

Telecommunications Sector Overview
Telecom and IT Trends Mexico 2004

International Market Insight
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With a population of over 100 million inhabitants, Mexico's telecommunications equipment and services markets have considerable growth potential, due to relatively low fixed-line teledensity and resultant pent-up demand. Privatization and pro-competitive measures first announced in 1989 significantly pared back the Government of Mexico's role in the telecommunications sector. Many of these measures were codified in the 1995 Federal Telecom Law (FTL). The FTL allowed new entrants into the market to compete with the former state-run monopoly telecommunications provider, Telefonos de Mexico, or Telmex. The law opened-up every telecommunications service to competition, allowed higher levels of foreign participation, and mandated interconnection and transparent, as well as non-discriminatory, processes for licensing.

Despite numerous advances made on paper, the regulatory environment in Mexico remains a drag on the telecommunications sector. In the late 1990s, the Mexican government moved haltingly to implement competitive measures and, despite commitments from the President Vicente Fox's Administration, regulators from the Comisión Federal de Telecomunicaciones (COFETEL) have taken few steps over the past years to reign in Telmex. Industry observers note that most COFETEL officials neither have taken public positions against Telmex nor attempted to use regulatory tools at their disposal. Even when, in late 2000, COFETEL found Telmex to be in violation of certain requirements outlined in the existing regulations, Telmex challenged the regulator's authority in court and won an indefinite suspension of COFETEL's asymmetric regulations.

Since the late 1990s, Mexico has been cited in the U.S. Trade Representative's (USTR's) annual 1377 Report to Congress as a country with insufficient competitive safeguards in its telecommunications market. In February 2002, the USTR filed a dispute resolution claim with the World Trade Organization (WTO) in Geneva to rule on what the U.S. views as significant violations by Mexico of its WTO commitments in the

telecommunications sector. The WTO dispute resolution panel is in the process of hearing the case; a final ruling is expected in the third quarter of 2003.

Mexico's Congress has been debating an updated telecommunications act for the last two years. Discussions have stalled on some of the more divisive proposals, such as: 1) increasing the autonomy of COFETEL; 2) lifting the 49 percent cap on foreign direct investment in the fixed-line market; 3) unbundling local loop network elements; and 4) establishing and enforcing dominant carrier regulations on Telmex. The July 6th national midterm election proved to be significant, as the opposition PRI party regained control of the Chamber of Deputies, and Mexico's one-term limit will fill all seats in the lower house with new legislators. What impact will all of this have on telecommunications reform? Most industry analysts predict the Mexican Congress will have trouble passing anything of substance in 2003.

Despite the regulatory and commercial challenges, the Mexican telecommunications market has great potential for growth. COFETEL reported that at the end of 2002, fixed-line penetration was 14.6 percent, and mobile density reached 25 percent. In 2002, mobile operators added 3.8 million subscribers, increasing the total to 25.4 million, up 18 percent from 21.6 million in 2001. Rapid growth in the wireless market is expected during the coming year as competition heats up and operators consolidate their holdings in the market. In addition to targeting lower income segments of the population with prepaid and calling party pays plans, wireless operators are expected to target corporate segments with high-end, high-tech applications as the development of advanced technology spurs the introduction of new mobile services.

The service segment with the greatest growth potential in the next several years will likely be data communications, as corporate customers' data transmission requirements become increasingly crucial to the bottom line. This should increase demand for bundled packages of services and spur investment in end-to-end technologies that enhance the competitiveness of new entrants' offerings.

In 2002, Mexico ranked as the third-largest importer of telecommunications equipment from the United States (behind Canada and Japan). Demand is expected to increase as both residential and corporate clients drive operators to upgrade their networks in order to take advantage of higher speed technologies that maximize the potential of the Internet. Mobile network development will most likely offer the greatest opportunities for equipment vendors. For example, the dominant player Telcel has invested in an upgrade to GSM/GPRS technologies. In addition, the government's "e-Mexico" initiative to promote digital connectivity in rural areas should offer numerous procurement opportunities.

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