and McChesney, 1997). These private interests worked with the governments of the developed states and the institutions of global capitalism such as the World Bank and the IMF to push these policies.

However, many countries still maintain their managerial power over telecom industries as major stake-holders, e.g. the US, France and Japan do maintain some forms of restriction on foreign ownership in basic services. Many developing countries defended themselves on the grounds that they maintained their managerial power because even the powerful global players saw the need for restricting foreign investment in the communication sector. Therefore, several countries, including the US, Canada, France, Japan, Brazil, Korea and more recently China, have chosen to keep some form of restrictions on foreign ownership (OECD, 2001).

Several reasons provide some justification for restrictions on foreign ownership. Governments around the world clearly wish to retain some control over their public telecommunications operators (PTOs) for national security and to ensure the legal status of regulation (OECD, 1993). In addition, most countries maintaining some restrictions, with some exceptions like Ghana and Tunisia, have a sizeable domestic market with a population over 20 million (Wang, 2003). In such cases as India and China, there are also budding national industries that have the potential to compete in the global market. Regardless of the pressure from foreign forces, governments in many parts of the world play significant roles in domestic telecom markets as the major investors and regulators.

The Telecom Crisis: Failure of Neoliberal Transformation

Telecom companies have experienced serious problems such as overcapacity and overcompetition as well as mismanagement, including accounting scandals, in the midst of the transformation of the global telecom sector. While telecom companies were expanding, they had taken on enormous amounts of debt; one firm after another began having difficulty repaying these obligations and went into bankruptcy. Throughout the telecom industry, demand has failed to match expectation, businesses are losing money, stock values have plummeted and a
radical consolidation is in the offing (Starr, 2002). Indeed, as of 2000, the group with the worst performance in the US stock market was the telecom sector. While the entire S&P Super 1500 index declined 8 percent in 2000, the S&P Communication Services index dropped 39.3 percent, led by a 69.3 percent plunge in the market value of long-distance carriers (Standard & Poor’s, 2002).

To begin with, overcapacity in the telecom sector throughout the world has been notable, but problematic. Again in the US, after the passage of the Telecommunications Act of 1996, companies in sectors of the industry such as long-haul fiber-optic, cable television, satellite, local telephone and wireless have undertaken massive capital expenditure to develop and upgrade networks. Cable companies (through cable modems) and telephone companies (through digital subscriber lines [DSL]) are both offering broadband access to their subscribers in most areas of the country. This competition has led to network expansion, but it has also led to huge overcapacity. Many companies have built networks and burned cash. ‘Build networks and customers will come’ was the business model of the day for long-haul carriers and many new entrants in the telecom business. However, fiber-optic networks costing billions of dollars remain unused because there is no prospective demand for them, and the companies that built them are broke. As telecom companies have dramatically scaled down their expenditure, equipment suppliers and manufacturers have felt the brutal effects, with their revenue and values falling dramatically. The collapse has extended to the equipment sector in part because much of the investment was vendor-financed – that is, capital came from manufacturers such as Lucent, Nortel, Motorola, Alcatel and Cisco, anxious to sell their products (Starr, 2002).

Overcompetition has caused even more serious consequences than overcapacity throughout the world. With deregulation and liberalization of the telecom sector, new companies entered the market at a fast pace. In the US, as of early 2001, approximately 700 companies offered long-distance services, although a select few dominated the market (Standard & Poor’s, 2003a). In 1999, 74 telecom carriers with revenues greater than US$1 billion were operating in OECD countries, as opposed to 40 carriers in 1992 (OECD, 2001). The increasing number of new entrants in the telecom sector, including telecom investment, was readily evident from their shares in the industry total. Most notably, new entrants were responsible for 35 percent of capital expenditure in 1999. Many telecom companies went on a buying spree for Internet or telecom and cable assets as new strategic sectors possibly to make huge profits. Their strategy has not worked and the consequences have been harsh.

While telecom was not the only industry that collapsed due to overcapacity and overcompetition in recent years, it made some of the biggest headlines in the media because of its magnitude and huge impact on people’s everyday lives. Following a wave of bankruptcies among newer telecom start-ups in 2001, some of the larger, longer-established players came under the severe threat of bankruptcy in 2002 (Standard & Poor’s, 2003b). In the US, 23 telecom companies had gone bankrupt in a wave in the same year. Among these, three major telecom companies, Global Crossing, WorldCom and 360 Networks, filed for bankruptcy protection in 2002. Global Crossing was
staggering toward bankruptcy beginning in 2000. Its losses increased from US$2 billion in 2000 to US$2.7 billion in 2001, while its stock lost 90 percent of its value in 2001. The debt ballooned to US$7.6 billion in 2001 (Creswell, 2001). The long-distance giant WorldCom Inc. was accused of falsifying its books by US$11 billion in the largest accounting scandal in US history as well as the single largest bankruptcy in American history. Declining revenues in long-distance service were a principal factor in the bankruptcy of WorldCom, which owns MCI (Starr, 2002: 23). However, sizable accounting errors were the event that triggered WorldCom’s filing for bankruptcy (Standard & Poor’s, 2003b). 4

In addition, several other telecom companies in the US have also suffered from decreasing revenues in long-distance service, although they are not bankrupt. For example, due to declines in long-distance voice revenue, the total revenues of AT&T decreased by about 10.4 percent in 2002, compared to 2001, from US$42.1 billion to US$37.8 billion (AT&T, 2002). A few other countries also witnessed similar crises. For instance, Teleglobe, which was sold to BCE in 1999, filed for bankruptcy protection in May 2002 in Canada. Teleglobe borrowed billions of dollars to build a fiber-optic network, but failed to generate enough revenue to repay debt. As Dan Schiller (2003: 66) points out, ‘long viewed as leading the way into the information age of productivity and enlightenment, telecom companies suddenly are presenting symptoms of what appears to be the same life-threatening disease’.

The dimensions of the collapse in telecom industries in the 21st century have resulted in massive layoffs, of half a million people in the US. According to The New York Times, telecom companies exceeded any other industry in the number of publicly announced job cuts between the end of 2000 and June 2002 (Uchitelle, 2002). Most of this rapid job shrinkage in telecom came through layoffs, buyouts and forced retirements. The cuts came from the dozens of companies that build and operate the nation’s networks for telephone service, cable television, the Internet, email and data transmission. Having wildly overexpanded in the 1990s, the companies have been rushing to shrink ever since, serving as a drag on the economic recovery. During this period, Lucent laid off 52.8 percent of its workers from 106,000 in 2000 to 50,000 in June 2002. WorldCom also lost 21 percent of its workers, followed by AT&T (16.7 percent), Quest (14.9 percent), SBC (14.1 percent), Sprint (7.3 percent) and Bell South (7 percent) (Uchitelle, 2002).

In the middle of the telecom crisis, M&As have also declined dramatically in recent years, which partially resulted in the weakness in the US deal market. Again in 2000, M&As in telecom ranked in first place, valued at US$235 billion in 319 deals, but it became the fourth most active industry in the M&A market at US$19.8 billion in 221 deals in 2001, and plummeted to 10th position, valued at US$19.8 billion in 142 deals in 2002 (‘M&A Almanac’, 2001, 2002, 2003 [see note 2]). Deals in telecom in 2002 could not reach one-tenth of those in 2000. Overall, M&A activity in all industries has been significantly down in the world in recent years due to the global economic recession, but M&As in telecom declined at a faster speed than other industries across the world.

The telecom crisis did not happen all by itself. Reforms conducted during
the 1990s were supposed to create a deregulated telecom industry with large numbers of firms generating entrepreneurial innovations and economic growth. The policy has had some successes. But now the industry is imploding. By 2000, companies began to realize that there simply was not enough business to go around, and they raced to gain market share in an explosion of overcompetition and price wars that drove down revenues, as Michael Powell, Federal Communications Commission chairman, explained in his 30 July 2002 testimony before the Senate Commerce Committee. At that time, Powell stated that ‘the hyper-competition and vicious price wars that precipitated today’s burst stemmed from the exaggerated forecasts of demand from “the Internet gold rush”’. Since Powell is a strong advocate of deregulation of the communication industry, his remarks in testimony would be considered significant with regard to the telecom crisis in recent years.

As explained, there is no doubt that the Telecommunications Act of 1996 in the US and the WTO Agreement on Basic Telecommunications Services of 1997 were the real culprits of the telecom crisis, together with the recession in the global economy in recent years. As noted, ‘the Telecommunications Act continued the process of liberalization by setting down terms on which local and long-distance carriers could invade one another’s markets’ (Schiller, 2003). After Congress passed the Telecommunications Act of 1996, capital flooded into telecom, as existing firms and new ones began building networks over land, undersea and in the air. Meanwhile, the WTO Agreement on Basic Telecom Services opened further investment opportunities in the telecom sector, but the telecom industry was also taking on massive debts as in the case of the domestic market in the US (Schiller, 2003). Overcapacity and overcompetition became the major problems haunting the telecom industry in the world in the post-WTO system. In other words, overcapacity and overcompetition in telecom rendered the major telecom companies vulnerable.

After the Telecom Crisis: New Strategies for the Next Generation

With the crisis in the telecom industry, a third phase of transformation has occurred in the 21st century: spin-off and/or split-off strategies as well as counter-deregulation. Restructuring, i.e. splitting-off, has become an important dimension in reshaping telecom industries as a result of the growing ‘telecom crisis’ in the 21st century. In response to weaknesses in the long-distance market and depressed telecom stock prices, leading telecom companies began to separate their units, primarily wireless phone, Internet, broadband and cable services from more mature business operations in an effort to obtain higher market valuations and better profit. In other words, major restructuring projects among telecom carriers in recent years were related to announcements entailing increased decentralization, unlike ever-growing concentration through M&A (OECD, 2001: 14–15). What major telecom companies worried about was the lack of investor confidence and capital markets closing to new investment. The significant trend is for some of the largest telecom carriers to restructure themselves mainly due to commercial imperatives.
Spin-offs in telecom were pioneered in the US, but European telecom has embraced them enthusiastically for the flexibility they bring. On 10 August 2001, AT&T completed the split-off of Liberty Media Corporation as an independent company. In November 2002, AT&T also spun-off AT&T Broadband to AT&T shareowners. Of course, M&As have not ended because AT&T Broadband simultaneously combined with Comcast Corporation (AT&T, 2002). Some non-US companies also continue to expand but with a specific focus; for example, Vodafone, a leading British mobile phone company, is expanding with the aim of focusing on wireless markets. Likewise, Cable & Wireless, while divesting traditional telephony operation, is focusing on Internet services for business users and other carriers (‘Cable & Wireless Company Analysis’, 2002).

Regulatory constraints are another force leading to reorganization of businesses and creating opportunities for companies to float units. For example, in April 2000, the UK’s BT announced a restructuring of the company along its different lines of business (e.g. retail, Internet, wireless) rather than along geographical divisions (Sommerville, 2000: 7). BT planned to separate its highly regulated wholesale wireline business from the other business units that suffer fewer constraints (Standard & Poor’s, 2002).

A common thread of this restructuring was the objective to build greater shareholder value. One conclusion that might be drawn is that the mega-mergers of recent years no longer impress investors unless they have targeted specific lines of business (OECD, 2001). As M&A entices investment in the new giant company, spin-off strategy also entices investments in telecom because new companies focus on profitable businesses such as the Internet and broadband. By all means, the factors driving restructuring in the largest firms will inevitably affect other telecom carriers that are still trying to be all things to all customers (OECD, 2001).

Finally, overcompetition and a high level of debt required several governments, for instance in Malaysia and the Philippines, to initiate counter-deregulation communication policy to encourage formation of alliances to share facilities and infrastructure, resulting in a new mega telecom industry in the region (Standard & Poor’s, 2002: 11–12). In these countries, liberalization of the telecom industry was carried out too fast and too far, impairing the ability of competitors to establish viable business. In the case of the Philippines, the country suffers from an excess of wireline capacity, considering the population’s purchasing power. The Philippine telecom market was opened to competition in 1993, stimulating 10 new companies to challenge incumbent Philippine Long Distance Telephone (PLDT). Due to overcompetition, the Philippines had 6.8 million lines in January 2000 but only 2.9 million subscribers. Therefore, the government is encouraging the merger of regional telecom companies to achieve economies of scale and bring down the price of service. After acquiring two of the new players in the fixed line market, PLDT has acquired control of two mobile operators, making it the largest operator in the country. The excesses ironically bring about new regulation to some governments in the market-oriented deregulation era. In early 2000, the Communications and Multimedia Commission, a regulatory body in Malaysia, also reduced the
number of mobile telecom companies from eight to five to curb overcompetition (Standard & Poor’s, 2002).

In sum, the liberalization and privatization process beginning in the mid-1980s has increased the supply of infrastructure and services; however, the overcompetition and overcapacity expedited by deregulation have become the real culprits behind the telecom crisis in recent years. Liberalization and privatization of telecom industries in many countries were carried out too fast and too far, impairing the ability of telecom firms to establish viable businesses. Consequently, in the post-crisis era many telecom companies have adopted new survival strategies, including spin-off and/or split-off activities as well as counter-deregulation. The neoliberal transition in telecom industries is still occurring around the country; however, current forms of transition, such as splitting-off and counter-deregulation, indicate a new policy for the next generation in the global telecom sector.

Conclusion

The focus of this article has been on the dimensions and implications of neoliberal restructuring of global telecom. The global telecom system has dramatically changed since the 1980s. The changing political-economic environment in the world caused the rapid transformation of global telecom. The introduction of neoliberal economic policy has changed the global telecom system primarily from a government-dominated sector to a profit-driven private sector. Adoption of deregulation, liberalization and privatization of telecom systems in the early 1980s in the US and UK allowed the inclusion of new commercial telecom companies around the world.

TNCs played an important role in the process of change in cooperation with international organizations and the US government. These international forces served as the driving force behind neoliberal reform in the domestic telecom sector around the world. As each government adopted deregulation, TNCs invested an enormous amount of money in the telecom industry in developed countries because it became a highly profitable sector of the world economy, which resulted in ever-increasing rates of growth in the telecom industry. In other words, commercialized telecom industries through M&As could control the global market, and ultimately acquire a larger share of and larger profit from the global information and telecom markets.

Governments around the world, however, had pivotal roles in the transformation of the telecom industry because the industry is a symbol of national infrastructure, unlike other economic and communication sectors. Telecom remains primarily a national phenomenon in many countries, and national governments played a significant part in transforming the telecom system through legislative powers. In other words, in the neoliberal globalization era, characterized by a time of market deregulation and reduced state intervention into economic and cultural affairs, several governments around the world were pursuing a proactive telecom policy. Indeed, many governments throughout the world played a key role in the telecom sector because unremitting political intervention was necessary to actualize something approaching such a free
market regime in the telecom industry (Schiller, 1999). Governments in
developing countries also began to acknowledge that the neoliberal reform has
not been applied successfully in their specific domestic situation, and they take
counter-deregulation measures. It is recognized that overcapacity and severe
competition among telecom companies, which occurred through neoliberal
reform, have brought about the telecom crisis, and this in turn has demanded
that governments set the agenda in the telecom sector.

This implies the next decade will be different from the 1980s and 1990s,
which were the decades of market deregulation and liberalization in the tele-
communication industry worldwide. New strategies and new business models
such as split-off and counter-deregulation measures will be applied to achieve
growth and development of the telecom industry. International agencies and
global TNCs will still play important roles as they have over the last two decades.
However, national governments and domestic telecom companies will set the
agenda for telecom policies to survive and to grow in the midst of changing
global and domestic political-economic environments that emphasize the specific
domestic situation in their countries. Therefore, the global telecom system will
be transformed, influenced sometimes by cooperative and at other times con-
flicting relationships between national governments, domestic capital and TNCs.

Notes
1. Constant dollars are used to adjust for the effect of inflation while current dollar is a measure
   of spending or revenue in a given year that has not been adjusted for differences in prices
   between that year and a base year. In other words, current dollar does not reflect adjustment
   for inflation. Since the value of money changes over time, it is useful to convert current dollar
   to constant dollar to remove the effects of inflation, in particular to produce a more useful time
   series data of GNP or GDP.
2. To analyze the trend of M&As in the international telecom sector, I referred to the ‘M&A
   Almanac’ in issues 1991–2002 of Mergers and Acquisitions, which is the dealmakers’ trade
   journal that Thompson Financial Company published every month.
3. Testimony of Michael Powell, before the Panel of a Hearing of the Senate Commerce, Science
   and Transportation Committee, on ‘Financial Turmoil in the Telecom Marketplace: Maintain-
4. WorldCom’s problems began in 2000. A vicious price war in the long-distance market ravaged
   profit margins in the company’s consumer and business divisions. Rather than report the bad
   news, the company relied on aggressive accounting practices, such as moving reserves around.
   By 2001, however, these actions were not enough to keep the carrier afloat. The company then
   took line costs (fees paid to lease portions of other companies’ telephone networks) out of the
   operating expense account on the income statement, where they belonged, and tucked them into
   the capital spending accounts on the balance sheet and the statement of cash flows. These
   improper accounting practices led to a Securities and Exchange Commission (SEC) civil fraud
   suit, and along with the company’s heavy debt load, caused depreciation of stock value.
5. Panel of a hearing of the Senate Commerce, Science and Transportation Committee, ‘Financial

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