MCI and the liberalization of the Telecom Industry

Seth D. Blumenfeld

For the past 15 years, Seth D. Blumenfeld has served as president of MCI International. He has more than 30 years of telecommunications experience and is one of the industry's leading experts in international negotiations. He is an executive committee member of the United States Council for International Business, a member of the board of directors of the United States Telecommunications Institute, and a member of the State Department Advisory Council, among other professional boards and associations.

About MCI: Headquartered in Washington, D.C., MCI is a leading provider of local-to-global communication services to business, government and residential users. The company’s fast-growing portfolio of advanced data and IT services accounts for a quarter of MCI's approximately $20 billion in annual revenue. MCI operates one of the world's largest and most advanced digital networks, connecting local markets in the U.S. to hundreds of locations worldwide. MCI has agreed to merge with WorldCom, one of the world's fastest-growing communications companies. The merger, which is expected to be completed in mid-1998, will create MCI WorldCom, a company uniquely positioned in the U.S. local and long distance markets as well as the global data and Internet markets.

The lines are busy in the telecom industry these days as mergers and alliances set the stage for increased competition in local and international markets.

"Telecommunications is a dynamic industry," said Seth Blumenfeld, and it is being driven by the World Trade Organization agreement on basic telecommunications, which will open up more than $1 trillion in telecom business worldwide.

Sixty-nine countries, representing 90 percent of the telecommunications business in the world, have signed the WTO agreement which requires them to liberalize their marketplaces within various time frames.

Liberalization should not be confused with privatization, Blumenfeld said, explaining that privatization of telecom companies applies to previously state-owned and state-controlled monopolies going public for the purpose of raising capital. "Liberalization means separating the regulated from the state owned operator and allowing full competition for local, long distance and international services in that country."

Liberalization has spawned mergers, joint ventures, and the growth of conglomerates as companies rush to capture market share. "Right now there are three major mergers of importance," said Blumenfeld:

- Global One, consisting of Sprint, Deutsche Telecom, and France Telecom.
- MCI and WorldCom.
- World Partners, consisting of AT&T and telecom companies in the Nordic countries, Italy and western Australia. "This is a very loose confederation, not a real alliance."

Japan's Nippon Telegraph and Telephone, "the world's largest vertically integrated corporation," has not yet made a move in the direction of an alliance.

The Ministry of Japan is now in the process of breaking up NTT to make the telecom giant more competitive. NTT's newly created international unit "is quietly getting involved in Canada and South America as well as Asia. They recently applied in the United States to become a reseller," said Blumenfeld.
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In an age when businesses are expanding across borders, alliances are extremely important, said Blumenfeld. Multinational companies rank telecommunication services the third most important factor when deciding where to locate new plants. The first and second considerations are the political stability of the country and the availability of a skilled workforce.

More and more, businesses are demanding enhanced, one-stop telecom information services for their worldwide operations. "You need partners to provide this level of service," said Blumenfeld, referring to MCI's decision to enter into a worldwide alliance. "It takes capital. It takes local know-how and political connections."

Tremendous strength

MCI has 28 percent of the international long distance service market, and Congress has just opened up the U.S. market for local service -- "a $100 billion marketplace that's a whole other opportunity."

MCI's alliance with WorldCom "gives us tremendous strength to start competing against the regional Baby Bells in this $100 billion marketplace," said Blumenfeld.

As a result of the merger, valued at $38 billion, "we will have fully competitive local facilities in 102 U.S. metropolitan areas. And combined we have local facilities in London, Manchester, Munich, Frankfurt, Bonn, Lyons, Paris, and many other cities in Spain and Italy."

MCI WorldCom will have $32 billion in revenues, a workforce of 70,000, and a customer base in the U.S. of 22 million.

Seth Blumenfeld: The world is wired

- Every second a new phone is being installed somewhere in the world.
- There are 600 million telephone instruments in the world.
- China is installing land telephone lines faster than all the other countries of the world put together.
- It took the world approximately 80 years to install 60 million telephone lines. China will do it in four years.
- Nearly two-thirds of the people in the world have never made a telephone call.
- Fifty-eight percent of the world's population lives more than 5 miles away from the nearest telephone.
- About 70 percent of today's world information services were previously controlled by a monopoly.
- There are 1.6 million information providers on the Internet, and 380 million computers worldwide.
- Electronic mail in the U.S. has now exceeded first class mail by a ratio of 3.5 to 1.