REGULATORY REFORM OF TELECOMMUNICATIONS IN DEVELOPING COUNTRIES: A CASE STUDY OF THE FIXED-LINE TELEPHONE NETWORK IN THAILAND

by

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A Thesis Submitted in Fulfilment of the Requirements for the Degree of Doctor of Philosophy at The School of Economics The University of Adelaide

December, 1998
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ABSTRACT

Recent research suggests that the presence of a single operator in the telecommunications market would lead to the inefficient utilisation of resources. Deregulation is argued to be a method to overcome such a shortcoming. Liberalisation, privatisation and build-transfer (BT) regimes are examples of regulatory reforms emerging in many countries. These reforms include free entry in domestic long-distance services in the United States, a competitive market in international calls in Japan, privatisation in Argentina and the application of BT regimes in many developing countries such as China, Vietnam and Thailand.

A build-transfer-operate (BTO) arrangement is one form of BT regime. In recent years, without an investigation of whether such a change is justified, BTO arrangements have been applied to the telecommunications sector in Thailand. This thesis, therefore, sets out to examine whether Thailand’s BTO arrangements are worthwhile. Three issues are examined. (1) What is the market structure of the telephone industry in Thailand - is it still a natural monopoly? (2) Are there significant cost savings from the introduction of BTO regimes? (3) What is the impact of BTO regimes on social welfare?

The results of a study of costs of construction of fixed-line capacity indicate that (1) the local telephone market both before and after the introduction of BTO regimes is unlikely to be a natural monopoly, (2) other things being equal, operators gain cost savings not only from the adoption of digital switches but also from the introduction of BTO regimes.

The impact of BTO regimes on welfare is evaluated in terms of its impact on total surplus. The results indicate that (1) BTO regimes provide not only cost savings
adding to producer surplus but also add to consumer surplus, (2) the size of total welfare gains increases as the number of lines increases, and (3) BTO regimes are not capable of removing all the deadweight loss associate with the current regulatory environment.

The implications of this study is that although BTO regimes provide efficiency gains in terms of cost savings and welfare improvements, the presence of a remaining deadweight loss even after the introduction of BTO regimes implies that further reform should be considered. These include policies designed to promote free entry into the fixed-line market.