

# For Mexico, the Key to Economic Growth is Staying the Course on Telecom Reform



*By John W. Mayo & Elisa V. Mariscal*

When seeking to identify the policies required to expand competition and provide better telecommunications service to Mexican consumers, the answer is straightforward – stay the course with recent reforms that are enabling new competitors to challenge the historic monopoly.

Moving from an industry structure dominated by a single provider to a market populated with a variety of competitors happens in incremental steps. Reform of the telecom market happened over decades in the U.S. and Europe and Mexico will be no different; however, Mexico has a singular advantage compared to its European and U.S. counterparts. The Federal Telecommunications Institute of Mexico created a regulatory authority in 2013 to constrain America Movil (formerly Telefonos de Mexico), the former monopolist, from unfairly using its market power to block competition and depress the consumer and economy-wide benefits robust competition typically produces. This is a significant step towards establishing a robustly competitive telecom market in Mexico sooner rather than later.

The most important thing for Mexico to do now is to stay the course with the reforms it has introduced, and resist calls to repeal them. Resisting calls to unwind the reforms is no easy task, especially in Mexico, which is plagued by an uncertain economic and political landscape. Nevertheless, the lessons to be learned about telecom reform from the experiences in the U.S. and European are clear. Staying the course is the only way to ensure that Mexican consumers and the Mexican economy will realize the tangible benefits from greater competition that gives consumers more choices, catalyzes more robust private investment in digital infrastructure and which produces substantial innovation at lower prices throughout the Mexican economy.

Mexico's initial steps towards opening up the country's telecom marketplace to competition have already produced economic benefits in the country. Consider the fact that after the reforms were put in place, AT&T entered the Mexican market with a plan to invest some US \$3 billion to extend high-speed mobile Internet service to 100 million Mexicans in the next two years. This new investment will spill over into the general economy of Mexico and spark new activity there as well. One recent study shows that competition in the U.S. wireless broadband market adds \$20 billion in economic activity every year and that multiplies into \$200 billion in total long-run benefits for the overall economy. In Europe, competition has delivered lower prices for both wired and wireless phone services, and the number of consumers enjoying mobile Internet service has climbed to over 80 percent from just 13 percent in 2008. By comparison, the OECD has concluded that the lack of competition in Mexico "imposes a significant cost on the Mexican economy and the welfare of its population."

Despite efforts by earlier governments to end a state monopoly and privatize telecom, Mexico has historically been viewed as the least successful among Latin American countries in creating competition. Even today,





America Movil's share of the Mexican market exceeds 60 percent. Looking north to the U.S. and across the Atlantic to Europe offers some lessons for expanding consumer choices in Mexico.

Reform in the U.S. happened incrementally. First the government opened up the market for consumer equipment and then the market for long distance telephone. The biggest advances came in 1996 when the U.S. government overhauled the laws governing competition between telecom providers, which enabled various kinds of competitors to emerge from old service silos and compete directly to offer comprehensive and integrated services in every market sector. Incremental reform also happened in Europe, beginning in 1988 followed by additional market opening measures adopted in 2002 and 2009.

The time is now to support the incremental changes occurring in the Mexico market. Allowing them to take root will produce the same type of consumer and economy-wide benefits we have seen happen in other countries around the world. The kinds of reforms that most benefit Mexican consumers and the Mexican economy may differ in detail from those that worked in the U.S. and in Europe, but one commonality is that the reforms require the firm support of policymakers so that telecom competition becomes a permanent fixture.

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