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LATIN AMERICA ADVISOR | Telecom

Featured Q&A *With Our Board of Advisors*

Q In a recent report, the World Bank said Latin America is falling behind China and other countries economically because of a lack of investment in infrastructure. Do you foresee stepped-up investment in Latin American infrastructure, including telecommunications? Will increased spending on highway, electricity, and water infrastructure in the region result in greater investment in telecommunications, or vice versa?

A Guest Comment: Fernando Espuelas: "There are many positive signs pointing to growth prospects in Latin America: GNP growth across the region, increasingly evolving political and economic integration, and visionary cross-border infrastructure projects (for example, the energy rings in South America, as well as the cross-continental highway linking the Atlantic with the Pacific.) Telecommunications investments tend to be a reaction to increasing economic growth prospects both in terms of consumer and business usage—and therefore the macro tendencies today would seem to point to increased investment. But the real barrier to the kind of sustainable economic growth that chips away at poverty is the glacial transformation of the political systems in the region. We are still generally saddled with corrupt, albeit elected, regimes that act as a tremendous drag on the economies. In my own experience, where my company was asked by a national government to bid on a contract to supply school teachers with computers, Internet access, and the credit to buy them, the project came to a grounding halt when both the government and teachers' union involved asked for bribes (the teachers still don't have computers). Sadly, I don't think our company's experience is unique. Until we ruthlessly expunge corruption from our countries, our peoples are destined to live in poverty, and telecommunications investment, a key driver of growth across the world, will lag."

A Guest Comment: Liliana Ruiz: "The decision to make further investment in infrastructure in general in the region will only happen if returns for investors are higher here than in other parts of the world. Those returns are inversely proportional to regu-

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CHART OF THE WEEK

Brazil's Vivo
Select First-Half Data

	H1 2004	H1 2005
Customers (000s)	23,514	28,446
Market Share in Areas of Operation	54.50%	47.60%
Net Additions (000s)	2,858	1,903
Total Churn	21.80%	20.30%
ARPU ($R)	34	28.7

See related story on page 2.

Source: Portugal Telecom earnings statement.

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latory risk. Regulators need to become stronger and more independent institutions in order to warrant a stable regulatory environment for attracting further investment. Investment in basic infrastructure such as roads, electricity, and water will also have to come from private sources because of government restrictions on public spending. There are often complementarities between the different types of infrastructure; for example, deployment of roads and electricity may help to foment further telecom network deployment, because the costs of providing telecom services are too high and risky if roads are in bad conditions and electricity is absent. So it can be that good policy in one sector can help stimulate investment in another; but we also need to recognize that bad policy in one sector may also have the opposite effect and can chill the investment climate in another. Thus, appropriate overall policies are essential to attract investment in the region."

A Guest Comment: Chad Breckinridge: "After several years of recession and political strife, much of the Latin American region has turned a corner, and prospects for investment in telecom and IP-related market sectors are promising as a result. Investment in these sectors dropped by more than 20 percent from 2000 to 2003, as each major Latin American economy endured some form of economic and/or political crisis. The tide had largely turned by 2004, reflecting relatively stability throughout the region. Telecom investment should exhibit moderate but consistent growth at least in the near term. Hurdles remain despite this positive outlook. On the consumption side, most Latin American consumers and companies have little disposable income, and their price sensitivity takes them out of the market for many services. On the supply side, many regulators have failed sufficiently to liberalize the communications sectors they oversee, thereby perpetuating incumbent providers' dominance while limiting competition and consumer choice. These 'consumption' and 'supply' limitations will likely give private investors pause, at least with respect to certain markets and certain technologies. The role of private investment is critically important in Latin America, particularly in telecom and IP-related sectors. Many governments in the region believe that telecom infrastructure should develop privately, while other infrastructure investments (*i.e.*, transport, electricity) should come from governments. This private/government distinction means that telecom infrastructure expansion may not parallel other infrastructure investments."

> "The role of private investment is critically important in Latin America, particularly in telecom and IP-related sectors."
>
> *– Chad Breckinridge*

Fernando Espuelas *is President of Voy Group.*

Liliana Ruiz *is President of ALTERNA Consulting in Peru and former General Manager of Peruvian telecommunications regulator Osiptel.*

Chad Breckinridge *is an Associate at Harris, Wiltshire & Grannis LLP.*

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