

Integration in Telecommunications Despite NAFTA



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NAFTA + 20

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Basic Telephony was excluded from NAFTA

- Domestic Policy prevailed over Trade Policy in the three countries.
- NAFTA only included:
 - Value Added services
 - Telecommunications Equipment

Domestic Policies

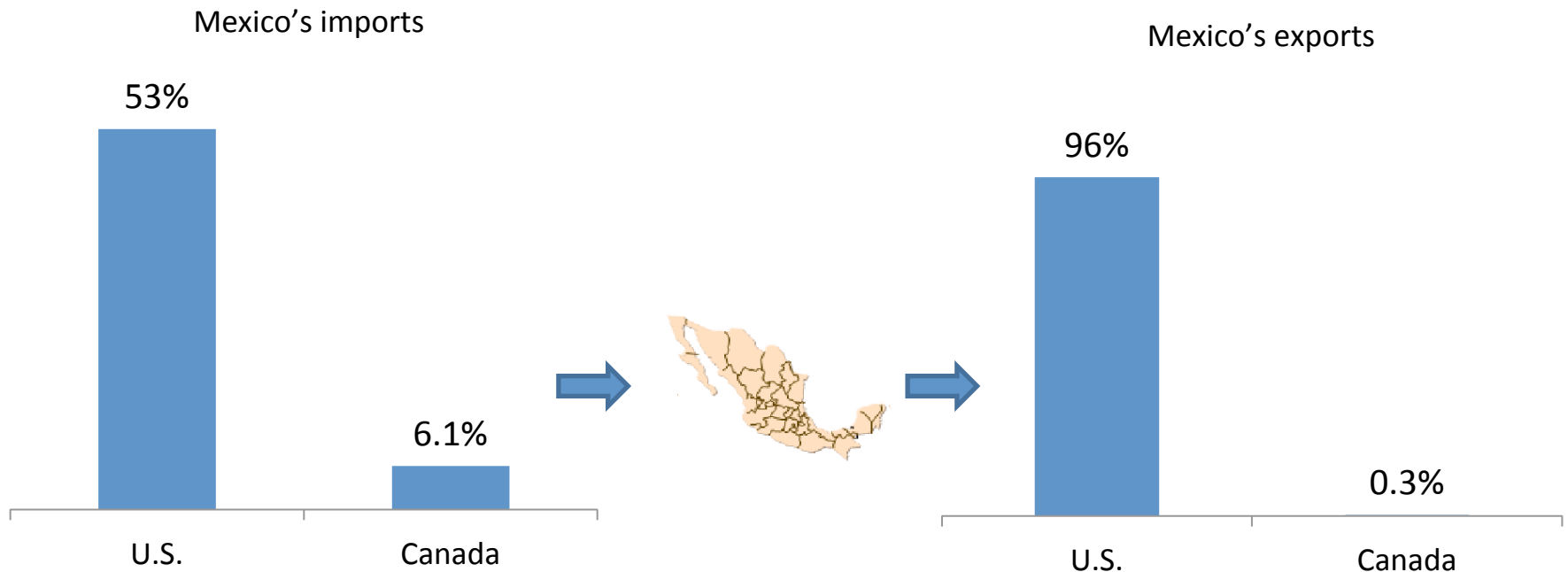
Even though all three countries were pursuing liberalization regulatory policies, the nature of each reform was different:

- 1990 Telecommunications Reform in Mexico: Privatization & Deregulation: “National Champion”
- 1996 Telecommunications Act in USA: Promote competition following AT&T divestiture (SWB restrictions to long distance)
- Canada: 1993 Telecommunications Act: Liberalization & privatization: Cultural concerns with FDI restrictions

From the Bright Side

- From Mexico's perspective, NAFTA was beneficial in trade in telecommunications equipment.

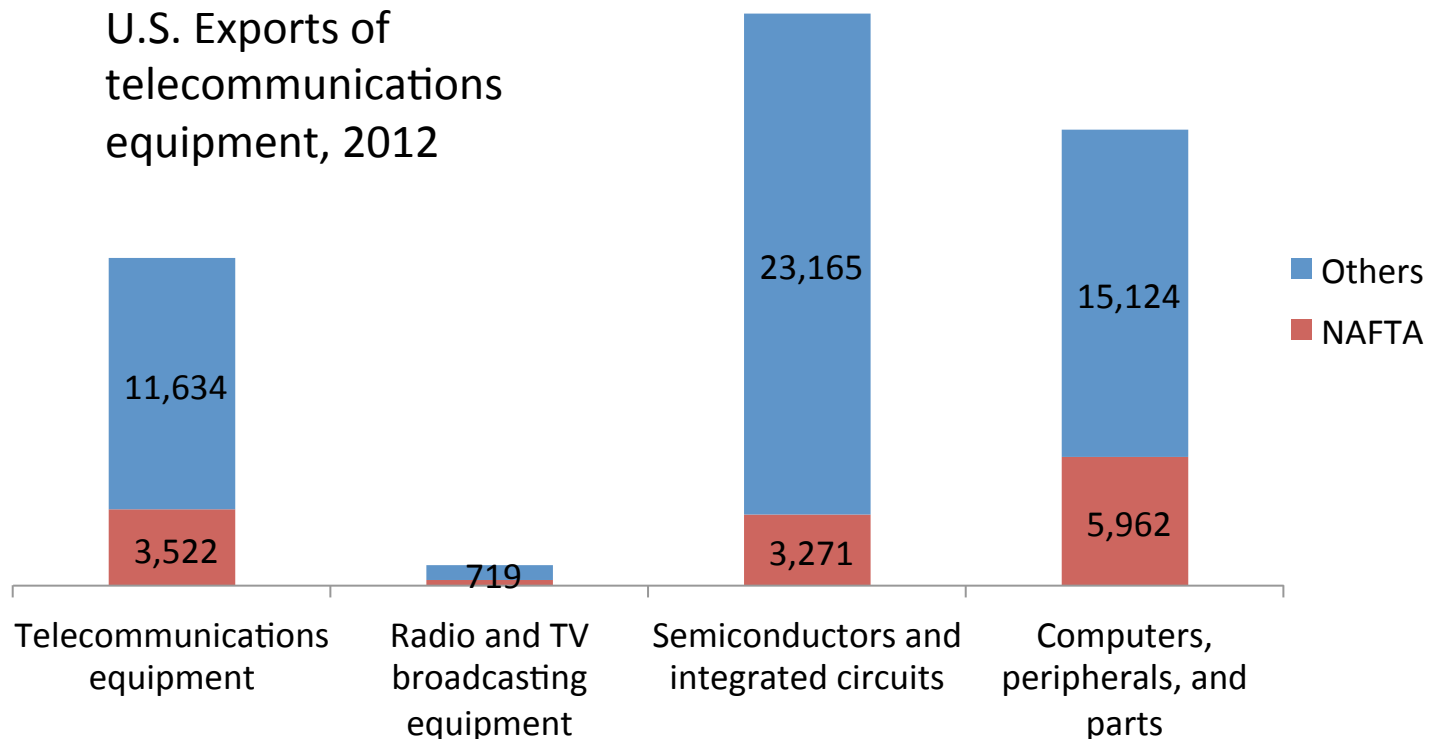
Main relationships of Mexico's foreign trade in Telecommunications Industry, 2000



Source: BANCOMEXT, 2000

From the Bright Side

- Mexico & Canada are the single most important markets for U.S. Telecom Industry

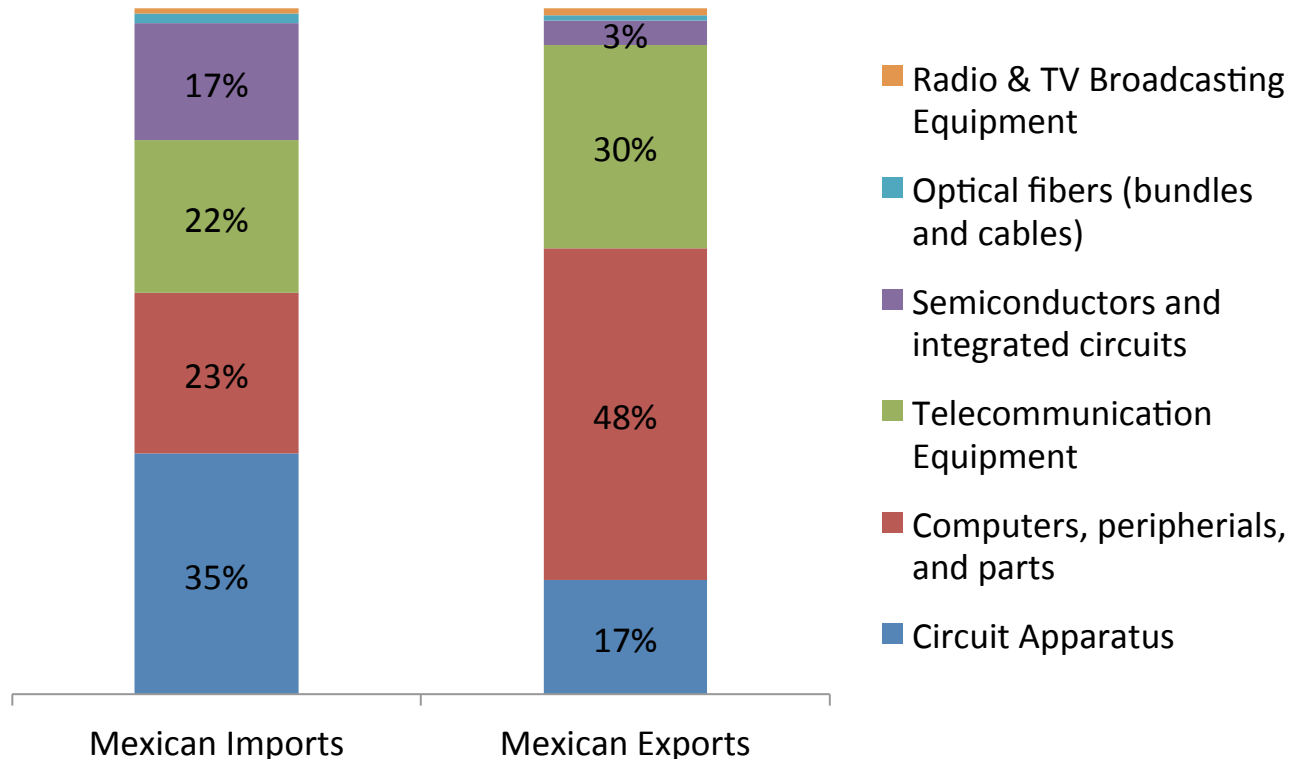


Source: United States International Trade Commission (USTIC), 2013

Telecom Trade Specialization

- A greater share of Mexican imports from U.S. are intermediate goods, while most of Mexican exports are consumer goods

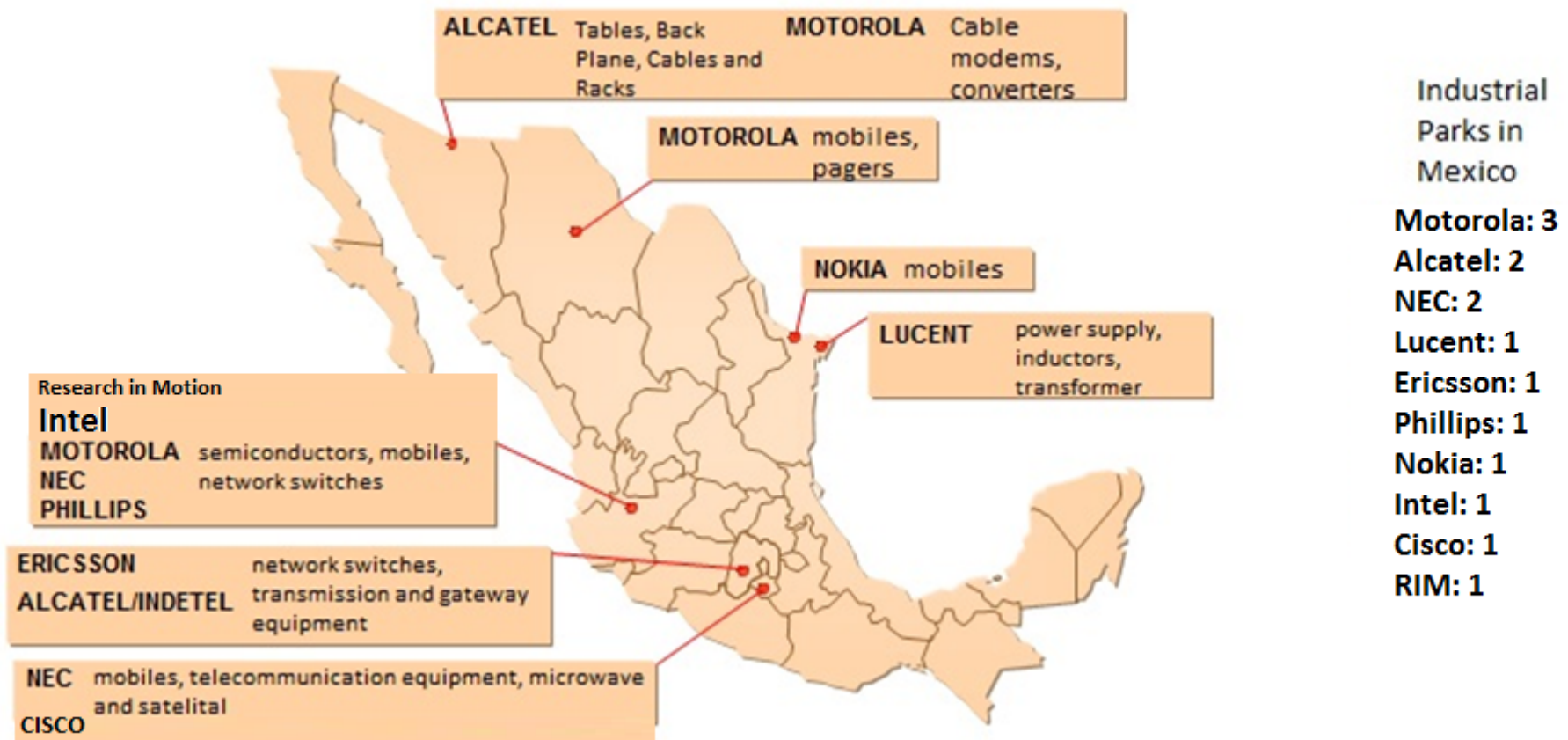
Mexico-U.S. Telecommunications Industry Trade



Source: USTIC, 2012

Exports to U.S: *Maquila* Based

Telecommunication Industrial Parks in Mexico, 2000



Source: BANCOMEXT, CANIETI, and SIEM, 2000

From the Bright Side

Diminished tariffs in telecommunications equipment supported trade growth for Mexico:

- Mexico is Cisco's most important global hub in manufacturing to 90 countries around the world, including U.S. (\$1.3 billion US dollars in 2014)
- IBM built 2 Data Centers for Cloud Computing Service
- Intel is expanding its existing plant in Guadalajara

U.S. Capital came to the Mexican market in 1996

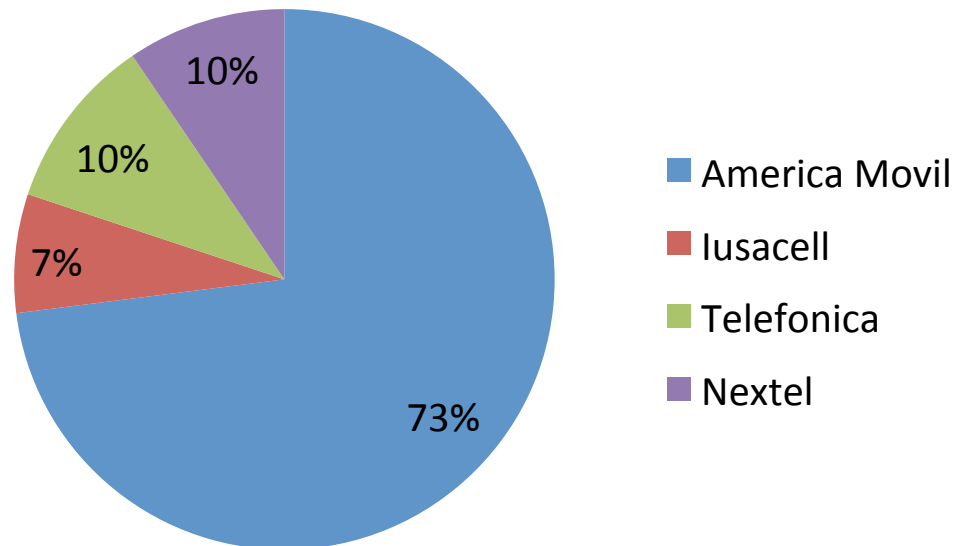
Despite restrictions from the Mexican FDI Law:

- Southwestern Bell bought the majority of shares in a joint venture with Telmex (today AT&T)
- AT&T bought 49% of shares with Grupo Alfa & Bancomer in the creation of Alestra (1 billion dlls)
- MCI bought 49% with Banamex to create Avantel
- Nextel arrived in 1998 with an investment of USD (\$9 billion dlls to date)

However, U.S. telecom capital in fixed telephony in Mexico was short lived

- Firms with foreign capital acquired 45% of market share in 1996.
- Barriers to entry with very high interconnection rates and focus on U.S. market reduced this share to 21% by 1999.
- Today, mobile market is concentrated (no FDI restrictions)

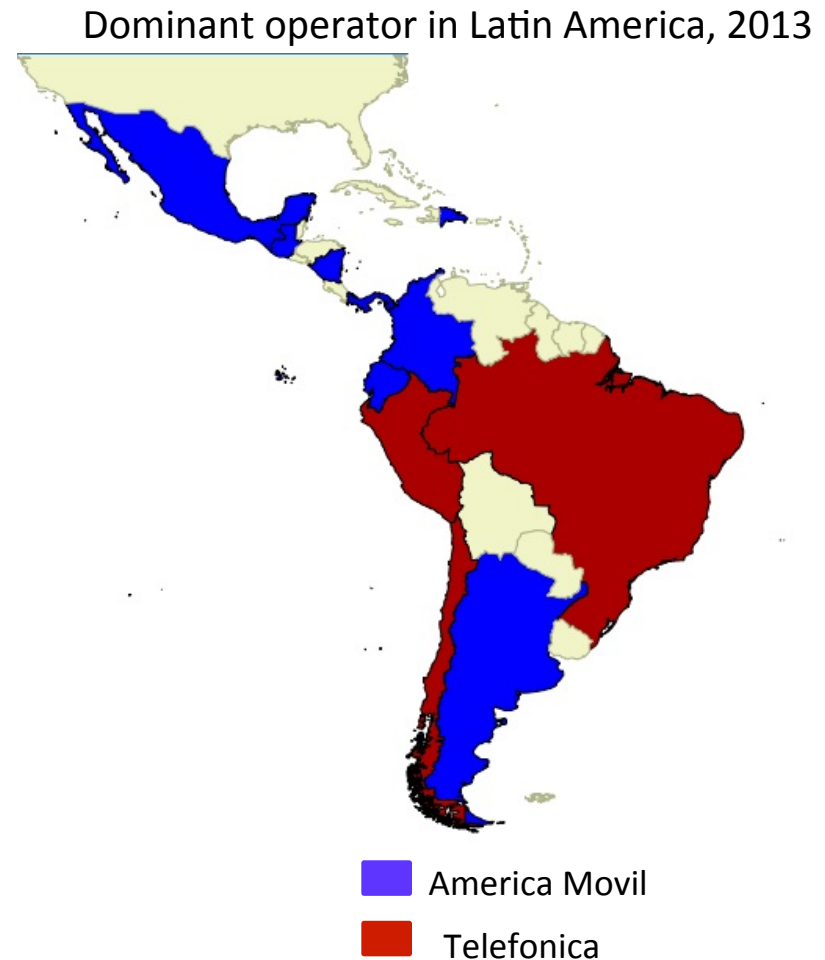
Mobile telephony Market Shares in Mexico, 2013



Source: The CIU, 2013

In fact, U.S. Telecom Capital left the region and most of the world

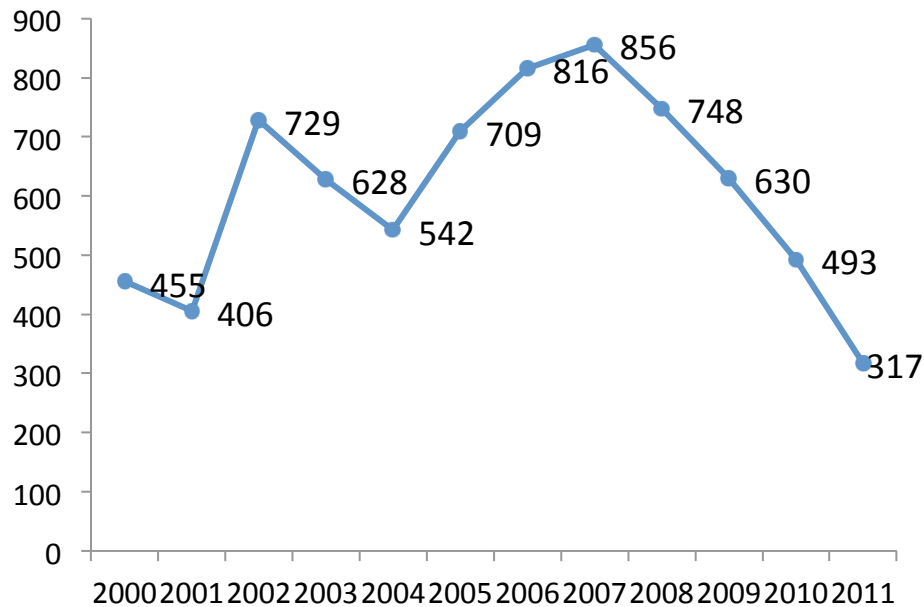
- The objective of creating a market with numerous players was not reached in Latin America
- Today, the region faces a duopoly: Telefonica Movistar & America Movil. Both supported by their government through a National Champion strategy



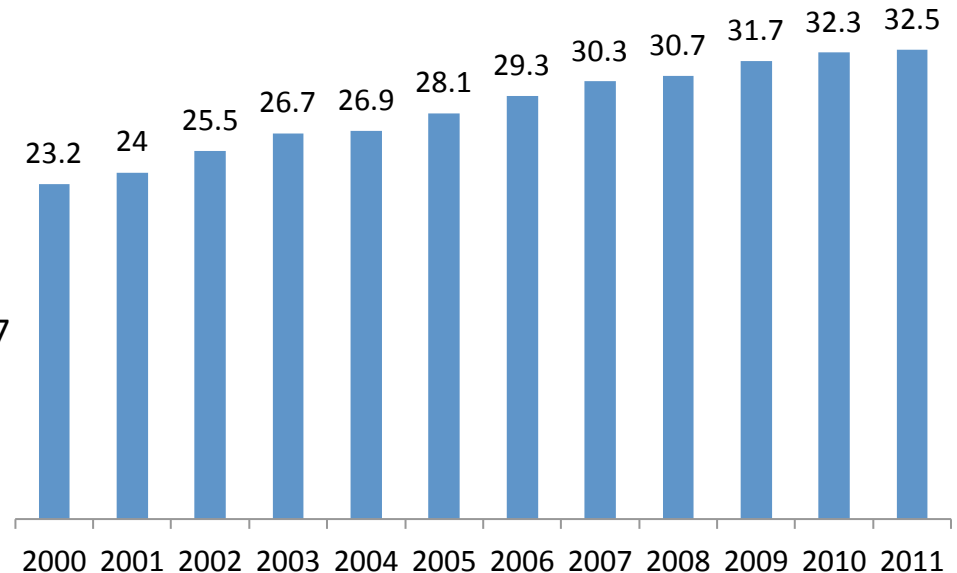
Source: TelecomCIDE, 2013

And yet, migration led to integration

Immigrants to U.S.*
(in thousands)



Mexicans living in U.S.**
(in millions)



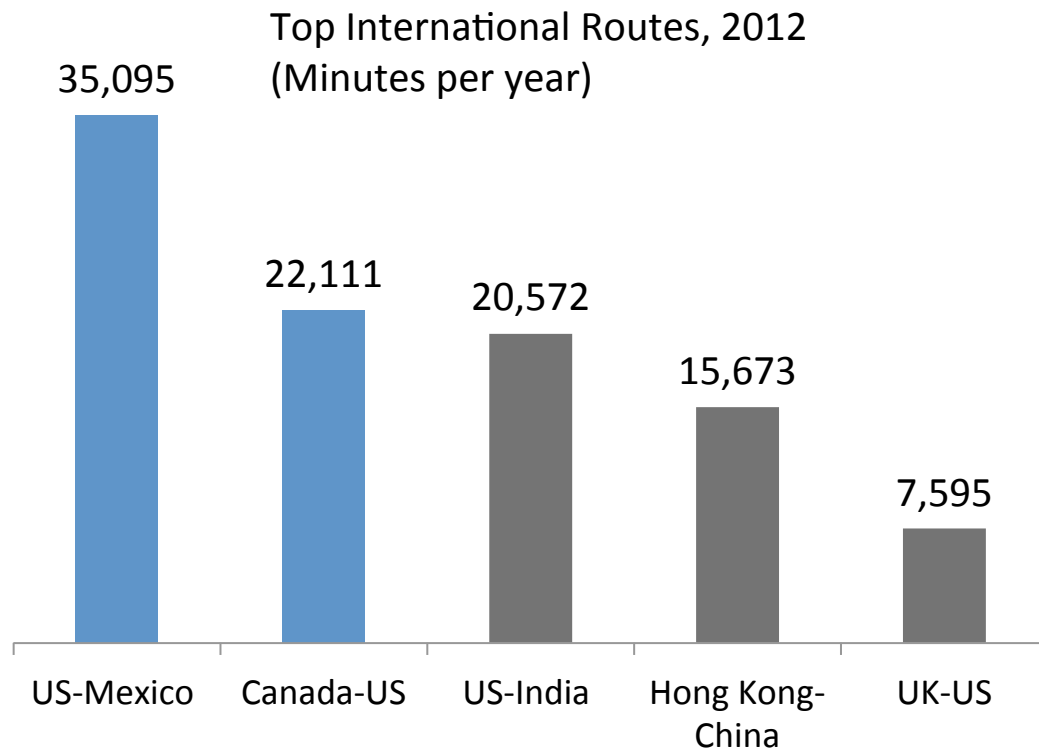
*Include irregular migrants

**Include 2nd and 3rd Mexican generations

Source: Bureau of Census and Bureau of Labor Statistics, 2012

Integration in basic telephony

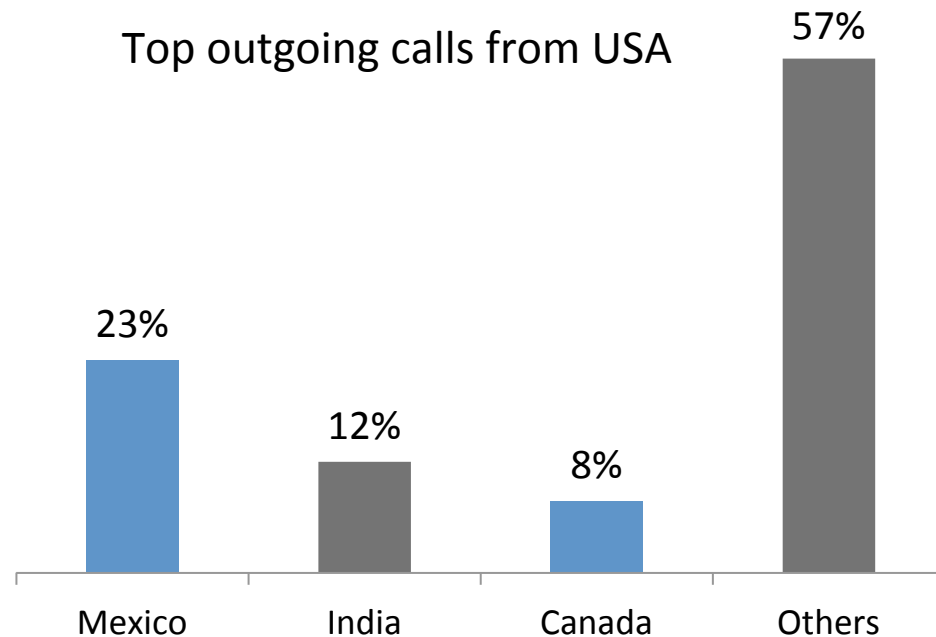
- North America is the most integrated region in the world



Source: Telegeography

Integration in basic telephony

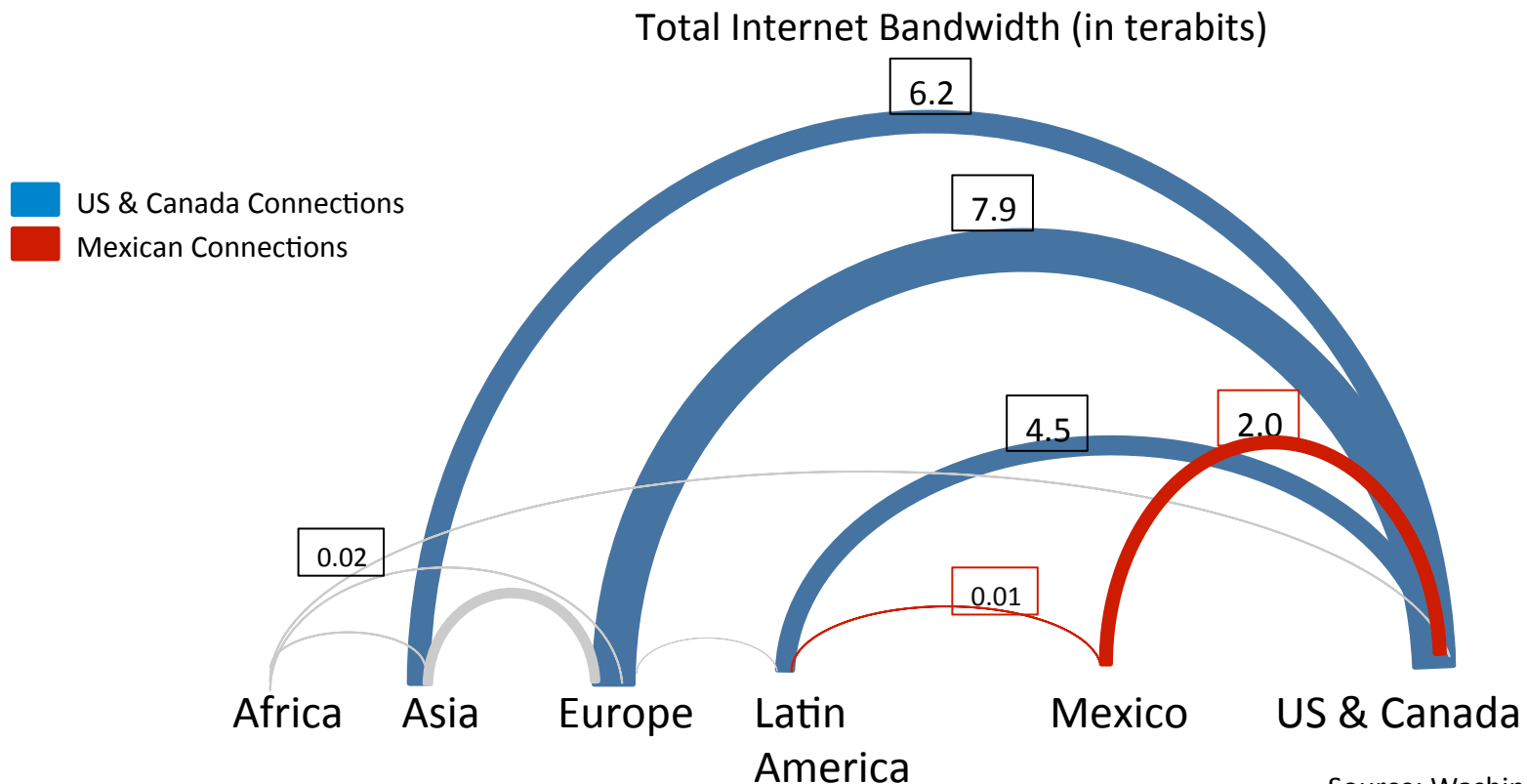
- Mexico and Canada represent about one third of calls from the U.S.
- The destiny of 86 % of calls in Mexico are to the U.S.



Source: Telegeography

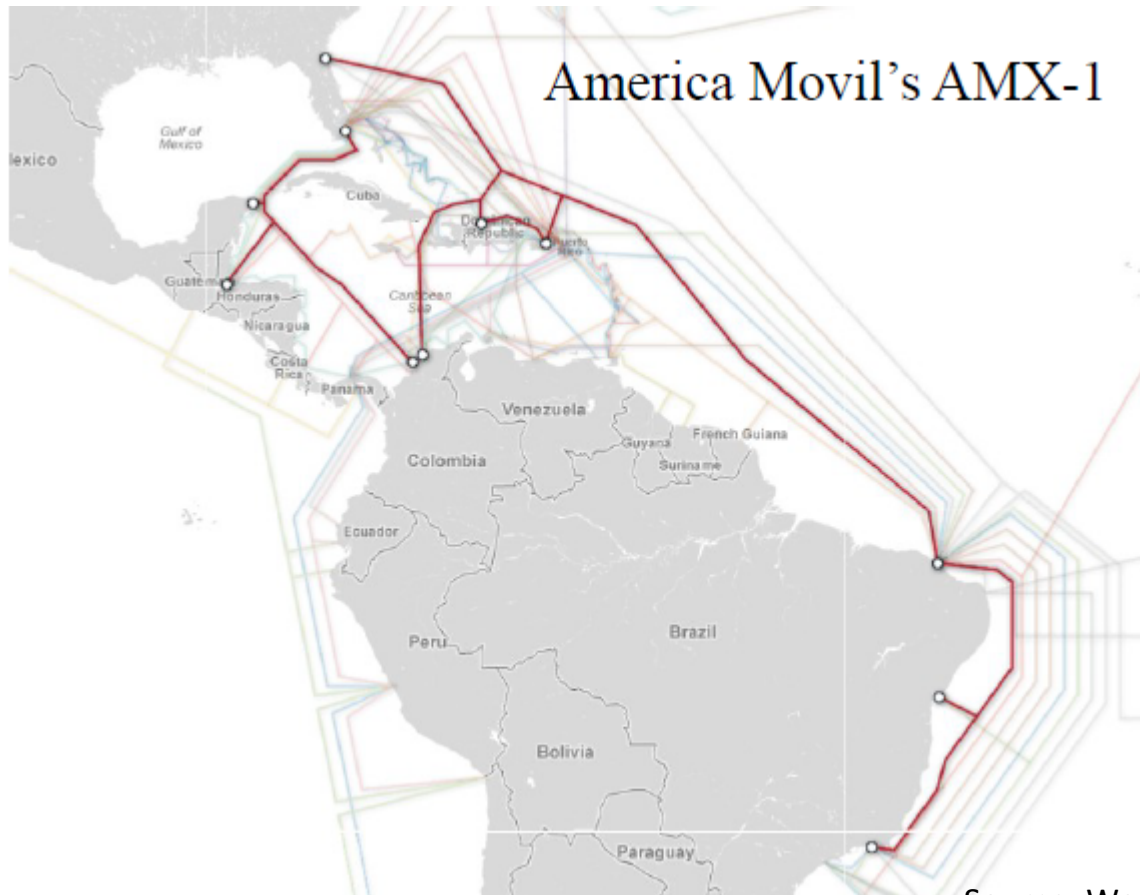
U.S. & Canada are the international interconnection Hub

- 98.3% of Mexican International Internet Bandwidth come from USA



Regional Consolidation

- Mexico is connected to the U.S. via 5 cable submarines
- América Móvil connects Latin America via AMX-1



Source: Washington Post, 2014

Conclusions

- All international agreements entail some loss of independence in order to achieve a more efficient regulatory system
- Telecom trade liberalization require some degree of regulatory harmonization (GATS)
- Current telecommunications reform in Mexico has eliminated FDI in telecom, not in broadcasting.
- Technological innovation, migration & globalization will further integration

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