



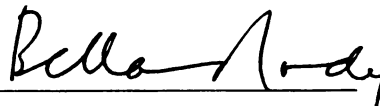
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THE PRIVATIZATION OF TELECOMMUNICATIONS IN JAMAICA

By

Patricia Kay McCormick

A THESIS

**Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of**

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ABSTRACT

THE PRIVATIZATION OF TELECOMMUNICATIONS IN JAMAICA

By

Patricia Kay McCormick

This thesis examines Jamaica's policy of privatizing its telephony services. The work seeks to answer questions concerning why the policy of privatization was embraced and how it was enacted. Pertinent issues and relevant literature concerning privatization generally and in the telecommunications sector specifically, provide the context for discussing Jamaica's policies.

The work employs the qualitative research technique of the case study. It draws on economic, political, and communication concepts and theories. The research procedures applied are principally descriptive, using primary and secondary sources.

The author found that the primary reason the Government of Jamaica sold its remaining shares in Telecommunications of Jamaica to Cable and Wireless, the primary shareholders in the new private monopoly, was to secure foreign exchange to pay external debt. The private monopoly is loosely regulated, therefore, it seems unlikely that such goals as universal service will be addressed. The author recommends that a stronger regulatory framework, including service criteria and other benchmarks, be established.

This Master's thesis is dedicated to my parents,
Gerard and Eleanor McCormick,
for their unconditional love and constant support.

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Chapter I. PROPOSED STUDY

INTRODUCTION

Privatization may refer to any shift in activity from the public to the private sector, be it the introduction of private capital or management expertise or the actual transfer of ownership of public enterprises to the private sector. It is essentially a reduction of the role of the state government and an increase of the role of the private sector in the economy. Privatization may be narrowly regarded as a process that leads to the transferring of control of assets and operations from the state government to the private sector. Privatization in its various forms has become an international trend affecting all spheres of government activity. The telecommunications sector has not remained uninfluenced by this phenomenon.

PURPOSE OF THE STUDY

This work proposes to examine Jamaica's policy of privatization in the area of telecommunications, specifically telephony and data communication services. It seeks to describe the process of privatization in this sector, answering questions concerning why the policy of privatization was embraced and how it was enacted.

RESEARCH QUESTIONS

Why did the Government of Jamaica sell its shares of Telecommunications of Jamaica? What was the impetus for the divestiture?

How is the telecommunications sector in Jamaica affected by this privatization?

How is the Jamaican government regulating the private telecommunications monopoly? Are there effective regulatory mechanisms in place to monitor the private telecommunications monopoly?

What policy recommendations can be made for Jamaica?

PROPOSITIONS

The primary reason the Government of Jamaica sold its remaining shares in Telecommunications of Jamaica to Cable and Wireless was to secure foreign exchange to pay external debt and meet targets set by the International Monetary Fund. To raise capital for network investment and offer more innovative services were secondary concerns.

The Jamaican government has no plans to develop an independent regulatory authority to effectively monitor the

private telecommunications monopoly. Therefore, it seems unlikely that such goals as the expansion of service to rural and residential areas, indeed, universal service, will be addressed. Since there is no requirement for the new private monopoly to perform uneconomic services, the provision of such services is dependent on the discretion of the new company.

METHODOLOGY

This work employs the qualitative research technique of the case study. A case study draws upon multiple data sources to investigate a specific phenomenon. It is an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident. This method is appropriate for this study since the essence of a case study is that it seeks to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result. An attempt is made to construct an explanation about the privatization of telecommunications in Jamaica by making statements about the causes of this phenomenon.

The thesis takes an interdisciplinary approach, employing economic, political, and communication concepts and theories. The research procedures applied are principally descriptive, using primary and secondary

sources. Primary sources include official documents such as those of the Planning Institute of Jamaica and Jamaica International Telecommunications Ltd. Secondary sources include studies conducted by Bjorn Wellenius of the World Bank and works by academicians such as L. Gray Cowan, Paul Cook, Colin Kirkpatrick, and Raymond Vernon. Articles from the Jamaican newspapers, The Daily Gleaner and The Jamaica Record, also serve as sources. See bibliography for complete listing of sources.

SCOPE AND LIMITATIONS

The thesis focuses on the process of privatization in the telecommunications sector in Jamaica. Due to time and financial constraints, no first-hand data collection was possible. Further, given the short time frame since the Jamaican government divested its shares in Telecommunications of Jamaica, the work is limited in its ability to assess the full impact of the private telecommunications monopoly in Jamaica. It is hoped, however, that some aspects of this study will have implications for other similar countries.

This work confines itself to an examination of the privatization of Jamaica's telephony companies and services and data telecommunication services. It will not focus on the media divestment policy which the Jamaican government formalized in 1987. This policy, which concerned the

divestment of the Jamaican Broadcasting Corporation (JBC), involving AM radio, three regional stations and JBC Television, as well as the divestment of government shares in Radio Jamaica Ltd., is beyond the scope of the present study.

ORGANIZATION OF THE STUDY

After this introductory chapter, the second chapter examines the pertinent issues and relevant literature concerning privatization generally and in the telecommunications sector specifically, particularly in developing countries. In addressing the underlying theories and motivations for privatization, the literature review seeks to examine the arguments put forward by both the proponents and critics of this development. The factors which have caused or contributed to the recent trend toward privatization are discussed as are the variations of privatization and alternatives to its employment. The effects of the privatization of public enterprises upon the power of the state are also assessed through the literature. An attempt too is made to understand the place of privatization in the development process.

The third chapter provides a description of the structure and operations of Jamaica's telephony companies. Jamaica International Telecommunications Limited (JAMINTEL) and the Jamaica Telephone Company (JTC) are examined in

light of their history, services, and finances.

Telecommunications of Jamaica (TOJ), the holding company for JAMINTEL and JTC, is also described. The reasons for the divestiture of Jamaican government shares in TOJ are examined. Also, the various processes by which these shares were sold are analyzed.

The fourth chapter, in addressing the research questions and propositions, seeks to draw some summary conclusions from an evaluation of Jamaica's policy to privatize its telecommunications services. Policy recommendations are also made.

Chapter II. REVIEW OF LITERATURE

INTRODUCTION

An understanding of the questions and issues relevant to the central topic of this thesis, privatization in developing countries, particularly of telecommunications entities, requires an examination, and to some extent, a synthesis of several related strands of literature. This chapter is divided into five main sections: Defining Privatization; Reasons and Pressures to Privatize Public Enterprises; Forms of Privatization; Telecommunications; and Regulation. In the first section, definitions of privatization are offered. In the second section, the reasons and pressures which prompt privatization are examined. Arguments are cited in the debate concerning the private versus the public sector. Debt reduction, often a motivating factor or objective of divestiture, is another sub-section of this section. The various forms of privatization and instruments of their implementation are described in the third section. Divestiture or denationalization, a sub-section, is the principle focus. Privatization in the telecommunications sector is then addressed. Regulatory issues, specifically as they affect the telecommunications sector, are discussed in the last section.

DEFINING PRIVATIZATION

Privatization may refer to any shift in activity from the public to the private sector, be it the introduction of private capital or management expertise or the actual transfer of ownership of public enterprises to the private sector. In the broadest sense, privatization denotes an expansion of the private sector. It may be narrowly regarded as a process that leads to the transferring of control of assets and operations from the state government to the private sector. Privatization is one aspect of economic restructuring and reform. The term, privatization, is relatively new. Its first appearance in a dictionary came in 1983.¹ With increased usage, its meaning has broadened to include the economic setting in which privatization occurs, for privatization assumes that market forces, not public policy, will be the operative norm.²

Privatization is the process of increasing the scope of the market, that is, the private actions of producers and consumers in the production and allocation of goods and services.³ Consistent with a liberal political and economic philosophy, privatization can be viewed as a means of reducing the impact of government failure, albeit at the

¹ L. Gray Cowan, Privatization in the Developing World (Westport, CT: Greenwood Press, 1990), p. 6.

² Cowan, pp. 6 and 70.

³ Ezra N. Suleiman and John Waterbury, eds., The Political Economy of Public Sector Reform and Privatization (Boulder, CO: Westview Press, 1990), p. 10.

risk of increasing market failure through private monopolies, and of changing monitoring arrangements.⁴ It represents a fundamental shift in industrial and financial ownership and in the management of economies.⁵ Privatization, thus, directly affects the role of the state in the national economy.

Letwin correctly contends that privatization is as much about politics as finance.⁶ Cowan concurs that the decision to embark on a privatization program is based as much on political factors as on financial and economic considerations.⁷ Indeed, nearly every aspect of the privatizing process possesses a political facet, ranging from deciding what to privatize, how to privatize and the various implications. The government, by deciding to divest state owned enterprises, may be accused of selling their sovereignty, and, thus, may be taking a political risk that could result in alienating high level supporters or lead to such popular discontent that the regime itself is threatened.⁸ Such adverse consequences could depend on how the privatization is actually handled. Privatization has

⁴ John Vickers and George Yarrow, "Economic Perspectives on Privatization," Journal of Economic Perspectives, 5, No. 2, Spring 1991, p. 130.

⁵ Suleiman and Waterbury, p. 4.

⁶ Oliver Letwin, Privatising the World A Study of International Privatisation in Theory and Practice (London: Cassell Educational Ltd., 1988), p. xix.

⁷ Cowan, p. 10.

⁸ Cowan, p. 51.

become an international trend, an international phenomenon, if you will, with several factors contributing towards its creation.

REASONS AND PRESSURES TO PRIVATIZE PUBLIC ENTERPRISES

After World War II, many developing countries created state owned enterprises. In Latin America and elsewhere, utility companies, which were often owned by foreigners, were nationalized. At the time indigenous entrepreneurs were not yet ready to assume the financial risks and assemble the managerial and technical talent required, and foreign investors were unacceptable as owners of key industries, particularly during the early stages, when such enterprises were likely to be monopolies.⁹ In some instances it was feared that the private sector was or would be dominated by certain ethnic, social or economic groups, and that therefore these groups should be either divested of economic power or prevented from obtaining such power.¹⁰ Further, the dominant paradigm in development economics in the 1950s and 1960s was that markets frequently failed to work efficiently in developing countries. Thus, there was a need for active state intervention and participation to

⁹ Raymond Vernon, "Introduction: The Promise and the Challenge," in The Promise of Privatization: A Challenge for U.S. Policy, ed. Raymond Vernon (New York: Council on Foreign Relations, Inc., 1988), p. 7.

¹⁰ Richard Hemming and Ali M. Mansoor, Privatization and Public Enterprises, IMF Working Paper (Washington, D.C.: International Monetary Fund, 1987), p. 4.

offset these market failures and achieve allocative efficiency.¹¹

The creation and growth of public enterprises were encouraged through the early 1970s since it was thought that a strong, more centralized government could most effectively control the commanding heights of the economy. This interventionist approach was supported by bilateral and multilateral agencies which extended loans and credit to governments of developing countries, thereby supporting the expansion of public enterprises and their role in development planning. Public enterprises were intended to facilitate industrialization, generate public savings for investment and growth, and achieve social and redistributive goals. These objectives, on the whole, however, were not attained, due to such problems as overstaffing, poor marketing of services, and corruption in various forms. Market failure, one justification for the establishment of public enterprises, gave way to bureaucratic failure.

Hemming and Mansoor contend that bureaucratic failure and political interference are probably the principal sources of inefficiency associated with public enterprises.¹² In many developing countries, the public enterprise is an instrument for political patronage. Senior

¹¹ Paul Cook and Colin Kirkpatrick, "Privatisation in Less Developed Countries: An Overview," in Privatisation in Less Developed Countries, eds. Paul Cook and Colin Kirkpatrick (Brighton: Wheatsheaf Books Ltd., 1988), p. 8.

¹² Hemming and Mansoor, p. 7.

staff, with little industrial management experience, are frequently political appointments, and employment, purchasing, and pricing decisions are subject to political intervention.¹³ For example, the artificial reduction of tariffs for political reasons makes maintenance and investment of a telecommunications system very difficult.

Causes for the inefficiency in state owned enterprises also include the failure to set specific objectives and monitor performance in relation to these objectives.¹⁴ The electorate are too numerous and diffuse to effectively monitor the behavior of public enterprises. Furthermore, with government backing, public enterprises cannot go bankrupt, nor do they face the risk of takeover. They are not, therefore, subject to the financial discipline imposed in the private sector.¹⁵ Except for proprietors who manage, managers, including public managers and employees, allocate resources or assets that do not belong to them, hence, they do not bear the costs of their decisions, nor do they gain from efficient behavior.¹⁶ Such factors may account for the low and declining profitability of state owned enterprises, as reported by the World Bank and International Monetary Fund (IMF).

¹³ Cook and Kirkpatrick, p. 12.

¹⁴ Cook and Kirkpatrick, p. 13.

¹⁵ Hemming and Mansoor, p. 7.

¹⁶ Suleiman and Waterbury, p. 6.

The World Bank and the IMF agree that state owned enterprises in developing countries have generally performed poorly. The World Bank contends that when state owned enterprises lose sight of profitability, both economic and social objectives may be sacrificed.¹⁷ The overall deficits of state owned enterprises, although admittedly an inadequate and perhaps even a misleading indicator of performance, have been found to have grown at unsustainably high rates.¹⁸ State owned enterprises, excluding the telecommunications sector, tend to represent a budgetary burden, accounting for the majority of the overall deficits of the central governments in many developing countries.¹⁹ This deficit, due in part to the fact that state owned enterprises were charged with the highly capital intensive activity of building up the modern infrastructure, contributes to inflation and balance of payments difficulties.²⁰

Though Japan and South Korea may be illustrative of public enterprises playing a pivotal role in the early phases of industrialization, to be privatized later, the following quote from a survey of public enterprise performance in sub-Saharan Africa may best summarize the

¹⁷ Don Babai, "The World Bank and the IMF: Rolling Back the State or Backing its Role," in The Promise of Privatization: A Challenge for U.S. Policy, ed. Raymond Vernon (New York: Council on Foreign Relations, Inc., 1988), p. 264.

¹⁸ Vernon, p. 263.

¹⁹ Babai, p. 262.

²⁰ Cook and Kirkpatrick, p. 15.

widely-held belief that the performance of state owned enterprises in most developing countries has been disappointing.

[Public enterprise (PE)] earnings are generally low; many run losses; often these losses are of a large magnitude. Far from contributing to government revenues, African PEs have regularly become a heavy burden on already strained budgets. Few PEs generate revenue sufficient to cover operating costs, depreciation and financial charges; a good percentage do not cover operating costs alone. In many instances where PEs are classed as profitable, closer examination reveals distorted prices, direct subsidies, hidden transfers, preferential interest rates and a host of other elements which - if properly accounted for - would reduce the paper profits of the PE in question. The conclusion is that African PEs present a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives so frequently used to excuse their poor performance. Though every African country has one or more PEs which perform well by the most stringent of standards, on the whole PEs are not fulfilling the goals set for them by African planners and leaders.²¹

The Private vs. Public Sector Debate

With the poor performance of the public sector, a reassessment of this sector has resulted in a widely shared conviction that the public sector must be reduced.²² Roth writes that the administrative capabilities of governments in developing countries are overextended, strained by the

²¹ Simon Commander and Tony Killick, "Privatisation in Developing Countries A Survey of the Issues," in Privatisation in Less Developed Countries, eds. Paul Cook and Colin Kirkpatrick (Brighton: Wheatsheaf Books Ltd., 1988), p. 106.

²² Babai, p. 264.

weight of numerous activities.²³ He suggests that economic development could be accelerated by moving government responsibilities to the private sector where they could be better handled, and the overextended administrative systems could then concentrate on activities that only government can provide.²⁴ In its capacity, the government would also perform a regulatory role.

Kirkpatrick, however, contends that the argument that the public sector in developing countries is "overextended" and requires "rolling-back", as a general proposition is empirically unproven. Evidence to support the hypothesis of an inverse relationship between macroeconomic performance and the size of the public sector is lacking.²⁵ He argues that the size of the public sector per se does not have a significant impact on the performance of the sector, rather, what matters is the effectiveness with which resources allocated to the public sector are utilized.²⁶

Paul Mosley writes that the World Bank, in a similar vein, contends, that management is the key to the efficiency of an enterprise, not whether the firm or service is

²³ Gabriel Roth, The Private Provision of Public Services in Developing Countries (U.S.: Oxford University Press, 1987), p. 5.

²⁴ Roth, p. 5.

²⁵ Colin Kirkpatrick, "Some Background Observations on Privatisation," in Privatisation in Developing Countries, ed. V.V. Ramanadham (London: Routledge, 1989), p. 94.

²⁶ Kirkpatrick, p. 94.

publicly or privately owned.²⁷ Though arguments for privatization have occurred in the context of improving efficiency, according to Suleiman and Waterbury, the question of efficiency in the economic sphere remains open, since there is no definitive proof that publicly owned firms are, by definition, less competitive and less efficient than those privately owned.²⁸ Vernon, likewise, asserts that where comparisons between private and public entities have been possible, the technical performance of state owned enterprises, given reasonably competent and responsible governments, has not appeared much different from private ones.²⁹

A counter-argument, however, is that public enterprise decisions are inherently more political and less economically rational. Cook and Kirkpatrick write that studies that have attempted to compare the financial performance of public and private enterprises appear to show that the publicly-owned firms have recorded lower profitability than their private sector counterparts in the same industry.³⁰ Duch, too, states that, with few exceptions, research suggests that the economic performance of private firms is superior to that of publicly owned

²⁷ Paul Mosley, "Privatisation, Policy-Based Lending and World Bank Behaviour," in Privatisation in Less Developed Countries, eds. Paul Cook and Colin Kirkpatrick (Brighton: Wheatsheaf Books Ltd., 1988), p. 128.

²⁸ Suleiman and Waterbury, p. 5.

²⁹ Vernon, p. 4.

³⁰ Cook and Kirkpatrick, p. 17.

firms.³¹ Profitability, however, may not be the best indicator or measurement of performance. For reasons of more equitable distribution, public enterprises might assign low prices, which would, thus, result in lower profitability.

The differences found by these authors may also be a result of the difficulties facing empirical studies. Problems include the measuring of key variables (like allocative efficiency), the relative scarcity of cases where like-with-like comparisons can be made between public and private firms, the limited time that has elapsed since many major privatizations, and difficulties in distinguishing between the effects on efficiency of changes in competition, regulatory policies, and ownership.³²

What is referred to as the property rights school argues that ownership matters greatly for the performance of the firm. It suggests that privatization in the form of a change in ownership, an alteration of the structures of property rights, will improve the incentives for productive efficiency performance.³³ It states that privately owned assets used to maximize financial returns to their owners

³¹ Raymond M. Duch, Privatizing the Economy (Ann Arbor: The University of Michigan Press, 1991), p. 31.

³² Vickers and Yarrow, p. 117.

³³ Cook and Kirkpatrick, p. 19.

are, all things otherwise equal, more economically efficiently than those publicly owned.³⁴

This assumes, however, that the private firm needs to perform efficiently to remain in business. If privatization merely converts a public monopoly into a private monopoly, the enterprise will not be compelled by competitive pressures to improve its productive efficiency.³⁵ Also, investors prefer for the new privatized company to enjoy continued monopoly privileges, so as to reduce the investment risk by guaranteeing a stable flow of revenues. A competitive environment offers no such guarantees, and, thus, forces companies to improve their performance in order to earn revenues. It would thus seem that an improvement in the economic performance of the public enterprise sector is more likely to result from an increase in market competition than from a change in ownership.³⁶ It must be noted, however, that the mere presence of more than one company in the market does not constitute competition. The firms must hold roughly equal market shares for the benefits of competition to have an impact on the economy.

Other arguments suggest that the replacement of a public monopoly by a regulated private monopoly will increase productive efficiency. This efficiency is based on the impact of reduced political interference and more

³⁴ Suleiman and Waterbury, p. 6.

³⁵ Cook and Kirkpatrick, p. 19.

³⁶ Cook and Kirkpatrick, p. 31.

effective financial constraints. Though the discipline of financial markets, including the possibility of take-over bids, might motivate firms to keep down production costs, it does not, however, act as an incentive to pass on the benefits to the consumers.³⁷

Telecommunications monopolies, be they publicly or privately owned, often employ a policy of cross-subsidization to extend services to less profitable areas, such as rural areas. Cross-subsidies, however, cannot be sustained under competitive conditions, though other innovative transfers of fund may be employed.³⁸ Lowered prices achieved with competition may not be sufficient to provide universality of service. Private companies could, however, maintain uneconomic service either for public relations reasons or a perception that the long run interest of promoting universal service outweighs short-run costs. It is also argued that telecommunications service will extend where the demand exists, for the demand indicates that it is willing to pay for the service.³⁹

While the debate concerning private versus public ownership, competition versus monopoly, continues, one must realize that even if privatization would result in improved efficiency of resource use, no conclusion can be drawn from this improvement about the desirability of privatization

³⁷ Commander and Killick, p. 102.

³⁸ Roth, p. 170.

³⁹ Roth, p. 162.

unless it is further assumed that the improvement in efficiency results in increased utility or welfare distributed in a manner regarded as satisfactory by society.⁴⁰ The desirability or not of some particular act of privatization cannot be settled in abstraction from the values of society, or of its representatives, and from the relative importance attached to various goals.⁴¹ One goal of privatization may be the reduction of external debt.

Debt Reduction

When economic growth slowed markedly in the early 1980s, governments found it increasingly difficult to meet their external debt servicing requirements, which ironically were, in some measure, attributable to the earlier emphasis on extending the public sector. The fiscal crisis prompted a reassessment of state owned enterprises and governments' economic policies. The World Bank undertook a policy of structural adjustment and reform. Privatization, in the form of competition and deregulation, not necessarily divestiture, was one aspect of the recommendations. To scale back the burgeoning state sector by selling salable public assets to the private sector, however, was also considered by some governments as a means of handling the

⁴⁰ Commander and Killick, p. 117.

⁴¹ Commander and Killick, p. 117.

acute capital shortage and acquiring funds for capital investment.

Letwin writes that privatization was seen as one of several techniques to deal with the problems of debt, heavy loss-making public enterprises and economies caught in a vicious circle of low growth, high taxes, expenditure cuts and even lower growth.⁴² In some developing countries, privatization virtually became a policy of last resort; that is, it was imposed on countries whose deficits and debts had grown beyond control and could not be reversed by a continuation of the policy of state ownership.⁴³ Though the long term goal of privatization may be to promote economic efficiency, the short term impetus was often deficit reduction, and it was usually undertaken under duress.⁴⁴ Divestiture, thus, became viewed as a way to both reduce the high levels of borrowing and produce capital for the government to spend on other desired social programs or in expanding the telecommunications infrastructure.⁴⁵

Though the government may view the sale of state-owned assets as a source of revenue for the national Treasury, such revenue may be less than expected if the government has inflated notions of the assets being divested. Generally, sales will only occasionally bring immediate and substantial

⁴² Letwin, p. x.

⁴³ Suleiman and Waterbury, p. 5.

⁴⁴ Suleiman and Waterbury, p. 14.

⁴⁵ Letwin, p. xix.

returns.⁴⁶ The telecommunications sector, however, is an exception to this rule. For instance, the sale of the telecommunications system in Mexico not only earned substantial revenue for the state, but the investment required over the next seven years, as stipulated in the contract of sale, was higher than the actual sale price.

If the returns from a sale are applied strictly towards debt, the effect will be but a one-time reduction in the government deficit, equal to the amount of the sales revenue. If the public enterprise is profitable, and thus a more attractive candidate for sale, its privatization means that the government forfeits the future stream of income, unless it retains a large share.⁴⁷ The sale of profitable firms could, however, be made on the basis that proceeds from the sale could maintain social services and finance faster growth, and private management could increase efficiency.

There are several options open to governments in the use of privatization proceeds. These options include using the revenue for current expenditures; tax reductions; 'social' capital expenditures; 'commercial' capital expenditures, including the restructuring of selected public enterprises; financing private investments; and, as noted,

⁴⁶ Cowan, p. 10.

⁴⁷ Cook and Kirkpatrick, p. 9.

public debt reduction or non-increase in public borrowing.⁴⁸ Ramanadham contends that the sales proceeds are a capital receipt and should preferably not be used for current purposes. Though the temptation for such utilization would be great, the receipts are a one-time event while the commitments of tax reductions and current expenditure enhancements will have a recurring impact on the budget. Ramanadham, thus, writes that public debt reduction is perhaps the best use of the sales proceeds.⁴⁹ It may, however, be argued that the revenue gained in the sale of a telecommunications system should be invested in the expansion of the network.

In sum, increased efficiency, improved management, and debt reduction are common reasons given to privatize state owned enterprises. Letwin cites four reasons to privatize: (1) to increase efficiency and productivity; (2) to allow market forces to stimulate the economy; (3) to increase the quality, quantity, and diversity of services; and (4) to promote widespread share ownership and promote the development of capital markets.⁵⁰ It may be worth noting, however, that the original push for privatization did not include the development of popular capitalism, or broad-based share ownership, as an objective. It tended to become

⁴⁸ V.V. Ramanadham, "Concluding Review," in Privatisation in Developing Countries, ed. V.V. Ramanadham (London: Routledge, 1989), p. 428.

⁴⁹ Ramanadham, pp. 428-429.

⁵⁰ Letwin, p. 26.

either an objective in its own right after the privatization process was underway, or was a political maneuver used to gain public acceptance of the privatization program.⁵¹

Babai writes that governments privatize public enterprises in an effort to alleviate administrative and financial burdens, and, thereby, increase efficiency through a more rational allocation and productive use of resources.⁵² Hemming and Mansoor write that privatization is a direct response to problems in the public sector. These problems include the tendency for politicians to interfere in the operations of state owned enterprises; the inability of government to effectively monitor enterprise managers; inappropriate managerial incentives; and limited financial support.⁵³ Privatization responds to these problems by limiting the scope for political interference; increasing managerial incentives by making managers responsible to shareholders, who, in contrast to taxpayers, can choose to invest or not and to sell or shift holdings; and imposing the financial discipline of private capital markets.⁵⁴ Privatization is also a means to raise revenues and reduce fiscal and credit pressures, in part, by ending subsidies to keep inefficient state enterprises afloat.

51 Suleiman and Waterbury, p. 12.

52 Babai, p. 265.

53 Hemming and Mansoor, p. 2.

54 Hemming and Mansoor, p. 8.

Suleiman and Waterbury succinctly summarize the reasons to privatize as:

(1) The growing size of the public sector is judged to have reached an excessive level that leads only to inefficiency. (2) Privatized companies will be better managed and better financed through the capital markets than through the state budget. (3) Privatization contributes to the development of financial markets and hence can finance new and growing enterprises. It leads to increased availability of funds for industry. (4) Privatization leads to a substantial increase in the state's revenue from the sales of equity. (5) Increase in the state's revenue can lead to the lowering of taxes and to the use of the available funds for specific political purposes. (6) Privatization can promote broad-based share-holding in society and so be a bulward against social disorder. (7) The state in the "new participatory capitalist system" may help to detach workers from trade unions; and a weakened trade union movement may help dampen demand, increase investment and facilitate adjustment.⁵⁵

Some of these changes are not only questionable, but are not conditional on privatization. Though privatization is one aspect of economic restructuring and reform, internal reform, barring divestiture, may realize the same gains. Privatization may be viewed as only a limited solution, for a large number of state owned enterprises will continue to exist. Arguments can thus be made for efforts to improve performance under the present ownership.⁵⁶ Cook and Kirkpatrick suggest that improvements in the internal management of the public enterprise sector will offer the main means of improving economic efficiency and performance. They conclude that public sector reform, rather than privatization, is likely to be the major focus of public

⁵⁵ Suleiman and Waterbury, pp. 3-4.

⁵⁶ Babai, p. 266.

enterprise policy in developing countries in the coming years.⁵⁷ Though this view is applicable to the telecommunications sector, telecommunications entities are becoming one of the more active candidates in the field of privatization of services.

FORMS OF PRIVATIZATION

Hanke asserts that before one can even think about privatization, one must first create an economic environment hospitable to private ownership. This task involves reviewing the tax system and law regarding property rights to ensure that the tax climate is sympathetic and that a basis exists in law for private property rights that secure and protect value for new owners and stimulate the development of local capital markets.⁵⁸ Other authors agree that specific changes in laws and regulations are needed to define the role of the private sector and ensure an equitable distribution of benefits.⁵⁹ After privatization is adopted as a policy and such changes in the economic and legal environment instituted, several practical

⁵⁷ Cook and Kirkpatrick, pp. 32-33.

⁵⁸ Steve H. Hanke, "Toward A People's Capitalism," in Privatization and Development, ed. Steve H. Hanke (San Francisco: Institute for Contemporary Studies, 1987), p. 216.

⁵⁹ William W. Ambrose, Paul R. Hennemeyer, and Jean-Paul Chapon, Privatizing Telecommunications Systems Business Opportunities in Developing Countries (Washington, D.C.: The World Bank and International Finance Corporation, 1990), p. 7.

problems, such as asset valuation, marketing, financing, and the form of privatization, have to be addressed.

Privatization can take various forms. A range of different policy initiatives designed to alter the balance between the public and private sectors can be employed. Privatization other than by the sale of assets is less controversial, can be done gradually, and need not strain the domestic capital market. In the case of the United Kingdom, Heald and Steel write that privatization consists of four principle components, charging, the (partial) substitution of user charges for tax finance; denationalization and load-shedding which refer to reductions in the scope of public sector activity through the sale of public enterprises and the (partial) abandonment of public non-market functions; liberalization or the removal of statutory prohibitions on the private sector competing with the public sector; and contracting-out, the substitution of private contractors for in-house production.⁶⁰

Management contracting, leasing, or franchising may effectively remove the government from direct control of the assets though actual ownership remains unchanged.⁶¹ For example, in Botswana the public agency has retained

⁶⁰ David Heald and David Steel, "The New Agenda," in Privatizing Public Enterprises: Options and Dilemmas, eds. David Heald and David Steel (London: Royal Institute of Public Administration, 1984), p. 13.

⁶¹ Cowan, pp. 6-7.

responsibility for telephone service, but has arranged for private management through Cable and Wireless PLC.⁶²

Also, the traditional Post Telegraph, and Telephone (PTTs) have been reorganized in some countries as "public" corporations, separated from government regulators.

Operations are separated from regulation in order to make management more entrepreneurial and efficient. In its simplest form, however, a management contract is an agreement by a firm to provide management control and operating functions of a company in return for a fee. The goal of a management contract is to produce cost-effective and profitable operation.⁶³

Cowan, thus, contends that the main purpose of management contracting, as with leasing or franchising, is to restore an ailing firm to profitability.⁶⁴ As pressures to reduce the amount of subsidies rise and greater efficiency is demanded of the enterprise, management contracting has become a means of rescuing state owned enterprises in financial straits.⁶⁵ Cowan suggests that this approach may be part of a long-range plan to make the firm an attractive candidate for sale, a plan leading to complete divestiture. He sees management contracting as a

⁶² Roth, p. 3.

⁶³ Cowan, p. 73.

⁶⁴ Cowan, p. 7.

⁶⁵ Cowan, p. 73.

first step in the process of transferring ownership to the private sector.⁶⁶

Liberalization, or deregulation, of entry into activities previously restricted to the public sector does not entail a transfer of ownership assets, nor is it likely to lead to such a transfer. The removal of restrictions or statutory provisions on market entry is intended to increase the role of competition, and, to the extent that the private enterprises are successful, introduce a variant of privatization.⁶⁷ In the telecommunications sector, governments hope to attract the necessary investment and technical capabilities that might otherwise not be available by allowing competition in business communications and new services such as cellular. Liberalizing selected segments of the telecommunications market has created opportunities for private sector involvement in several developing countries, including Mexico, Argentina, Chile, Hungary, Thailand, Malaysia, Indonesia, Pakistan and Sri Lanka.⁶⁸ The establishment of specialized networks such as cellular, data, and satellite communications is expected to be the most dynamic sphere of private sector involvement in telecommunications in the coming years and one which will tend to be open to foreign investment.⁶⁹

⁶⁶ Cowan, p. 73.

⁶⁷ Cook and Kirkpatrick, p. 4.

⁶⁸ Ambrose, Hennemeyer, and Chapon, p. 18.

⁶⁹ Ambrose, Hennemeyer, and Chapon, p. 18.

In addition to liberalizing policies on network access and use and the purchase or lease of franchises, Saunders, Warford, and Wellenius also view subcontracting and equipment supply as areas where private entrepreneurs could play a greater role in the telecommunications sector.⁷⁰ They suggest that telecommunications operating entities increase their reliance on competitive subcontracting in the less technical areas. Civil works, such as buildings, cable ducts, access roads, and towers, as well as the periodic compiling and printing of telephone directories constitute such areas. The actual construction of the system may also be contracted out. Local systems may be privately built and the lines sold for profit, but the operation of the system is controlled by the PTT, as is the case in some Eastern European countries and Brazil.⁷¹ Subcontracting could also be considered in the billing and collection process, routine maintenance, and the installation of local telephone cable and subscriber apparatus.⁷² Saunders, Warford, and Wellenius argue that competition in supplying subscriber equipment should be encouraged after standards for equipment maintenance and compatibility are established and enforced. They view it as desirable to allow private firms to assemble

⁷⁰ Robert J. Saunders, Jeremy J. Warford, and Bjorn Wellenius, Telecommunications and Economic Development (Baltimore: The Johns Hopkins University Press, 1983), p. 283.

⁷¹ Johannes M. Bauer and Joseph D. Straubhaar, "Telecommunications in Central and Eastern Europe," Unpublished manuscript (East Lansing: Michigan State University, Department of Telecommunications, 1992), p. 10.

⁷² Saunders, Warford, and Wellenius, p. 284.

or import subscriber terminal equipment and sell or lease it directly to consumers, and, thereby, enhance the role of the private sector without actually altering the ownership of the firm.⁷³

Divestiture or Denationalization

The activity with which privatization has become most closely associated, however, is the sale of public sector assets.⁷⁴ The transfer of ownership to the private sector may be total or partial divestiture or denationalization.⁷⁵ As noted earlier, denationalization, according to Heald and Steel, refers to the reduction in the scope of public sector activity through the sale of public enterprises and the (partial) abandonment of public non-market functions.⁷⁶ In a partial denationalization effort the government may retain either a minority or majority share, but private managers operate the firm or service. In complete divestiture, private individuals or firms may wholly purchase publicly owned assets after which the government bears no further responsibility for the operation of assets.

⁷³ Saunders, Warford, and Wellenius, pp. 284-285.

⁷⁴ Hemming and Mansoor, p. 1.

⁷⁵ Hemming and Mansoor, p. 9.

⁷⁶ Heald and Steel, p. 13.

Divestiture by the sale of shares has encouraged the growth of stock markets. In industrialized countries, where capital markets are well developed, a public share offering is the most common technique of privatization. Cowan contends that there are also several advantages to this method of sale for developing countries.⁷⁷ Indeed, Mexico and other Latin American countries have witnessed an extreme growth of telecommunications stocks since the sales of their systems. Where public shares have been made available, a large number of new, first-time investors have become share owners.⁷⁸ A stock market offering directed particularly to the small investor may redistribute wealth in the community through broad-based share ownership. There has also been a tendency in the U.K. and Mexico to use employee stock offerings to diminish union opposition.

Pricing at substantial discounts to market values is often associated with policies to promote wider share ownership, together with measures like share allocation rules that favor small investors, and inducements for them to hold on to their shares rather than sell out at a quick profit.⁷⁹ Shares can be distributed free of charge, either directly or in the form of vouchers that are redeemable for shares in former state owned enterprises. Though this is costly to the economy depending upon the

⁷⁷ Cowan, p. 59.

⁷⁸ Letwin, p. viii.

⁷⁹ Vickers and Yarrow, p. 120.

social costs of public funds, it satisfies fairness criteria, may reduce transaction costs, and avoids the transfer abroad of windfall gains that may be a feature of other methods of privatization. Further, free distribution of shares, or something akin to it, might be the only practicable means of rapid domestic privatization.⁸⁰

Domestic pension funds, however, are also now active in Latin American privatizations.

This broadening of private ownership has arguably stimulated a "people's capitalism" or what is also known as popular capitalism.⁸¹ It may also reduce the risk of renationalization. The numerous new shareholders acquire some financial interest in the continuation of policies, and governments, beneficial to the profitability of the firms that they own, and in avoidance of policies liable to cause them capital losses, such as renationalization on poor terms.⁸² If, however, these small shareholders sell their shares within the first year or so, a concentrated shareholding may develop. The number of shares any one individual may acquire must be limited to curtail the concentration of ownership shares by the wealthy elites, and create a constituency for privatization as well as a ready market for the next offering.⁸³

⁸⁰ Vickers and Yarrow, p. 121.

⁸¹ Hanke, p. x.

⁸² Vickers and Yarrow, p. 121.

⁸³ Cowan, p. 16.

The skillful use of the mass media to explain stockholding, share purchase, and the potential uses of future dividend payments can create popular support. Cowan asserts that careful and thorough preparation of the public, particularly labor, may do more in the long run to ensure the success of a privatization than any amount of strategic planning confined to government circles.⁸⁴ The sale of shares to the general public may, however, entail higher marketing costs than would a privately negotiated sale to a single buyer. The trade-off is distribution to the public, to specific ethnic groups, or to the employees of the divested companies versus maximizing the net sale profits.⁸⁵

The narrowness of the middle-income strata in most developing countries, however, makes privatization based on the small shareholder and popular capitalism difficult. This same narrowness contributes to the "thinness" of capital markets in developing countries.⁸⁶ Hence, Cook and Kirkpatrick declare that in most developing countries where capital markets are rudimentary or non-existent, denationalization is more likely to involve the sale of the enterprise as a complete entity, or, at least, controlling interest is sold to a single buyer.⁸⁷ The absence of a

⁸⁴ Cowan, p. 112.

⁸⁵ Cowan, p. 54.

⁸⁶ Suleiman and Waterbury, p. 15.

⁸⁷ Cook and Kirkpatrick, p. 3.

well-developed financial system means the divestiture is made by direct placement of the entity with local or foreign interests large enough to handle the transaction.⁸⁸

If there is strong public opposition to foreign acquisition of the enterprise, an^v emphasis can be placed on assisting local buyers to find the necessary capital to purchase divested industries.⁸⁹ Where the capital market is insufficiently well-developed to handle large equity sales, it may be extremely difficult, however, to find a local buyer of large service industries, such as telecommunications, because of the heavy capitalization involved. The government, too, may find it politically unacceptable to have its assets transferred to certain groups of potential buyers, if it results in a further concentration of wealth. A danger exists, however, of highly politicized transfers of stock to potential allies of government. Employee stock options may be an alternative when the sale of service industries, being too large for the local market to absorb, seems likely to involve foreign interests. Though increased ownership by foreign interests may be deemed politically unacceptable and may tend to widen international inequalities in the distribution of wealth, it may be found to be necessary or desirable to sell to foreign interests if it is sold to an entity engaged in similar activity. Sales to foreign entities, in some instances,

⁸⁸ Cook and Kirkpatrick, p. 29.

⁸⁹ Cowan, p. 16.

also may be more politically neutral or palatable than sales to powerful local groups.

In the telecommunications sector, governments of developing countries typically want partners with considerable experience in building and operating networks. Partners are sought for their technological and management capabilities as much as for financial commitments. To take advantage of privatizations, therefore, market equity investors are likely to join consortia with international carriers such as Telefonica, France Telecom, Cable and Wireless, or the U.S. Bell operating companies.⁹⁰

According to Grossas, there are basically two categories of investors, the operating companies and the market equity investors, which include banks, institutional investors such as equity mutual funds, individuals, and pension funds.⁹¹ In Latin America, pension funds are used to purchase stock in state enterprises being privatized, and, thus, constitute public ownership in another form. Pension funds are also used as a political tool in diminishing worker opposition to privatization by giving the workers a sense of economic participation in ownership. The market equity investors, both domestic and foreign,

⁹⁰ Ambrose, Hennemeyer, and Chapon, p. 14.

⁹¹ Francois J. Grossas, "Private Sector Participants: What Do Investors Want? An Overview," Presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C. 23-26 April 1991, p. 5.

typically have a shorter term focus than the operating companies which are concerned with a long-term investment strategy.⁹² The operating companies, which are strategic investors, are seeking global presence through acquisition of controlling interests in state owned enterprises.

Both strategic and market investors, however, prefer for the new company to enjoy continued monopoly privileges, so as to reduce the investment risk by guaranteeing a stable flow of revenues. The operating companies, though, due to their long range perspective, will be more accepting of less stable earnings than market investors.⁹³ They will also be willing to pay a higher price for their investment. With market investors it might be necessary to underprice an initial public offering in order to increase its attractiveness.⁹⁴

Furthermore, U.S. investors prefer foreign shares which are issued in the form of American Depositary Receipts (ADRs) and listed on one of the major U.S. exchanges. Established to facilitate foreign portfolio investment by U.S. companies, ADRs are negotiable certificates, traded in U.S. dollars, which entitle the holder to a specific number of shares in a foreign company. The actual shares are held in the issuer's home market by a custodian bank. ADRs

⁹² Grossas, p. 5.

⁹³ Grossas, pp. 11-12.

⁹⁴ Grossas, p. 11.

remove much of the complexity which U.S. investors face in accessing the shares of a company in a foreign market.⁹⁵

Some investors, however, are also willing to engage in debt-to-equity conversions. Investors typically purchase foreign debt at a discount and then exchange it for its face value in local currency which is used to purchase equity in state owned enterprises.⁹⁶ Chile has granted permission to foreign creditors to exchange their debt, usually at a discount, for equity in certain industrial and service activities.⁹⁷ Debt-for-debt conversions are another means of transferring equity, and, thereby, facilitating the privatization process. In early 1991, Morgan Stanley and Co. offered \$200 million of Malaysian government debt, exchangeable into the common stock of Malaysia Telekom.⁹⁸ This transaction represented the first privatization via the sale of an exchangeable debt security as well as the first

⁹⁵ Dan Vallimarescu and Teng-Hong Cheah, "The Privatization of Utility Companies," Presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C., 23-26 April 1991, pp. 12-13.

⁹⁶ Elliot Berg and Mary M. Shirley, Divestiture in Developing Countries, World Bank Discussion Paper (Washington, D.C.: The World Bank, 1987), p. 3.

⁹⁷ Hemming and Mansoor, p. 17.

⁹⁸ "Morgan Stanley places first sovereign exchangeable deal," Investment Dealers' Digest, 1 April 1991, n.p.

sale of sovereign equity through an exchangeable debt financing.⁹⁹

In sum, the previous section examined three major forms of privatization, management contracting, liberalization, and divestiture, and instruments of their implementation. Divestiture or denationalization was the principal focus. Public share offerings on stock markets, private treaty negotiations, and the innovative debt-to-equity and debt-for-debt conversions were among the primary methods of sale described. The next section seeks to look more specifically at privatization in the telecommunications sector.

TELECOMMUNICATIONS

The telecommunications sector is particularly attractive for privatization because it usually provides investors with above average returns.¹⁰⁰ Babai writes that domestic and international traffic growth in most countries, particularly developing countries, is consistently higher than GNP growth. Furthermore, since telecommunications is a utility which tends to be a monopoly, a telecommunications operating company typically provides investors with downside

⁹⁹ Morgan Stanley & Co., "Private Sector Participants - What Do Investors Want?" Presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C., 23-26 April 1991, p. 16.

¹⁰⁰ Babai, p. 8.

protection. It is viewed as a defensive investment with the promise of high growth.¹⁰¹ This growth potential is also a reason for states not to privatize.

Telecommunications have traditionally been viewed as a natural monopoly, an essential public good that government should provide in a noncommercial mode.¹⁰² Economies of scale, combined with political and military sensitivity, created high entry barriers and large externalities. Well run telecommunications entities also yield one of the highest rates of return of any of the sectors. Governments take advantage of the system's profitability in some areas, such as the foreign exchange generated by an international carrier, to subsidize nationwide service and other government operations. National security also acts as an important reason for states to preserve control over a national telecommunications system. Further, government-run telecommunications monopolies have been retained to secure the economies of scale inherent in telecommunications systems.

The "natural monopoly" of telecommunications is changing, however, with the advent of new technologies. New technologies such as cellular radio, small satellite terminals, and phone patches for simplex radio technologies have reduced the minimum economic scale of entry and thereby

¹⁰¹ Babai, p. 8.

¹⁰² Bjorn Wellenius, Peter A. Stern, Timothy E. Nulty, and Richard D. Stern, eds, Restructuring and Managing the Telecommunications Sector (Washington, D.C.: The World Bank, 1989), p. 7.

facilitated the development of private competition.¹⁰³ Technological innovations in optical fibres and satellites have reduced the cost of transmission. Innovations have also reduced the costs of basic network components. Lowered barriers to entry have, thus, changed the natural monopoly of telecommunications, and with it the government monopoly. Irwin and Merenda write that at its base, privatization is essentially a re-examination of the working premise of natural monopoly.¹⁰⁴ There is, however, a tendency toward private monopolies. Privatization and liberalization of the telecommunications industry is a rapidly growing trend spurred by technology advances and global economic pressures.¹⁰⁵

Reasons and Pressures to Privatize Telecommunications

Developing countries are confronted by internal as well as external demands in the telecommunications sector. The expansion of the private sector in developing countries has generated a growing need for rapid and reliable communications, both in-country and overseas.¹⁰⁶ The majority of developing countries face three major tasks

¹⁰³ Ambrose, Hennemeyer, and Chapon, p. 11.

¹⁰⁴ Manley R. Irwin and Michael J. Merenda, "Corporate networks, privatization and state sovereignty Pending issues for the 1990s?" Telecommunications Policy, 13, No. 4, December 1989, p. 332.

¹⁰⁵ Norman Lerner, "Telecom privatization will aid int'l users," Network World, 7, No. 18, 30 April 1990, p. 56.

¹⁰⁶ Cowan, p. 82.

simultaneously: (1) to extend traditional service country-wide to rural and remote areas; (2) to improve efficiency in sector institutions and operations; and (3) to introduce technology-driven reforms to catch up with the state-of-the-art, in response to competition from abroad, from more affluent urban user groups, and from the domestic and international business community.¹⁰⁷

Many states also believe that a well developed telecommunications infrastructure is a precondition for attracting foreign investment which is deemed to increase a country's competitiveness. It must be noted, however, that the new pressures to be competitive, especially in the business market, reached developed countries only after universal national networks had been built.¹⁰⁸ Many governments of developing countries find themselves faced with the dilemma of replacing antiquated systems with modern equipment at a capital cost beyond their reach or finding the business community deserting or bypassing the national telephone network to establish private networks or satellite systems.¹⁰⁹ Private networks can serve to erode the power of the nation-state, since the spread, ubiquity, and

¹⁰⁷ International Telecommunications Union Centre for Telecommunications Development, "Restructuring of Telecommunications in Developing Countries" (Geneva: ITU, April 1991), Presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C., 23-26 April 1991, p. 12.

¹⁰⁸ Wellenius, Stern, Nulty, and Stern, p. 10.

¹⁰⁹ Cowan, p. 82.

transparency of such networks render it increasingly difficult for states to impose taxes, control capital flows, and regulate economic activities over the long term.¹¹⁰

Some suggest that the pressure exerted by the powerful corporate users demanding improved service and value added networks has resulted in an oligopsony and this shift from public to private ownership in telecommunications systems and services. Irwin and Merenda write that it is the multinationals that provide the impetus for most developing countries to upgrade their telecommunications systems and to quicken carrier response time.¹¹¹ Sussman contends that in the areas of high-speed data transmission, satellite teleconferencing, facsimile, and other key applications of international telecommunications, transnationals monopolize the demand sector.¹¹² This demand reflects the critical role of telecommunications in the effective transnationalization of manufacturing, trade, banking, and other economic activities. Multinationals, however, are not the only ones requiring advanced telecommunications services. Countries which have their own major corporations, such as the newly industrialized countries (NICs) of Southeast Asia, are demanding value added services in order to compete in the global market. Internal

¹¹⁰ Irwin and Merenda, p. 333.

¹¹¹ Irwin and Merenda, p. 333.

¹¹² Gerald Sussman, "Information Technologies for the ASEAN Region: The Political Economy of Privatization," in The Political Economy of Information, eds. Vincent Mosco and Janet Wasko (Madison, WI: The University of Wisconsin Press, 1988), p. 292.

political pressures in new democracies in Latin America have also led to demands for citizens' access to more services.

Pressures from various sources, particularly business subscribers, and slow progress toward modernization of trunk facilities are leading, if not to complete divestiture, to more opportunities for the private sector to become involved in digital overlay networks.¹¹³ The concept of the overlay network is the establishment of reliable, high-capacity communications corridors between the major cities and business entrepôts in parallel to the existing trunk network.¹¹⁴ The network is thus aimed at meeting the high volume data transmission needs of businesses. Hills further contends that it is necessary for corporate users to break the PTT monopolies before they are able to institute their plans for Integrated Services Digital Networks (ISDN), since domestic ISDN under public control would not only make redundant the provision of private information networks, but would also introduce those higher costs to multinational businesses.¹¹⁵

Hills views deregulation and privatization as a mechanism of industrial policy. The argument generally put forward is that innovation lags under public control. The merger or convergence of technologies is a seemingly

¹¹³ Ambrose, Hennemeyer, and Chapon, p. 17.

¹¹⁴ Ambrose, Hennemeyer, and Chapon, p. 17.

¹¹⁵ Jill Hills, Deregulating Telecoms, (Westport, CT: Quorum Books, 1986), p. 3.

politically neutral justification for deregulation, and yet, Hills writes, it masks the implication that technology should be allowed to serve private interests, that it should not be under social control. Hills contends that arguments citing the 'freedom' in technological innovation conceal the political interests of those who develop, manufacture, and use that technology. In international markets 'freedom' to develop and use private communications implies a transfer of power from sovereign governments to those best able to use the technology -- predominantly multinational corporations.¹¹⁶ National corporations, which need services to compete with multinational corporations, and residential users, however, also represent a major impetus for change in the telecommunications market.

Letwin holds the view that some of the most important advances world-wide in encouraging economic growth and improved micro-economic efficiency are likely to come from the widespread adoption of deregulatory policies towards the telecommunications industries in a variety of countries. He argues that a large increase in value added network services and other types of services using telecommunications equipment will take place quite quickly after the old public utility monopolies are removed. Private investors will be more able to supply the necessary funds for the development of the telecommunications infrastructure and diverse services than a government which faces competing claims on

¹¹⁶ Hills, pp. 19-20.

funds raised by taxation. Further, private ownership will be able to draw on more skilled entrepreneurial and managerial talent than is available in government. In sum, privatization will resolve some of the problems plaguing public telecommunications systems.¹¹⁷

Problems with a government-run telecommunications monopoly are similar to those of other state owned enterprises. They are often inflexible, subject to political interference, and have little incentive to provide efficient operations, quality service or responsiveness to customer needs.¹¹⁸ The basic telecommunications network does not completely penetrate the country's geographic region, nor is it likely to do so without subsidization or special financial arrangements. Government budgetary problems and scarce domestic and foreign exchange-based financial resources limit investment in the telecommunications system, and may lead to system earnings being diverted to other sectors.¹¹⁹ The lack of funds to invest in proper maintenance, spare parts, and diagnostics procedures causes inefficiency in the systems's operations. Poor maintenance shortens the life of capital investments, reduces revenues, and ties up administrative staff. Trained

¹¹⁷ Roth, p. 165.

¹¹⁸ Lerner, p. 41.

¹¹⁹ Lerner, p. 41.

staff shortages also contribute to the problem of inefficiency.¹²⁰

This lack of efficiency is reflected by a bloated workforce. In developing countries, PTTs typically have 50-100 employees for every 1,000 telephone lines as compared with 0.2 employees or fewer for 1,000 lines among telephone companies in the U.S., Europe, and Japan.¹²¹ Inefficiency is also apparent in the low levels of service penetration, especially in rural areas, and the long waiting lists for telephone service. It is not uncommon for new subscribers to wait months, and in many cases years, for telephone lines. Where such wait lists exist, Roth states that there is a strong case for allowing a competitive service to operate.¹²² The private building of local lines, however, can be separated from private operations. Nulty, too, though, argues that a degree of diversity in the supply of telecommunications services is needed to increase the sector's implementation capacity.¹²³

Service in developing countries is also generally noted for poor interconnection. Call completion rates of 50 percent or less are common.¹²⁴ Failed call attempts can be caused by faulty equipment, but more often they result

¹²⁰ Ambrose, Hennemeyer, and Chapon, p. 10.

¹²¹ Ambrose, Hennemeyer, and Chapon, p. 13.

¹²² Roth, p. 133.

¹²³ Wellenius, Stern, Nulty, and Stern, p. 14.

¹²⁴ Ambrose, Hennemeyer, and Chapon, p. 13.

from a lack of switching or long-distance transmission capacity. And yet, 75 percent or less of existing switching capacity is typically in use among developing countries.¹²⁵ This underutilized capacity is due to poor maintenance and long delays in installing local cables and wires between the exchange and new subscribers.

Summary

The purpose of privatizing a country's telecommunications systems is thus to encourage efficient operations and management, generate an influx of foreign capital to meet the demands for services and technological improvements and provide an important ingredient in developing the overall economy.¹²⁶ Indeed, privatization is offered to developing countries as the answer to their investment problems inasmuch as such sales may raise money for network investment.¹²⁷ Expectations for privatization include improved basic service, expansion of basic service to rural areas, a wider range of equipment choices and eventual availability of value added and special services.¹²⁸ Beyond that is expected economic growth and

¹²⁵ Ambrose, Hennemeyer, and Chapon, p. 13.

¹²⁶ Lerner, p. 38.

¹²⁷ Jill Hills, "Universal service: liberalization and privatization of telecommunications," Telecommunications Policy, 13, No. 2, June 1989, p. 136.

¹²⁸ Lerner, pp. 41 and 56.

social improvement. Privatization of telecommunications systems, like other state owned enterprises, can also garner revenue for hard-pressed national budgets and be used to reduce foreign debt. It is also a way to access capital for development purposes, since the privatized company can tap commercial lending sources and thereby expand credit possibilities.¹²⁹ Private ownership of telecommunications systems, however, also necessitates a strong regulatory role by government.

REGULATION

As the state reduces its stake as public operator, it often expands and enforces its regulatory role to accomplish policy objectives without public ownership.¹³⁰ When the state sells its assets, it does not necessarily abandon its regulatory or arbitrator function. In fact, it can come to have an even greater responsibility in establishing the rules of operation, for ensuring that the rules are obeyed, and for sanctioning transgressions of the rules.¹³¹

Regulation is often defined as the substitution of rules made by government for the competition of the market. Regulation is construed as control. Administrative law,

¹²⁹ Parker W. Borg, Telecommunications and Economic Development in the Caribbean (Washington, D.C.: United States Department of State, 1988), p. 2.

¹³⁰ Ambrose, Hennemeyer, and Chapon, p. 7.

¹³¹ Suleiman and Waterbury, p. 11.

policy, and practice applies regulation and similar terms somewhat differently in every country. Typically, regulation means control of some social authority by a duly authorized administrative agency of a government. Examples of regulation are found in the rules adopted under varied standards. For example, the U.S. Communication Act of 1934 created the Federal Communications Commission to interpret and regulate under standards set by the legislature in the statute. In another context, courts have powers of administration which could be exemplified by the control of the Bell system in the U.S. in the 1956 Consent Decree and again in the Modified Final Judgment that restructured the U.S. telephone industry.

According to Roth, when the private sector plays a significant part in the provision of telecommunications services, there are three important roles that the government may need to perform: (1) award and regulate franchises; (2) specify appropriate technical standards; and (3) ensure access to all systems.¹³² The International Telecommunications Union (ITU) outlines several regulatory policy issues. These include:

- (1) define the distinction between public and private services,
- (2) interpret the law and reconcile policy objectives,
- (3) ensure fair competition for new entrants,
- (4) ensure efficient procedures for interconnecting between new and existing service providers,
- (5) check on reasonable pricing to cost ratios and relate this to quality of service,
- (6) authorize and assure transparency of schemes for

subsidies where required, and (7) establish clear-cut dispute resolution procedures.¹³³

Regulation can, thus, set the conditions for the sector's operations, the rules for entry, the extent of competition, exit guarantees (in the case of foreign investments in the sector), type approval, general surveillance, pricing of monopoly services and service quality, and legal procedures for conflict resolution.¹³⁴

Hills contends that regulation is generally intended to effect a transfer of wealth from producers to consumers. Hills writes that regulation may be regarded as 'social' when it safeguards those interests which the market cannot be expected to meet through the operation of the profit motive.¹³⁵ Profit-based private telecommunications entities cannot be expected to voluntarily finance uneconomic activities, such as the provision of service in the rural areas.¹³⁶ Hills contends that where universal service is the goal, committed government policy is essential.¹³⁷ A purely market-driven system of allocation will tend to produce a system that concentrates disproportionately in the main cities and on the largest and

¹³³ International Telecommunications Union, p. 25.

¹³⁴ International Telecommunications Union, p. 18.

¹³⁵ Hills, Deregulating Telecoms, p. 29.

¹³⁶ Hills, Deregulating Telecoms, p. 29.

¹³⁷ Hills, "Universal service: liberalization and privatization of telecommunications," p. 129.

wealthiest customers.¹³⁸ Price and profit controls are required to prevent a monopoly supplier of services from extracting excessive profits from the business.¹³⁹ Profit ceilings and ways to make companies invest in non-business areas as well as cross-subsidies to provide universal service can be required of private monopolies through regulation.

Managers of privately owned telecommunications entities may be tempted to use their relative or absolute monopoly position to maximize profits by increasing charges to unreasonable levels or by reducing expenditures for service quality and expansion. These profit-maximizing tendencies require direct government regulation of utility charges and service quality, modified where possible by the introduction of some form of competitive pressure.¹⁴⁰ Some government agency must be prepared to remove or reduce the private monopoly if service is unacceptable or rates unreasonable.

Roth argues that government regulation is needed in regard to the main network, but not necessarily with respect to subscriber equipment or value added services.¹⁴¹ Poole contends that regulation of prices may be needed if there is only one supplier in the market, but when there are multiple

¹³⁸ Wellenius, Stern, Nulty, and Stern, p. 12.

¹³⁹ International Telecommunications Union, p. 24.

¹⁴⁰ Wellenius, Stern, Nulty, and Stern, p. 34.

¹⁴¹ Roth, p. 170.

suppliers, there is no need for price controls.¹⁴² Pro-competitive regulation can use the attempts by market entrants to compete or to find profitable niches in the market, and serve as a check on the pricing, quality, and efficiency of the incumbent entity, thus obviating to some degree the need for price and profit controls.¹⁴³ Some agency or government body with specific legal authority, however, must oversee, coordinate, and enforce uniform standards of performance for transmission and terminal equipment when the system includes more than one operating entity.¹⁴⁴

In sum, as traditional telecommunications monopolies yield to more complex structures and growing numbers of participants, the government's role in encouraging and regulating sector activity becomes distinct and increasingly important.¹⁴⁵

This role includes the regulation of tariffs and financial flows among operating companies to ensure the sector's viability as a whole, its responsiveness to broader development objectives, and the containment of monopoly; the regulation of financial flows between the sector and government to meet resources mobilization objectives; the setting of technical interconnection standards to ensure the integrity of the network; the licensing and monitoring of use of the radio spectrum, a scarce natural resource; and representation of the

¹⁴² Robert Poole, "The Political Obstacles to Privatization," in Privatization and Development, ed. Steve H. Hanke (San Francisco: Institute for Contemporary Studies, 1987), p. 43.

¹⁴³ International Telecommunications Union, p. 23.

¹⁴⁴ Wellenius, Stern, Nulty, and Stern, p. 31.

¹⁴⁵ Wellenius, Stern, Nulty, and Stern, p. 94.

sector in international technical and administrative negotiations.¹⁴⁶

Governments need to establish policy-making and regulatory capabilities separate from the operating entities and not subject to undue political influence. An effective regulatory agency should have a considerable degree of financial and administrative autonomy, and should be essentially independent in its regulatory decisions.¹⁴⁷

It should be invested with sufficient autonomy to limit the possibility of its being captured by particular interest groups.¹⁴⁸ Institutionally, some countries rely on independent commissions, as in the U.S., Canada, and Sweden, or councils, as is the U.K. and Australia. Others have separate regulatory units within the Telecommunications Ministry, such as in Kenya, Germany, and Nigeria.¹⁴⁹

The terms by which a regulatory authority may carry out its functions can be specified by statute and orders made under statutory authority or by license. It is argued that the more detailed and specific the license terms, the less there is a need for an additional mechanism of sector

¹⁴⁶ Wellenius, Stern, Nulty, and Stern, p. 94.

¹⁴⁷ Bjorn Wellenius, "Telecommunications Restructuring in Latin America: An Overview," Presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C., 23-26 April 1991, p. 21.

¹⁴⁸ Hemming and Mansoor, p. 18.

¹⁴⁹ International Telecommunications Union, p. 25.

specific statutes. Furthermore, reliance on statutes tends to be inflexible where legislative procedures are slow.¹⁵⁰

Though an understanding of the use of regulatory power can serve to reduce the risk of selling such strategic industries as telecommunications, many governments of developing countries are inexperienced in the use of regulatory power.¹⁵¹ Analysis and experience of regulatory policy in many developing countries is rudimentary, in part because they lack the technical and managerial capacity to perform the regulatory duties.¹⁵² Wellenius writes that the development of regulatory capacity has lagged far behind privatization of the state enterprise. He cites Chile as an example where little has been done to develop the telecommunications regulatory authority because of the judiciary's failure to resolve major issues of market structure and competition policy.¹⁵³ Though privatization of the telecommunications systems in Argentina and Mexico included adequate provisions for regulatory action and regulatory agencies were competently outlined and formally set up before the state enterprises were transferred to the new owners, the privatizations were largely completed before

¹⁵⁰ International Telecommunications Union, pp. 24-25.

¹⁵¹ Cowan, p. 15.

¹⁵² Cook and Kirkpatrick, pp. 26-27.

¹⁵³ Wellenius, p. 13.

these agencies could build up a basic core of regulatory expertise needed from the start.¹⁵⁴

The power to regulate is only beginning to be understood; judicious use of it without impeding private initiative can provide the government with enough control to give direction to development without itself becoming immediately involved.¹⁵⁵ The utilization of regulatory power can allow governments to divest state owned enterprises without losing control of development. A critical issue, however, is how long it will take developing countries to establish competent, effective and independent regulation.

¹⁵⁴ Wellenius, p. 13.

¹⁵⁵ Cowan, p. 102.

Chapter III. THE PRIVATIZATION OF TELECOMMUNICATIONS OF JAMAICA

INTRODUCTION

This chapter seeks to examine the privatization of Telecommunications of Jamaica (TOJ). A background of Jamaica's political and economic conditions is offered in the first part of this chapter in an effort to provide the context for the privatization policies and the changes in the Manley administrations' attitudes toward the International Monetary Fund and the role of foreign capital in the Jamaican economy.

The present Manley Administration is pursuing economic restructuring efforts to create a market system. Privatization is one tool of the whole economic restructuring underway in Jamaica, intended to increase competition in some areas and reduce the size of the public sector and public sector deficit. Other components include the removal of price/wage controls, liberalization of foreign exchange controls, removal of food subsidies, as well as financial sector and tariff reforms.¹ Manley also undertook a major Cabinet reshuffling in 1992. The size of the Cabinet and the number of his Ministries was reduced to

¹ "Privatization Accelerated Under New Direction. Interview with VP of National Investment Bank of Jamaica," Jamaica Outlook, 3, No. 4, October 1991, p. 2.

help meet "major objectives and tasks in economic management and help the country develop an efficient market system."²

Due to its long-term commitment to privatization and economic liberalization, Jamaica has become the first Caribbean nation, and only the fourth in this hemisphere, to qualify for United States government debt relief and Inter-American Development Bank (IDB) loans to further economic restructuring.³ Jamaica's efforts have placed the country in an exclusive group, including Chile, Bolivia, and Colombia, as the only nations to gain IDB approval for economic restructuring loans. Jamaica's economic restructuring program also prompted the U.S. to forgive more than \$270 million in bi-lateral debt in the fall of 1991 under President Bush's Enterprise for the America's Initiative.⁴

The second section of this chapter describes the structure of Jamaica's telephony services. Jamaica International Telecommunications Limited (JAMINTEL), which operates long distance and overseas service, and the Jamaica Telephone Company (JTC), which provides local or basic telephone service, are described with respect to their history, services, and finances. TOJ, the holding company

² "Prime Minister Manley Streamlines Government," Jamaica Outlook, 4, No. 1, February 1992, p. 4.

³ "Jamaica's Economic Reforms Rewarded with U.S. Debt Relief, Inter-American Bank Loans," Jamaica Outlook, 3, No. 5, December 1991, p. 1.

⁴ "Jamaica's Economic Reforms Rewarded with U.S. Debt Relief, Inter-American Bank Loans," p. 1.

for JAMINTEL and JTC, is discussed in light of the sale of its shares by the Government of Jamaica. The reasons for the divestiture of TOJ are discussed. Also, the processes by which the shares were sold are analyzed. Effective regulatory mechanisms to monitor the private telecommunications monopoly, or the absence thereof, constitute the concluding section of this chapter.

POLITICAL-ECONOMIC BACKGROUND

As a former British colony, Jamaica inherited the Westminster system of parliamentary government. Norman Manley, the father of the present Prime Minister Michael Manley, inaugurated the People's National Party (PNP) in 1938. The Jamaican Labour Party (JLP) was founded by union-oriented William Alexander Bustamante in 1942, and is presently headed by former Prime Minister Edward Seaga. Irrespective of which of these two parties gained power, it appears that a degree of public enterprise has been maintained and private sector participation encouraged.

Despite the PNP's socialist orientation and the declaration by its founder, Norman Manley, that 'every socialist, of course, believes that an overwhelming case can be made out for public ownership of essential public utilities,' these undertakings remained in private (foreign) ownership throughout the period of the first government of

that party, 1955 until independence in 1962.⁵ It was the JLP which initiated the moves towards nationalization of these utilities. Subsequent PNP regimes completed nationalization efforts. During the 1970s, with the accession to power in 1972 of the PNP, there was an increasing trend towards the development of public enterprise.⁶ The PNP regime of 1972-1980, however, bore periodic critical comment on the mushrooming of public ownership, expressed not only by the parliamentary opposition of the JLP, but by private sector individuals and organizations, and by the Press.⁷ Thomas writes that the expansion of the state sector during the Manley period was at too high a cost.⁸

Not only were nationalisations paid for promptly and in full, but very often, to minimise social and economic dislocation, the government purchased enterprises in danger of economic collapse. This was the case with the sugar cooperatives. The general weaknesses inherent in this sort of state expansion were accentuated by the severe shortage of trained managers to ensure that the newly-acquired enterprises were properly run. The inefficiencies of the sugar coops and community-enterprise organisations therefore mirrored the even greater inefficiency of an unplanned, uncoordinated, ad hoc expansion of state property, which was hardly helped by the government's own socialist propaganda.⁹

⁵ G.E. Mills, "Privatisation in Jamaica, Trinidad and Tobago," in Privatisation in Developing Countries, ed. V.V. Ramanadham (London: Routledge, 1988), p. 380.

⁶ Mills, p. 379.

⁷ Mills, p. 386.

⁸ Clive Y. Thomas, The Poor and the Powerless Economic Policy and Change in the Caribbean (New York: Monthly Review Press, 1988), p. 220.

⁹ Thomas, p. 220.

Protests were also launched against the Manley administration by companies engaged in the bauxite-alumina industry. Though Manley did not nationalize these companies, he did impose a tax levy on them. Manley sought to secure a 'limited disengagement' of one of the country's most critical natural resources from North American ownership and control.¹⁰ He aimed to integrate the resource, the exports of which the country is principally dependent, more closely into Jamaica's productive system.

Until the 1970s, Jamaica, like other Caribbean governments, invited foreign capital to assist in the development and mining of bauxite-alumina deposits. This policy was undertaken, in part, because domestic capital for investment in this sector was limited. It was also thought that the constraints of a small domestic market meant that the industry would have to be export-oriented to be profitable and that the only way of ensuring this was through foreign ownership and operation. Foreign capital was thus encouraged, so that at the end of the 1960s, all West Indian bauxite-alumina production was controlled by one Canadian and six American transnational corporations, with 98 per cent of the regions' bauxite and 57 percent of its alumina being remitted to North America.¹¹

By 1972, when Manley assumed power, there was extensive foreign ownership in the major sections of the economy, with

¹⁰ Thomas, p. 214.

¹¹ Thomas, pp. 110-111.

nearly 100 per cent of mining, 75 percent of manufacturing, 66 percent of financial services, 66 percent of transport, more than 50 percent of communications, storage and tourism, and 40 percent of sugar.¹² Manley, thus, attempted to redress foreign investment. He described his administration's attitude to foreign capital as:

We were determined to try to put the whole questions of foreign investment on some kind of national basis. Make no mistake about it: we wanted foreign investment. . . but we were not willing to continue the approach to foreign investment of the Puerto Rican model type, where foreign investment is seen as the main engine of development with all policy being made to revolve around the entrenching of that element. We saw foreign capital as part of but not the whole of the development process.¹³

In regards to the bauxite industry, Manley sought to accomplish the objective of limiting foreign control by securing state participation in the ownership of the bauxite companies operating in Jamaica; forming an international cartel of bauxite-producing companies; introducing, as noted, a tax levy; establishing a Jamaica Bauxite Institute; returning idle land owned by the bauxite companies to the local farmers; and, in association with Guyana, Mexico, Trinidad-Tobago, and Venezuela, developing an aluminium-smelter complex.¹⁴

Manley's efforts were not welcomed by the bauxite companies which resisted the levy and took the issue for

¹² Thomas, p. 212.

¹³ Michael Manley, Jamaica: Struggle in the Periphery (London: Third World Media Ltd., 1982), pp. 41-42.

¹⁴ Thomas, p. 214.

legal settlement. The levy was, nevertheless, imposed and did lead to substantial growth in bauxite earnings. Simultaneously, though, Jamaica's share of world output was rapidly declining. The companies in Jamaica had adopted a policy of cutting back production to reduce the impact of the levy on their global operations and the industry was quickly gaining ground in other regions. There was also general uneasiness created by the government's confrontation with the companies.¹⁵ The economy declined and the external debt repayments situation worsened. Indeed, the external indebtedness of the country had grown from US\$370 million in 1972 to US\$1,700 million in 1980. The debt service ratio in 1979 was 17 percent of exports of goods and services.¹⁶

The elections of October 1980, thus, brought the JLP to power in a landslide victory. The JLP election manifesto had stated the intention to 'create a market system of economics . . . to shift unnecessary public enterprises to the private sector so as to remove the burden of finance from Government.'¹⁷ Despite this stated commitment to divestment, the JLP not only retained most of the public utilities, but acquired the Esso oil refinery and increased the government's equity ownership in the bauxite/alumina

¹⁵ Thomas, p. 215.

¹⁶ Thomas, p. 222.

¹⁷ Mills, p. 386.

company, JAMALCO.¹⁸ The JLP did, however, in keeping with its policy, undertake several divestment exercises.

Shortly after its election, the JLP initiated attempts at divestment, especially in the areas of hotels, sugar factories, and agro-industry processing enterprises, but such early efforts largely proved unsuccessful.¹⁹ By March 1981 the government had set up a Divestment Committee and had laid down guidelines and procedures for the committee's actions. Emphasized were two fundamental principles:

(1) The policy of divestment of equity and control in commercial enterprise at prices based on commercial criteria after taking into account the nation's interest.

(2) The intention to discontinue operating enterprises not commercially viable; but where appropriate, attempts would be made to establish viability via private sector participation, failing efforts at outright sale.²⁰

The principle objectives set forth were:

(i) To ensure that public funds were not mis-allocated to inefficient enterprises;

(ii) to reduce and eliminate the strain on the budget;

and

(iii) to release government's resources from commercial enterprises for alternative uses.²¹

¹⁸ Mills, p. 381.

¹⁹ Mills, p. 383.

²⁰ Mills, pp. 386-387.

²¹ Mills, p. 387.

As to the method of divestment, the JLP advocated opportunities for the widest possible share ownership. This broad-based share ownership was to be facilitated through the stock exchange. The government's policies also emphasized deregulation. These policies aimed at freeing the economy through a progressive liberalization of import restrictions which would eventually lead to the elimination of all licensing requirements.²² Thus, the JLP's ideological position conceptualized development in an economy in which the private sector was seen as the engine of growth. The appropriate role for the public sector was to provide the infra-structural framework to facilitate the efficient operation of the private sector.²³

World Bank/International Monetary Fund Influence

The government's policies, however, were not formulated entirely independently of external influences. The precarious condition of the economy in the 1970s compelled the government to seek assistance from the World Bank and the International Monetary Fund (IMF). Assistance was sought in an effort to relieve the disastrous balance of payments situation, to provide relief through an influx of foreign exchange, and to improve productivity and production. In June 1977, the government signed a Stand-by

²² Mills, p. 387.

²³ Mills, p. 387.

Agreement with the IMF, but this was terminated in December of that year when Jamaica failed to meet the net domestic assets test set by the IMF. After extensive discussion, an Extended Fund Facility was obtained in May 1978, which lasted until December 1979 when the Bank of Jamaica failed to meet the IMF net international reserves test. Between December 1979 and March 1980, prolonged negotiations were held with the IMF, but the National Executive Council of the PNP eventually decided to end relations with the IMF.²⁴ By this time, however, it was too late to embark on a new economic path, for Manley had been removed from office.

The Seaga administration entered into a series of financial arrangements with the IMF, and structural adjustment and sector adjustment operations with the World Bank. The Structural Adjustment Programme of 1982-87 was associated with conditionalities prescribed by these multilateral agencies, including an emphasis on deregulation and privatization.²⁵ Privatization has not generally been an explicit condition for multilateral lending. Of structural adjustment loans given and evaluated by the World Bank to ten countries, privatization existed as a condition in Pakistan, Senegal, and Jamaica.²⁶ Structural adjustment loans, developed by the World Bank in the 1980s, take the form of quick-disbursing finance in support of what

²⁴ Thomas, pp. 220-221.

²⁵ Mills, pp. 387-388.

²⁶ Commander and Killick, pp. 94-95.

is intended to be a package of sweeping policy reforms aimed at steering borrowing members toward more open and liberal economic policies.²⁷

Throughout the 1980s, the Jamaican government and the staffs of the World Bank and the IMF engaged in extensive policy dialogues. Initially the government opted for a gradualist strategy, putting in place private sector stimulus through liberalization while seeking to strengthen the public finances. The government sought to diversify the economic structure while extending the scope for private sector activity through a reduction in financial imbalances. To remedy the poor management practices and inadequate price structure of the public enterprise sector, a number of pricing measures were introduced, and, based on a series of management audits of enterprises, management and productivity measures were implemented in 1983, 1984, and 1985.²⁸ The pace of recovery, however, was slow, and the adjustment effort was complicated by a collapse of the bauxite/alumina sector.²⁹

In late 1985, the Jamaican government, continuing under the Prime Ministership of Edward Seaga, took the rather unorthodox step of publicly asking the World Bank, the IMF, and the United States Agency for International Development (USAID) to evaluate the appropriateness of its adjustment

²⁷ Babai, p. 268.

²⁸ Robinson and Schmitz, p. 32.

²⁹ Robinson and Schmitz, p. 31.

policies.³⁰ The tripartite review found that structural reform had to be broadened and intensified, and the pace of financial adjustment quickened. Though the government subscribed to the overall thrust of the analysis, it questioned the timing and pace of the reform recommendations. Nonetheless, the government prepared a comprehensive reform package in 1986 in close collaboration with the World Bank and the IMF.³¹ On the basis of this reform agenda, in early 1987, the government entered into a 15-month standby arrangement with the IMF and two sector adjustment loans with the World Bank.³²

In 1988, the PNP, under Manley's leadership, resumed power. The new administration continued, and at times, intensified, the privatization policies and market-oriented economic strategy advocated by the JLP. The PNP's continuation of privatization may be attributable to, as Letwin and Cowan note, political factors as much as financial ones. Indeed, in late 1990, in a move which analysts said signalled an intensification of the privatization program, the Manley administration transferred the National Investment Bank of Jamaica (NIBJ), the holding company for state owned enterprises, from the Ministry of Development, Planning and Production to the Office of the

30 Robinson and Schmitz, p. 31.

31 Robinson and Schmitz, p. 31.

32 Robinson and Schmitz, p. 31.

Prime Minister.³³ Manley sought to reinvigorate NIBJ and assigned it two main roles.

First, NIBJ was to serve as a central implementing agency for the government's privatization program. Previously, responsibility for privatization was scattered among various government agencies. Since privatization spans numerous ministries, it was decided that a centralized implementor would best avoid turf battles, bureaucracy, and other obstacles to the privatization process. Second, NIBJ was to act as a catalyst, a facilitator for the private sector. By coordinating teams of private sector advisors who conduct background research and prepare the state owned enterprises being placed for sale, NIBJ was to shorten the approval process for privatization.

According to Peter Bunting, Vice-President of NIBJ, NIBJ's perspective has changed; the government is no longer going to hold the majority share or management responsibility in any of the investments.³⁴ It will enter into joint ventures, but only as a minority shareholder. Since the venture capital markets in Jamaica are still in a fledgling state, Bunting contends that there is a legitimate role for the government to facilitate these investments - with a planned take-out.³⁵ Bunting states that the

³³ "Manley 'intensifies' privatisation plan," Latin American Regional Reports Caribbean Report, 13 December 1990, p. 2.

³⁴ "Privatization Accelerated Under New Direction," p. 2.

³⁵ "Privatization Accelerated Under New Direction," p. 2.

government will be out of an investment in 7-10 years, having sold its shares to the private sector, and will then go on to seed new projects.³⁶

In addition to these significant changes occurring within NIBJ, Manley also sought change in his cabinet. To create a more effective and responsive public service, Manley suggested, was one of the reasons for the unexpected cabinet change, made in December of 1990.³⁷ Deputy prime minister PJ Patterson was given the finance portfolio, previously held by Seymour Mullings, with Manley explaining that it was necessary to combine the finance ministry with the development and planning portfolios. Mullings became the minister of agriculture, a post he held in 1979 in Manley's previous administration. He took over from Horace Clarke, the minister of mining resources in 1976 and 1977, who replaced Hugh Small as the minister of mining and energy. Small was appointed as head of the resurrected ministry of industry and commerce.³⁸

In announcing the cabinet reshuffle, Manley said that it was the result of 'a continuing review of the functioning of the government' and reflected the new 'market-based economic strategy' being implemented.³⁹ 'The machinery of government is being further streamlined to ensure the most

³⁶ "Privatization Accelerated Under New Direction," p. 2.

³⁷ "Manley 'intensifies' privatisation plan," p. 2.

³⁸ "Manley 'intensifies' privatisation plan," p. 2.

³⁹ "Manley 'intensifies' privatisation plan," p. 2.

effective co-ordination of economic policies and programmes and to provide an efficient basis for performance by the productive sector,' Manley stated.⁴⁰

It is perhaps noteworthy that Manley instructed the changes in his cabinet and NIBJ in late 1990, the year in which Jamaica was forced to renegotiate an agreement for a US\$108m standby credit, reached with the IMF earlier that year. Jamaica failed the critical international reserves test of 31 March 1990, falling US\$7m short of the 'minus US\$474m' target set by the IMF.⁴¹ The targets set in the revised agreement, which ran until 31 March 1991, included a reduction of the public sector deficit by 3.5 percent of GDP compared with the original target of 4.4 percent; GDP growth of 3 percent; and a US\$67m increase in net international reserves.⁴² It was also agreed that the government would allow Jamaica's commercial banks to clear US\$157m in private sector arrears in 30 months, and would itself clear US\$90m of official arrears on its foreign debt by mid-March 1991.⁴³ In reducing the fiscal deficit, the government agreed to cut capital expenditure, 'retrench and reorganize' state owned enterprises, and limit subsidies on the services of public utilities. The government also sought to

⁴⁰ "Manley 'intensifies' privatisation plan," p. 2.

⁴¹ "Jamaica's IMF agreement modified," Latin American Regional Reports Caribbean Report, 13 December 1990, p. 5.

⁴² "Jamaica's IMF agreement modified," p. 5.

⁴³ "Jamaica's IMF agreement modified," p. 5.

introduce a series of tax measures aimed at raising revenue for the state.

The government also sold its remaining shares in Telecommunications of Jamaica to the multinational telecommunications company, Cable and Wireless, which was able to pay for the shares in foreign exchange, needed to assist the country in meeting the IMF target. This sale of shares will be discussed in detail in the upcoming unit, Telecommunications of Jamaica.

THE STRUCTURE OF JAMAICA'S TELEPHONY AND DATA SERVICES

This section is divided into five units: Jamaica International Telecommunications Limited (JAMINTEL), the Jamaica Telephone Company (JTC), Telecommunications of Jamaica (TOJ), the Merger of TOJ, JTC, and JAMINTEL, and Jamaica Digiport International (JDI). JAMINTEL and JTC are described in several subsections, including history, services, and finances. The section concerning Telecommunications of Jamaica is subdivided into history, sale of TOJ shares, and Jamaican reactions to the sale of TOJ shares. The proposed merger of the three companies, TOJ, JTC, and JAMINTEL, is then discussed. The impact of this merger on JDI is examined in the unit concerning the digiport which also describes its services.

Jamaica International Telecommunications Limited (JAMINTEL)**History**

Since 1938 external telecommunications for Jamaica were solely provided by Cable and Wireless (W.I.) Limited which operated under a government license. The demand for external communications began to expand rapidly in the early 1960s and large investments were required to provide additional facilities. Cable and Wireless applied for a long-term extension of their license. The license was granted, with one of its provisions being the Government of Jamaica's right to terminate it and purchase the company's assets in Jamaica.⁴⁴

The Government of Jamaica chose not to purchase the assets of Cable and Wireless; rather, it engaged in discussions with representatives of Cable and Wireless in 1969 to enter into partnership arrangements for the ownership and operation of the international communication services of Jamaica. Agreement to this effect was signed on 6 November 1970. It provided for the formation of a limited liability company, Jamaica International Telecommunications Limited, in January 1971 with a share capital of J\$15 million. The Government held 51 percent and Cable and Wireless 49 percent of the issued share capital.⁴⁵ In

⁴⁴ JAMINTEL, Jamaica International Telecommunications Ltd., A Company Profile (n.p.: Lithographic Printers Ltd., n.d.), n.p.

⁴⁵ Accountant General, Prospectus Telecommunications of Jamaica Limited 1988 Offer for Sale (Kingston, Jamaica: n.p., 1988), p. 7.

1988, when the agreement expired, the Government of Jamaica had the option of increasing its share to 75 percent and on expiration of the agreement to purchase the entire holdings.⁴⁶ As the Government was actively engaged in a policy of privatization, it chose not to increase its share or purchase the holdings of JAMINTEL.

Services

JAMINTEL is Jamaica's only international telecommunications common carrier. It is responsible for providing Jamaica with a range of international telecommunications services. In adhering to its slogan, 'Keeps Jamaica in touch with the world,' JAMINTEL provides international telephone service; international television, transmission and reception; international telegram service; international telex services; facsimile service; maritime and press facilities; and specialized customer communications service, such as private leased circuits.⁴⁷

JAMINTEL operates its telecommunications system through the Jamaica-Florida submarine coaxial cable which was laid in 1963 and is presently being replaced by a digital fibre optic cable system; submarine coaxial cables linking Jamaica with Panama and the Cayman Islands; the Prospect Pen

⁴⁶ JAMINTEL, Jamaica International Telecommunications Ltd., A Company Profile, n.p.

⁴⁷ JAMINTEL, JAMINTEL A Public Enterprise Working for Jamaica (Kingston, Jamaica: JAMINTEL, n.d.), p. 1.

satellite earth station which was commissioned in 1971 and operates within the International Telecommunications Satellite Organization (INTELSAT) system; a high frequency radio and maritime coast station at Portmore in St. Catherine, as well as an ultra high frequency radio system link to Cuba.⁴⁸

JAMINTEL's switching facilities include a digital international telephone exchange which was installed in 1985. The exchange has an installed capacity of 2,304 lines which were utilized to approximately 85 percent in 1988.⁴⁹ An international telex exchange with a 1,000 line capacity was installed in 1986.⁵⁰ International data access service is supported by a gateway packet switch linked to the U.S. networks. Dedicated access for high volume data users is also available.

Through its International Telephone Switching Center (ITSC) JAMINTEL provides the international telephone circuits for the Jamaica Telephone Company. The ITSC functions as a gateway exchange for all of Jamaica's international telephone traffic. Direct links are provided internationally via terrestrial and satellite facilities to the United States, Canada, Great Britain, Barbados, Trinidad, Bahamas, Cuba, and the Cayman Islands. Switched

⁴⁸ JAMINTEL, JAMINTEL A Public Enterprise Working for Jamaica, p. 1.

⁴⁹ Accountant General, p. 11.

⁵⁰ Accountant General, p. 11.

transit facilities, primarily in the United States, Canada, Great Britain, and Barbados, provide international telephone access to other destinations. International subscriber dialing (ISD) allows customers to dial direct to the U.S., Canada and those countries in the Caribbean which form the "809" area code within the North America numbering plan. "USA Direct" and "International 800" are two services which have also been implemented. Traffic with the U.S. represents about 80 percent of Jamaica's total international traffic volume while Canada and the U.K. account for approximately eight percent and six percent respectively.⁵¹

Total telephone traffic volume for the year 1989/90 was 147 million minutes, an increase of 5.8 percent over the previous year. This relatively low level of growth is partially attributed to the implementation of the international call authorization system (ICAS). Due to the illicit tapping of subscriber lines and the substantial loss of revenue incurred, a system was installed which requires customers to use a private individualized authorization code to process an international call. The implementation of ICAS has thus had the effect of removing a significant level of fraudulent traffic. In fact, outward traffic in 1989/90 declined by an estimated 8.5 percent while inward traffic maintained a growth rate of 14.8 percent. Facsimile

services continued to expand while traffic levels in the telegraph and telex services decreased.⁵²

Finances

JAMINTEL derives revenue from outgoing calls made by customers in Jamaica, from incoming calls originating from overseas as well as calls in transit through Jamaica. In turn, JAMINTEL pays overseas telecommunications carriers for calls originating in Jamaica to recipient parties within the respective territories of such overseas telecommunications carriers. The rate for settlement between JAMINTEL and overseas carriers are fixed by agreement with accounts being settled on a monthly or quarterly basis. By virtue of the structure of the accounting rates and greater volume of incoming traffic, especially from the U.S., net settlement payments have traditionally favored JAMINTEL, thus making JAMINTEL a net earner of foreign exchange.⁵³

JAMINTEL earned \$95.1 million in after-tax profits in 1989/90, a substantial increase over the previous year.⁵⁴ Capital expenditure for the year 1989/90 was \$51 million of which capital works in progress accounted for \$48 million,

⁵² Telecommunications of Jamaica. Telecommunications of Jamaica Limited Annual Report 1990, Directors' Report 1990 (Kingston, Jamaica: Stephenson's Litho Press Ltd., n.d.), p. 8.

⁵³ Accountant General, p. 10.

⁵⁴ Telecommunications of Jamaica, p. 8.

and the purchase of telecommunications equipment \$2 million.⁵⁵ Several projects to upgrade JAMINTEL's switching, transmission and power generating facilities have been enacted. A contract to add 128 international circuits to the International Telephone Exchange has been signed and a modern International Telegraph Message Switch is currently being installed. Contracts for component projects of a new digital transmission system have also been signed.⁵⁶

International Relations

As the official body representing Jamaica on external telecommunications matters, JAMINTEL partakes in the deliberations of many international telecommunications organizations. It is a member of specialist committees of the International Telecommunications Union (ITU) and is the national signatory to INTELSAT. JAMINTEL also has representation on the Commonwealth Telecommunications Council, the body responsible for the control and organization of telecommunications within the Commonwealth. Additionally, JAMINTEL maintains close liaison with other West Indian external carriers through WICON, the West Indies Consultative Committee on Telecommunications.⁵⁷

⁵⁵ Telecommunications of Jamaica, p. 8.

⁵⁶ Telecommunications of Jamaica, p. 8.

⁵⁷ JAMINTEL, Jamaica International Telecommunications Ltd., A Company Profile, n.p.

Jamaica Telephone Company Limited (JTC)**History**

Unlike JAMINTEL, which was fairly recently created, the Jamaica Telephone Company Limited was incorporated in 1892 to acquire the undertaking of West Indies Telegraph and Telephone Company. Telephone service in some of the main rural townships was operated by private industry under licenses until 1939. Between 1939 and 1945 the Government operated such services. In 1945 JTC was controlled by Telephone and General Trust Limited of London, England, which acquired the All Island telephone system from the Government. In May 1967, Continental Holding Company Limited, a Canadian corporation, acquired 50.216 percent of the issued ordinary shares of JTC from Telephone and General Trust, thereby ending the latter's association with JTC. In 1973 JTC made a public issue of 16,000,000 ordinary shares which was underwritten by Continental Telephone Corporation. By virtue of that issue Continental increased its holding to 68 percent. Subsequently JTC reached agreement with the Government for 10 percent of the company's issued ordinary share capital. In September 1975 Continental sold to the Government its 68 percent interest in JTC, thereby bringing the Government's interest to 78 percent. The Government then made an offer to the shareholders of the remaining 22

percent of the ordinary shares of JTC and by so doing further increased its holdings to 90.25 percent.⁵⁸

Services and General Telephone Statistics

JTC provides the country with islandwide telephone service locally as well as internationally through its link with JAMINTEL. In 1990 there were approximately 174,500 telephones in use in Jamaica's fully automated telephone system. With a population of 2.3 million, current telephone penetration is thus approximately 5 per 100 persons. The volume of unsatisfied demand is more than 67,000 or 79 percent of the installed base. While this figure indicates excellent growth potential, it also indicates public dissatisfaction. Further, the distribution of customers is heavily skewed toward an urban as well as business bias. In 1985, 63 percent of telephones were located in businesses and 37 percent in private residences.⁵⁹ Kingston, the capital city, and the developed areas of the south-eastern portion of the island around Kingston currently possess more than 135,000 telephones or 77.5 percent of the customer base.⁶⁰ Further, the old analog transmission lines in the Kingston metropolitan area are the first being replaced with

⁵⁸ Accountant General, p. 6.

⁵⁹ Sandra W. Meditz and Denis M. Hanratty, eds., Islands of the Commonwealth Caribbean: A Regional Study (n.p.: United States Government, 1989), pp. 101-102.

⁶⁰ Telecommunications of Jamaica, p. 5.

fibre optic technology. Work is proceeding to completely replace these lines, since the old analog transmission system has had an adverse effect on noise and contributed to net loss in Inter Toll Trunks.⁶¹

In recent years JTC has introduced special calling features such as subscriber trunk dialling (STD) which allows customers to dial direct long distance to all points in Jamaica and internal subscriber dialing. It has also introduced a packet switching network. JTC also provides local telex services and local telegraph services. Since taking over the telegraph service from the postal department, JTC has recorded a 23 percent increase in telegraph traffic, with the number of messages sent increasing from 430,604 in 1985 to 573,208 in 1990-91.⁶²

Finances

JTC derives its revenue from three principal sources, namely, the rental of customer apparatus and equipment; intra-island toll, telex, telegraph, private wire, public phones, directory advertising, and local calls; and proceeds from overseas calls. JTC's after-tax net profit for 1990 was \$45,014,000, a decrease of \$3.1 million from the previous year. The decrease was attributable to the

⁶¹ Telecommunications of Jamaica, p. 6.

⁶² "Telegraph traffic increased," The Daily Gleaner, August 8, 1991.

international call authorization system and the abnormally high costs of the public education campaign associated with the introduction of this new system; Hurricane Gilbert which adversely effected the already worn outside plant, resulting in both a loss of domestic revenue and the incurring of extraordinary maintenance expenses; and currency devaluation, a result of an IMF Agreement, which had a negative impact on operating costs, including increased debt servicing.⁶³

Capital expenditure for 1989/90 was \$563 million of which central office facilities accounted for 55.6 percent, followed by customer equipment 16.2 percent, and outside plant 9.5 percent. Additional installed lines of 4,779 main stations brought the total installed main stations to 89,958.⁶⁴

As part of JTC's continued program to upgrade and expand its facilities, old Strowger and Crossbar electro-mechanical switches have been replaced by modern state-of-the-art digital equipment. JTC recently completed upgrading its last analog exchange, so the entire national telephone network, switching and transmission, is now digital.⁶⁵ In the next few years, the country expects to increase exchange capacity by 125,000 fully digital lines, and, in so doing,

⁶³ Telecommunications of Jamaica, p. 6.

⁶⁴ Telecommunications of Jamaica, p. 7.

⁶⁵ "JTC totally digital," The Daily Gleaner, December 4, 1991, n.p.

increase the line capacity from the present 90,000 to 215,000.⁶⁶

JTC and Jamaica's Five-Year Development Plan

The increased capacity is in line with Jamaica's Five-Year Development Plan for 1990-1995 which stipulates that JTC is to increase the number of telephone lines by 139 percent to 215,000 over the Plan period. The Plan calls upon JTC to phase out analog technology and introduce digital technology; increase reliability of the system by replacing and upgrading the cable system; provide telephone service on demand within a radius of three miles from any existing exchange and in any community where total demand exceeds 200 main lines and where demand density exceeds 10 main lines per square mile; use cellular technology to provide rural service where the above-mentioned densities do not exist; and generally reduce network congestion which currently results in more than 60 percent of all calls failing to reach their destinations.⁶⁷

According to the Plan, the main objective of the Government policy is to develop modern internal and international communications links which are required for the transfer of information in order to facilitate social

⁶⁶ Telecommunications of Jamaica, p. 7.

⁶⁷ Planning Institute of Jamaica, Jamaica Five Year Development Plan 1990-1995 (Kingston, Jamaica: Planning Institute of Jamaica, 1990), p. 143.

interaction and economic activity. The five-year program for telecommunications emphasizes the gradual construction of digital technology to provide additional transmission and switching capabilities. The Plan also includes provision of a wider range of services for the public and business community, including high speed data transmission, high speed facsimile, packet switching, teleconferencing, and electronic mail.⁶⁸ The Plan to provide such services, however, did not take into account the total privatization of Telecommunications of Jamaica.

Telecommunications of Jamaica (TOJ)

History

In early 1987, the Government of Jamaica decided to propose with Cable and Wireless Limited a merger of Jamaica International Telecommunications and the Jamaica Telephone Company. In February 1987, negotiations were carried out in London with Cable and Wireless and it was agreed that a holding company, later named Telecommunications of Jamaica Limited (TOJ), should be formed, which would take over all the shareholdings of both JAMINTEL and JTC. The merger was

based on agreed asset values with the following shareholdings resulting:

Cable and Wireless, on account of shares in JAMINTEL,	9.397 %
Government of Jamaica, on account of shares in JAMINTEL,	9.783 %
Government of Jamaica, on account of shares in JTC,	71.041 %
Other Shareholders	9.779 %

It was further agreed that Cable and Wireless would be permitted to acquire some of the shares from the Government of Jamaica to enable Cable and Wireless to own 20 percent of the company, the agreed limit.⁶⁹ Eighty percent of TOJ was to be owned by Jamaicans or Jamaican interests.⁷⁰ Cable and Wireless, however, almost immediately acquired a full 20 percent of the Government's shares, giving the company a 29 percent interest in TOJ.

TOJ was incorporated as a private company on 19 May 1987 to be the holding company for both JTC and JAMINTEL. The company acquired controlling interest in JAMINTEL on 19 May 1987 and in JTC on 23 July 1987. Both JAMINTEL and JTC are now wholly-owned subsidiaries of TOJ which became a public company on 1 July 1987.⁷¹ Since, under the Telephone Act, a license is required for establishing a

⁶⁹ Telecommunications of Jamaica, Telecommunications of Jamaica Limited Sale of Shares, Ministry Paper No. 78 (Kingston, Jamaica: n.p., 1990), pp. 1-2.

⁷⁰ "Move to merge JAMINTEL, JTC," The Daily Gleaner, 7 November 1989, n.p.

⁷¹ Accountant General, p. 6.

public telephone network in Jamaica, TOJ acquired an exclusive 25 year license, the "Telephone License," on 31 August 1988 which it duly assigned to JTC. On the same day it was also granted a 25 year license under the Radio and Telegraph Act which it assigned to JAMINTEL. This license authorizes JAMINTEL to establish, maintain, and use radio or telegraph stations or apparatus inclusive of submarine cables for the purpose of providing telecommunications services between Jamaica and points outside Jamaica.⁷²

Sale of TOJ Shares

In September 1987, the Government of Jamaica agreed to sell a further 10 percent of the issued share capital of TOJ to Cable and Wireless, effectively raising their shareholding to 39 percent. In September 1988 the JLP made a public offering of shares by placing 13 percent of their shares for sale on the Jamaica Stock Exchange. The Accountant General offered 126,500,000 ordinary shares of \$1.00 each to the public at \$0.88 per share payable in full on application. Applications could only be made by Jamaican residents or bodies corporate, incorporated or registered in Jamaica which are subject to control either directly or through another body corporate by Jamaican citizens. Though there was no limit to the number of shares for which an applicant could apply, applications had to be made for

multiples of 50 shares, subject to a minimum of 200, except in the case of the Employee Share Scheme.

Of the 126,500,000 shares, 21,100,000 or about two percent of TOJ's issued share capital was reserved under an Employee Share Scheme.⁷³ Employee share offerings have also been used in Mexico and other countries as a way to include workers in the economic participation of the new firm and to counter their opposition to the privatization. The Jamaican government, at this time, sought a broader-based share ownership in TOJ; and nearly 15,000 investors applied for the shares, raising nearly \$120 million in the process.⁷⁴ The Government did not, however, intend to reduce its shareholding below 40 percent.

Following the public sale of shares the shareholding profile of TOJ was as follows:

<u>Shareholders</u>	<u>% of issued shares</u>
Government	40%
Cable & Wireless	39%
Employees	2%
Others	19%

In June 1989, the Government of Jamaica, now under Manley's leadership, sold an additional 20 percent of its shares to Cable and Wireless, giving them the majority shareholding at 59 percent. Most recently, in November 1990, the Jamaican government sold its remaining shares of TOJ, 20 percent, to Cable and Wireless. The British

⁷³ Accountant General, p. 19.

⁷⁴ Neville Spike, "The capital market and privatisation," The Sunday Gleaner, 8 February 1992, p. 7B.

corporation's shareholding of the company is now 79 percent.⁷⁵ The Government of Jamaica stated that it found it necessary to dispose of its remaining shares in order to secure foreign exchange to support the foreign exchange requirements of the Jamaican economy. Manley seemed to have recognized the vital importance of foreign exchange, something his earlier administration's policy did not fully appreciate.

By divestment of TOJ shares, and by an agreement with Cable and Wireless, the Government of Jamaica can no longer be called upon to provide guarantees for new loans required by the company for successful operation and development of the telecommunications network. The provision of guarantees for loans is thus the responsibility of Cable and Wireless as the principal stockholder. It was further agreed that Cable and Wireless will pay the Government of Jamaica a one percent guarantee fee on the outstanding balance of any loans guaranteed by the Government in the past.⁷⁶

The price at which the remaining 20 percent shares were sold yielded to the Government of Jamaica a price of J\$1.76 per share. This price was considerably in excess of the market price which had existed on TOJ shares. Substantial amounts of the shares had been available on the local stock

⁷⁵ Telecommunications of Jamaica, Telecommunications of Jamaica Limited Sale of Shares, p. 2.

⁷⁶ Telecommunications of Jamaica, Telecommunications of Jamaica Limited Sale of Shares, pp. 2-3.

exchange at prices varying between 85 and 95 cents.⁷⁷

Since the government's sale of shares in November became public, TOJ's share price rose by 18 cents over the price prevailing at the end of October. That is, from \$1.03 to \$1.21, a price still well below the \$1.76 price obtained in the transaction with Cable and Wireless.⁷⁸

John Jackson, writing in The Daily Gleaner, however, contends that the shares were undervalued in the sale. According to his figures, based on how the shares would be valued on the international market, the Jamaican government sold shares valued at nearly US\$300 million for only US\$84 million. The Government sold the 20 percent shares in June 1989 for US\$42 million, the same amount received in November 1990 for the remaining 20 percent shares.⁷⁹ According to Jackson, as long as Cable and Wireless owns these shares they will be entitled to remit approximately US\$8 million per year as dividends and in a relatively short period of time will have been paid back their investment in full.⁸⁰

At the start of 1991, shares in Telecommunications of Jamaica were trading at \$1.30. On November 14, 1991, shares

⁷⁷ Telecommunications of Jamaica, Telecommunications of Jamaica Limited Sale of Shares, p. 3.

⁷⁸ Carl R. Aldridge, "Govt. Sells TOJ Shares," Money Index, 4 December 1990, p. 41.

⁷⁹ Jackson states that Cable and Wireless bought the shares for only US\$28 million, not US\$42 million, which he reports is a distressing situation since the company can immediately remit dividend equivalent to some US\$15 million if it so desires.

⁸⁰ John Jackson, "Sale of ToJ shares," The Daily Gleaner, 26 November 1990, n.p.

closed at \$5.50, netting a 323 per cent increase in value of the investment from the beginning of the year. This means that over the 10 1/2 month period, a \$1,300 investment would have yielded \$4,200 in profit. Though the shares have since declined to \$4.00, the increased share value, and profits, remain substantial.⁸¹ Similar inflation of telecommunications shares are also evident in Latin America.

Jamaican Reactions to Sale of TOJ Shares

Whereas Jackson considered the sale of TOJ shares both unwise and unfortunate, others in the Jamaican community expressed a difference of opinion. Sameer Younis, President of the Jamaica Chamber of Commerce, agreed with the Government sale to Cable and Wireless, since the company could pay in foreign exchange which was needed to assist the country in meeting the IMF target in March 1991. According to Younis, if the sale meant that the Government could meet the IMF test, then it did the right thing.⁸² Karl James, President of the Jamaica Exporters Association, stated that though "the whole business of divesting is a programme we have called for . . . it would have been fairer to give the present Jamaican shareholders and other members of the

⁸¹ "Jamaica's new millionaires," The Sunday Gleaner, 15 December 1991, p. 6A.

⁸² "Sale of ToJ shares Private Sector's reactions mixed," The Daily Gleaner, 23 November 1990, n.p.

private sector a chance to buy rather than sell the whole block to Cable and Wireless.'"⁸³

According to the Government on this significant point of contention, it needed to find a buyer willing to pay an attractive price for TOJ shares in foreign exchange, whose earnings would contribute to Jamaica's external commitments. The Government stated that the sale had to be undertaken by private treaty in order to achieve this objective.⁸⁴ It was, however, argued that the Government's caution in disposing of its shares was aimed at avoiding the storm of protest which came from angry shareholders when the Government sold 20 percent of its shares to Cable and Wireless in June 1989 and other shareholders were not given an opportunity to invest.⁸⁵

According to the Opposition Spokesperson on Public Utilities, Senator Audley Shaw, "'The public and the Opposition were earlier given the impression that although there might not have been a further public share offering, [as was the case in 1988], there would at least have been a fair offering of the shares to existing shareholders.'"⁸⁶ The JLP, thus, expressed shock and dismay when it became known that the only shareholder that was officially

⁸³ "Sale of ToJ shares Private Sector's reactions mixed," n.p.

⁸⁴ "Govt sells ToJ shares," The Daily Gleaner, 23 November 1990, n.p.

⁸⁵ "More TOJ shares offered to Cable and Wireless," The Daily Gleaner, 9 November 1990, n.p.

⁸⁶ "JLP slams ToJ share sell," The Daily Gleaner, 22 November 1990, n.p.

considered and sold the remaining Government shares was Cable and Wireless. In fact, the JLP called on the Government to review its decision to sell the remaining 20 percent of TOJ shares to Cable and Wireless, prepare a prospectus, and put up the shares so that Jamaicans in Jamaica could have the opportunity to own a greater portion of the company.⁸⁷ The JLP stated that it is supportive of and has been the vanguard of privatization, but with the emphasis being to allow Jamaicans in Jamaica to benefit from ownership in major companies, such as TOJ. The JLP argued that for the Government to sell its remaining shares to Cable and Wireless or any other foreign entity was unfair to Jamaicans and showed "absolute contempt for the capacity of Jamaicans to further partake in the ownership of this company."⁸⁸

This outlash perhaps led the PNP, in November 1991, to make its first broad-based public offering of shares by placing shares in Radio Jamaica Limited (RJR) on the Jamaica Stock Exchange.⁸⁹ In 1987 the JLP had formalized a government media divestment policy, which concerned the divestment of the Jamaican Broadcasting Corporation (JBC), which involved AM radio, three regional stations and JBC Television, as well as the divestment of government shares

⁸⁷ "JLP: Review ToJ 20% shares sale," The Daily Gleaner, 22 November 1990, n.p.

⁸⁸ "JLP: Review ToJ 20% shares sale," n.p.

⁸⁹ "Share offer," The Daily Gleaner, 14 November 1991, n.p.

in Radio Jamaica Ltd.⁹⁰ Though the PNP, like the JLP, pursued a policy of privatization, it, at times, employed different instruments of implementation.

According to Minister of Public Utilities and Transport, Robert Pickersgill, who noted that he had been privately informed that some "Jamaicans would not necessarily find it an unsurmountable task to get the foreign exchange [to purchase the TOJ shares]," and that this fact was taken into consideration, Cable and Wireless, which would be investing millions of dollars in TOJ, would not be prepared to do so if they did not enjoy a certain market share.⁹¹ Whereas Manley had sought, as noted, a disengagement of foreign ownership and control in the bauxite industry, in telecommunications, foreign investment was viewed as a means of enhancing that sector's internal and external operations. In Mexico and Venezuela blocks of shares have also been sold to multinational telecommunications corporations as a way to secure further investment by the corporate shareholder. A disadvantage of small shareholders is that they do not invest in the company beyond the shares they buy.

There was a conflict, however, between how this corporate strategy was perceived by the government, which saw it as a means of gaining increased investment in the

⁹⁰ "Government Radio, TV Divestment Behind Schedule," JPRS Report Telecommunications (n.p.: Foreign Broadcast Information Service, 4 March 1988), p. 9.

⁹¹ "More TOJ shares offered to Cable and Wireless," n.p.

sector, and by some members of the public. Ms. E. Hamilton, a secretary, stated that though she was not against selling shares to foreign interests, Jamaicans should own most of the shares. A postal worker, Walton Scott, agreed. "I do not think the Government did the right thing in selling its shares. I think the Government should own fully an important enterprise as TOJ. I further believe that if successive Governments were putting the right emphasis on agriculture the country would be far better off and we would not have to be selling our most viable assets both here and abroad."⁹² According to Martin Barter, an expatriate farm instructor, "I realize that foreign exchange is needed but more an economy can support itself the better it is. I am for the support of the grassroot people -- the people of Jamaica building their country and taking pride in themselves and their achievements."⁹³ Mrs. Christine McKenzie, likewise, thought that the problem of foreign exchange was not enough reason for the Government to sell out everything to private foreign investors. She voiced concern that in many cases private investors take advantage of the working class people by increasing prices whimsically.⁹⁴

⁹² "Mixed reaction from the public on ToJ shares," The Daily Gleaner, 26 November 1990, n.p.

⁹³ "Mixed reaction from the public on ToJ shares," n.p.

⁹⁴ "Mixed reaction from the public on ToJ shares," n.p.

The public has since revised its view on the TOJ takeover and now supports it with a majority opinion (54%) in favor of the TOJ divestment.⁹⁵ Recent surveys of the public's assessment of the telephone service reveal a dramatic overall increase in the public's rating of the company's services in most areas. These include such problem areas as the prompt correction of faults, promptness in installation, reliability of the phone service, prompt handling of complaints and development and expansion.⁹⁶

Merger of TOJ, JTC, and JAMINTEL

It is the intention of the Board of Directors of TOJ to merge the three main companies, TOJ, JTC, and JAMINTEL, which form the Consolidated Group. The original proposed date for the merger was 1 April 1991. Legal problems, such as different labor contracts held by the various companies, have, however, delayed the merger. At this writing the merger has yet to be completed.

With the merger, one single operating company will perform the several functions currently being handled in the holding and subsidiary companies. According to the Board, this rationalization of resources is expected to bring economic benefits to shareholders, customers, and employees

⁹⁵ Carl Stone, "Agony in the phone service," The Daily Gleaner, 14 August 1991, n.p.

⁹⁶ Stone, "Agony in the phone service," n.p.

alike. In regards to employees, an element of redeployment of personnel has been determined to be necessary, no layoffs or retrenchment anticipated, and the hiring of additional employees likely, given the significant growth planned. The growth is projected on the basis of increased operating efficiencies which will make the Company more responsive to the many and varied needs of customers at different levels of the telecommunications spectrum.⁹⁷

Jamaica Digiport International (JDI)

The change in shareholding of TOJ and the projected merger affects the ownership structure of Jamaica Digiport International Ltd. (JDI). A joint venture company, JDI, provides specialized international digital telecommunications between Jamaica and the rest of the world. Access to offshore providers of all aspects of information processing including data entry, data conversion utilizing high speed facsimile and imaging technologies, automated mapping, computer aided design, and telemarketing is available through the JDI network. The partners in JDI, which opened in July 1988, are TOJ with 30 percent of the shares, American Telephone and Telegraph (AT&T) with 35

⁹⁷ Telecommunications of Jamaica, Telecommunications of Jamaica Limited Annual Report 1990, Directors' Report 1990, p. 4.

percent, and Cable and Wireless with 35 percent.⁹⁸ Cable and Wireless, the primary shareholder in TOJ with 79 percent of the shares, is now also the principal shareholder in JDI as well.

Located in the free trade zone at Montego Bay, the Digiport consists of a large earth station with an AT&T advanced electronic switch, which can be made compatible with the standards for Integrated Service Digital Network (ISDN), a building for data operations, and the use of an INTELSAT satellite with digital capacity. It transmits high speed data, voice and video, as well as private line service, between Jamaica and the United States, Canada, and England.⁹⁹ The Digiport was designed to encourage foreign corporations to move some of their operations, such as data entry, offshore. In Jamaica the cost of labor for data entry is between one-third and one-quarter of that in the U.S.¹⁰⁰ Corporations can thus readily utilize JDI and reap profits from low-cost labor while providing needed employment to Jamaicans. The inequality of this transnationalized division of production and labor is evident, and perhaps magnified when one considers that the primary shareholders in JDI are foreign firms.

⁹⁸ Donna A. Demac and Ruth J. Morrison, "US-Caribbean telecommunications: Making great strides in development," Telecommunications Policy, 13, No. 1 (March 1989), p. 55.

⁹⁹ Jamaica Digiport International, Ltd., The Jamaica Advantage: An Economic Alternative (n.p.: n.p., n.d.), n.p.

¹⁰⁰ Demac and Morrison, p. 56.

REGULATION

Though Jamaicans have been hired for technical jobs with the Digiport and reportedly will eventually occupy managerial positions, this was not stipulated in the contracts signed with the Jamaican government.¹⁰¹ The Government did not exert control or direction in the realm of telecommunications regulation. Like many developing countries, Jamaica does not have a well-constituted policy of regulation, which may, in fact, be difficult to generate in an atmosphere of deregulation. A telecommunications policy which included regulatory frameworks, such as in regards to the digiport, governing data flows, data processing, and the transfer of technology and management skills to the locals, was not prepared. Regulatory frameworks are critical, however, especially in the absence of competition. Where the telecommunications system is primarily owned by foreign investors, such frameworks may be more difficult to impose. This is particularly the case if the sale is made when no explicit regulatory framework is established or no clauses for regulation or provision for renegotiation are included in the contract of sale, as in Jamaica, for the sancity of the contract is in effect upon conclusion of the sale.

The Government of Jamaica could have created a telecommunications policy which included benchmarks for the

¹⁰¹ Demac and Morrison, p. 56.

reduction of telephone subscriber waiting lists, the expansion of the network into rural communities, and programmed increases in the telephone penetration rate. The Government could have stipulated, along the lines of New Zealand, that the standard residential rental rate for a phone line could not rise faster than the cost of living, and phone line rentals for residential customers in rural areas could not be higher than those in the cities.¹⁰² The Government of Jamaica did not, however, require that any such conditions be met when Telecommunications of Jamaica was privatized. This could have been a deliberate strategy to increase the sales value of TOJ, since a loose regulatory framework can encourage buyers to pay a higher price.

Jamaica appears to maintain an insufficient regulatory mechanism in the form of a licensing practice. Granted for 25 years, the license merely obliges the licensee to establish and maintain good and sufficient telephone exchanges at convenient points approved by the Minister of Public Utilities and Transport, and, generally, to supply telephone services without preference on the same terms to persons under similar circumstances.¹⁰³

The Government of Jamaica has no plans to develop an independent regulatory authority to effectively monitor the private telecommunications monopoly. Though rates must be

¹⁰² Vicki Hyde and Janette Martin, "U.S. Firms May Speed Telecom Services," Datamation, 36, No. 19, 1 October 1990, p. 104(8).

¹⁰³ Accountant General, p. 11.

approved by the Government, the Government cannot mandate that Telecommunications of Jamaica provide universal service.¹⁰⁴ The Government contends that it cannot require that the private company perform uneconomic activities.¹⁰⁵

Some of these 'uneconomic' activities, such as rural and emergency service, are, however, of singular importance to the community and to national development generally. Indeed, the importance of the telephone and its penetration in rural and residential areas have been cited in several studies. A study conducted by Hardy, quoted by Jequier and Pierce, made the following findings:

- a) The telephone clearly seems to be a much more important factor in the development process than one-way communication systems like radio;
- b) The role of the telephone in economic development is more important in the developing countries than in the industrialized countries;
- c) The lower a country's level of development, the greater the potential contribution of telecommunications to economic development;
- d) In the developing countries, the residential telephone is far more important than it was generally thought to be, and its relative neglect by planners is not justified.¹⁰⁶

The failure of the Government to introduce an effective level of regulation seems to assure that the public's

¹⁰⁴ Telephone interview with Clover Chung, Librarian, Telecommunications of Jamaica, 12 November 1991.

¹⁰⁵ Telephone interview with Clover Chung.

¹⁰⁶ Nicolas Jequier and William Pierce, "The Macro-Economic Effects of Telecommunications," Telecommunications for Development (n.p.: ITU, 1983), p. 24.

interest in rural and residential service and the goal of universal service will not be addressed. It is possible, though, that for public relations reasons or a perception that the long run interest of promoting universal service outweighs short-run costs, the private company will decide to pursue universal service. By contrast, however, when Mexico's telecommunications system was privatized, regulation, specified in the contract of sale, required the company to invest in residential and rural areas.

With the virtual absence of regulation, the private monopoly can potentially abuse its position. If the government does not introduce regulation in this environment, it must introduce competition. Cross-subsidies, however, often used by telecommunications monopolies to extend service to less profitable areas, cannot be sustained under competitive conditions, though other innovative transfers of funds may be employed.¹⁰⁷ Lowered prices achieved with competition may not be sufficient to provide universality of service. Though it is argued that telecommunications service will extend where the demand exists, for the demand indicates a willing to pay, willingness does not constitute ability to pay.¹⁰⁸ It would thus appear that the development of universal service may need to precede the introduction of competition.

¹⁰⁷ Roth, p. 170.

¹⁰⁸ Roth, p. 162.

Further, competition may not necessarily prove more effective than a monopoly supplier of service in Jamaica's telecommunications sector because of the size of the market. Though the 'natural monopoly' of the telecommunications sector is changing with the advent of new technologies, economies of scale may be of greater significance in the micro-economy of a small island-state, such as Jamaica. The number of lines and demands for advanced service may be too small to sustain competition.

If this is the case, then effective regulation, which acts as the substitute for competition in the market, must be employed. Jamaica, however, has not only failed to introduce regulation which would set service criteria and other benchmarks, it has granted Telecommunications of Jamaica an exclusive license to operate as a private monopoly for 25 years. Roy Alexander of the Jamaican Ministry of Public Utilities and Transport has indicated that competition is unlikely to ever be introduced and it is the Government's intention to renew TOJ's license upon its expiration.¹⁰⁹

¹⁰⁹ Telephone interview with Roy Alexander, Jamaican Ministry of Public Utilities and Transport, 7 January 1992.

Chapter IV. CONCLUSION

Concluding statements made in this chapter seek to address the research questions and propositions set forth in the first chapter, "The Proposed Study."

In regards to the first research question concerning why the Government of Jamaica sold its remaining shares of Telecommunications of Jamaica, it was found that the Jamaican government sold these shares to secure foreign exchange to pay official arrears on foreign debt and, thereby, meet the targets set in a revised agreement with the IMF. The Government sold its TOJ shares to Cable and Wireless, which was able to pay in foreign exchange, needed to assist the country in meeting the IMF target. According to Ramanadham, public debt reduction is one of the best uses of the sales proceeds.

Though it was originally stated that 80 percent of TOJ would be owned by Jamaicans or Jamaican interests when it was incorporated as the holding company of JTC and JAMINTEL, the Government sold the majority of its shares to Cable and Wireless. Secondary, though not inconsequential, objectives to be gained in the sales to Cable and Wireless, which increased its shareholding to 79 percent, were increased access to advanced technological expertise, capital investment, and long term credit, the lack of which had stifled capital development.

Regarding the second research question, how the telecommunications sector in Jamaica is affected by the privatization of TOJ, it is too early to assess the impact of the divestment of the Government shares in TOJ and the effects of Cable and Wireless, as primary shareholders, on the telephony services and digiport in Jamaica. Though the sale provided immediate revenue for the Government, it is questionable if the private monopoly will develop universal service provision for the people of Jamaica. The central issue is for whom the privatization will prove beneficial. For example, business service could be readily extended, while residential service could expand at a much slower rate. Such questions are open for further study.

The effects of the merger of TOJ, JTC and JAMINTEL into one company, one telecommunications entity, too is not possible to assess at this time, as the merger has yet to be implemented. Follow-up research is, therefore, necessary. It is evident, however, that telecommunications policy cannot be divorced from other government policies and a country's economy.

To allow private foreign investment in a country's telecommunications facilities as a means to secure foreign exchange is indicative of the plight of these developing economies. To acquire loans, thereby increasing a country's indebtedness, in order to finance the expansion of the telecommunications infrastructure may be beyond the reach of a country's economy. Countries, such as Jamaica, that seek

increased telecommunications investment and find that they can only afford to do so through private foreign shareholders may, however, find themselves in a continual cycle of dependent development.

Effective regulation can curb or at least ameliorate this cycle by allowing governments to divest telecommunications systems while providing control over the direction of development. As to the third research question concerning the Jamaican government's regulation of the private telecommunications monopoly, it appears that an insufficient regulatory mechanism in the form of a licensing practice is maintained. Granted for 25 years, the license merely obliges the licensee to establish and maintain good and sufficient telephone exchanges at convenient points approved by the Minister of Public Utilities and Transport, and, generally, to supply telephone services without preference on the same terms to persons under similar circumstances.¹

The Government of Jamaica has no plans to develop an independent regulatory authority to effectively monitor the private telecommunications monopoly. Though rates must be approved by the Government, the Government cannot mandate that Telecommunications of Jamaica provide uneconomic or universal service.² It, therefore, seems unlikely that such goals as the expansion of service to rural and

¹ Accountant General, p. 11.

² Telephone interview with Clover Chung.

residential areas will be addressed, unless the company takes it upon itself to do so.

In creating an efficient market system, which aims to prevent market failure, regulatory mechanisms must be employed to monitor private monopolies, such as Telecommunications of Jamaica. As to the final research question regarding policy recommendations for Jamaica, it may be recommended that a telecommunications regulatory framework include benchmarks for the reduction of telephone subscriber waiting lists, the expansion of the network into rural communities, and programmed increases in the telephone penetration rate. A proposed policy could also stipulate that the standard residential rental rate for a phone line not rise faster than the cost of living, and phone line rentals for residential customers in rural areas not be higher than those in the cities. Quality of service standards, quality of service indicators, and other service criteria must also be set by the regulators.

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