



Telecommunications in Latin America: can multinationals fill the gaps?

(based on the *Latin American Economic Outlook 2008*)

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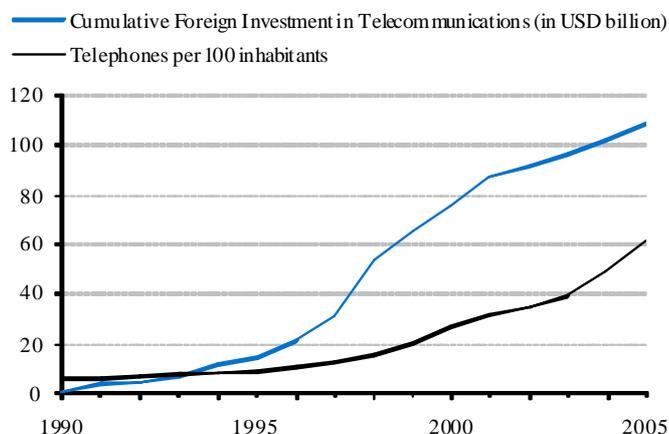
- ◆ Foreign investment in telecommunications in Latin America has amounted to over \$110 billion since 1990, more than for all other developing countries combined.
- ◆ Only one in four of the poorest Latin Americans has a telephone line; competitive markets and policies promoting access can help narrow the connectivity gap between rich and poor.

The massive entry of multinational companies from the industrialised world into the Latin American telecommunications sector throughout the 1990s and the rise of home-grown telecommunication *multilatinas* have profoundly altered the sector's landscape. Prior to then, the gap in investment and connectivity with respect to both OECD countries and key East Asian competitors was widening.

The entry of foreign firms played a key role in reversing the trend. Some of the investment in Latin American telecommunications served to purchase existing assets, but it also contributed to maintaining high levels of investment in the sector. In the 1990s, this investment was running at an annual average of close to 1 per cent of GDP, well above the average even for OECD countries.

Foreign actors are helping to close the financing gap at the same time as they contributing to bridging the comparative international connectivity gap. Ten years ago only one in ten Latin Americans had a phone; today the average rate is six in ten. This compares more than honourably with the world average of around 54 per cent with connection to the system. Connectivity has increased at a quicker pace precisely in those countries where foreign investors have played a major role: Brazil, Chile and Argentina.

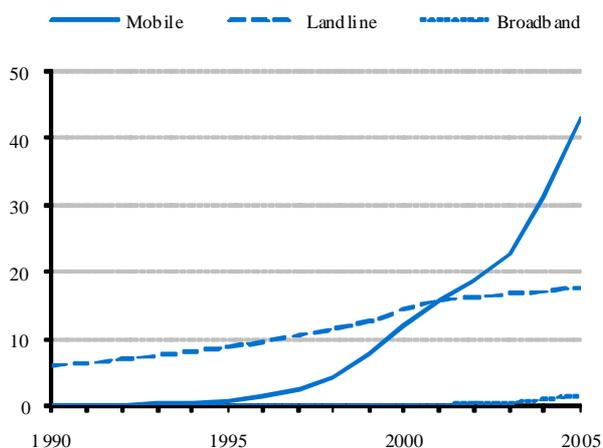
Figure 1. Foreign investment has accompanied the increase of telephone density in Latin America



Source: Latin American Economic Outlook 2008, calculations based on ITU World Telecommunication Indicators 2006 and World Bank PPI (Private Participation in Infrastructure) project database, 2006 update.

The entry of world-class operators in Latin American markets has also been felt in the quality of the service provided. Extended waiting lists that could last for years for fixed-line installation have vanished in Peru, Argentina and Brazil. At the same time, digital lines have become the norm, while services such as broadband appeared in places like São Paulo even before they did in some European cities. The spread of mobile telephones has been particularly impressive, with twice as many cellular accounts as landline terminals in 2005.

Figure 2. **Mobile, landline and broadband density in Latin America**
Lines per 100 inhabitants



Source: Latin American Economic Outlook 2008, based on ITU World Telecommunications Indicators 2006.

Despite these promising trends, inequality in access to telecommunication services between the richest and poorest segments of the population persists. Mobile telephony makes it possible to serve poorer customers and those in more remote areas at lower cost but someone in the highest income quintile is still three times more likely to have a phone at home than someone in the poorest. The difference is even more striking in the poorest Central American and Andean countries, where fewer than one in ten of the poorest citizens has a phone of any description.

In today's world, a telephone is no longer a luxury. The ability to exchange information more quickly and, especially, on the move allows fishermen in the Peruvian Amazon and agriculturalists in Andean highlands to know when and where to sell their products. It also allows plumbers and repairmen to travel to where the business is without foregoing other clients and opportunities. Telecommunications are a vital link between individual citizens and the economic, business and political spheres, one from which countries cannot afford to exclude the poorest parts of their populations, precisely those that need access to opportunities and the means of inclusion.

Most Latin American governments have created universal service funds in order to finance public phones or more elaborate "telecentres" that offer Internet access. The Chilean *Fondo de Desarrollo de las Telecomunicaciones*, with its original model of selecting projects through a minimum-subsidy auction, has established itself as an example for the developing world.

While such initiatives are both necessary and laudable, ensuring fair competition is crucial to achieving the price levels and the market-seeking thrust that can encourage operators to service not only premium customers and the middle class but also poorer segments of the population. It is thus crucial to insulate regulators from political pressures and from the interests of the larger players in the field. Open, well-regulated and competitive markets can not only attract world-class operators, but also stimulate them to innovate in order to maximise their contribution to the region's long-term development.



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