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**INTERNATIONAL REGIME, DOMESTIC POLITICS AND
TELECOMMUNICATIONS TECHNOLOGY: JAMAICA IN THE
INFORMATION AGE**

by

JUDITH A. DUNCKER

A dissertation submitted to the Graduate Faculty in Political Science in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York

2004

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Abstract

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by

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Adviser: Prof. Howard H. Lentner

In September of 1988, the government of Jamaica heralded its official entry into the information industry with the establishment of the US\$2 million Jamaica Digiport International facility. The significance of this announcement was surpassed only by the state's decision to close the domestic telecommunications sector to competition as the global satellite regime and the global market embarked on its own course of liberalization. This decision spelt victory for one of two contending factions. On the one hand was Jamaica Promotions (Jampro), Jamaica's economic development agency, which attempted to liberalize the sector's use of satellite technology with the operation of the American Satellite Company. On the other hand, the Ministry of Public Utility and Transport, in conjunction with the international company Cable and Wireless, Telecommunications of Jamaica, Industrial Commercial Development (ICD), the

National Investment Bank of Jamaica (NIBJ) and the international support of Comsat, elected to close the sector to competition.

The closing of the domestic telecommunications sector to competition raised two salient questions which this dissertation addresses. First, what explains Jamaica's failure to liberalize the sector's use of satellite technology, as demonstrated in its 1988 decision to prevent competition? Second, how was it possible to undertake this measure amidst the powerful forces of global market liberalization trends in the telecommunications sector as well as within the international satellite regimes of Intelsat, whose principles and practices endorsed liberalization in the provision of satellite services?

This dissertation concludes that there were two overriding sectoral characteristics which allowed Jamaica the ability to withstand these two powerful global forces. The first was compelling domestic interests in the sector that led to its closing. The second was the Intelsat regime itself, which acted to protect its monopoly. Intelsat's structure and the role played by signatories within the system functioned to protect the status quo of the single global organization and to bar the entry of other firms whose activities did not enhance Intelsat's investment goals. As a result, Intelsat's monopoly remained intact because of limitations placed by its signatories on the operation of competitive firms given that the liberalization of Jamaica's domestic satellite services was inconsistent with its signatories and their interests.

Preface

This dissertation began as an interest in one small developing state's attempt to acquire satellite technology and the extent to which the information highway could create new opportunities for development in small states that would allow them to bridge the economic gap between the industrialized and small developing states. However, it later shifted to the question of the impact of increasing economic openness upon a state's capacity to govern its national economy¹. The overriding questions of interest are how states respond to the challenges of managing their economic systems in the face of increasing economic openness? Are states free to follow different paths in response to openness? Do they abandon old norms and institutional arrangements and assume new policies and new arrangements that are consistent with competitive neo-liberal norms? If so, what might these paths be, and what determines the path a state pursues? This case study would forge a theoretical nexus between the dynamics of state, bureaucratic politics, international politics, multinational corporations, international telecommunications satellite policy, modernization and development and international satellite regimes to address this issue.

¹ Linda Weiss, ed. States in the Global Economy: Bringing Domestic Institutions Back In. New York: Cambridge University Press, 2003.

I am indeed grateful to those who have made this endeavor truly a labor of love. First and foremost, I would like to thank my dissertation team who endured the lengthy process to its completion. Thanks to Howard H. Lentner and Carolyn Somerville for seeing it to its completion. I am also thankful to Benjamin Rivlin, the former Director of the Ralph Bunche Institute whose support made my study at the Graduate Center of the City University of New York (CUNY) possible. I am truly grateful to the late Ralph Bunche and the Bunche family, without whom my doctoral degree would not be possible.

This dissertation is dedicated to my children - Desi, Stephanie, David and Jeremy and to my grandchildren Desiree and DaShawn.

Special thanks is due to Mrs. Polly Brown, the former CEO at Jampro who facilitated the interviews and made it possible to review Jampro records. Special thanks is also due to Ms. Corrine McLarthy, Mrs. Brown's predecessor, and Mr. Winston Gooden, a former Vice President of Jampro in charge of Production and Promotion from 1983 to 1994, both of whom were central to the conceptualization and implementation stages of the teleport project. Both availed themselves to provide the needed interviews that made the dissertation possible. Last, but by no means least, I am indebted to Mrs. Barbara Degroot who also labored along with me, ironing out all technical problems that emerged during the writing of the dissertation. Without her ability to skillfully maneuver through graphics problems and micros and macros complications of the software, the production of the dissertation would have been considerably delayed.

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APPENDIX I: ABBREVIATIONS

ASC	American Satellite Company
C&W	Cable and Wireless
COMSAT	Communication Satellite Company
FCC	Federal Communications Commission
ICD	Industrial Commercial Development
INTELSAT	International Telecommunications Satellite Corporation
ITU	International Telecommunications Union
JAMINTEL	Jamaica International Telecommunications Company
Jampro	Jamaica Promotions Agency
JATELCO	Jamaica Telecommunications Company
JNIP	Jamaica National Investment Company
JTC	Jamaica Telephone Company
MPUT	Ministry of Public Utilities and Transport
TOJ	Telecommunications of Jamaica
WTO	World Trade Organization

CHAPTER ONE

Introduction

In September of 1988, the government of Jamaica heralded its official entry into the information industry with the establishment of the US\$2 million Jamaica Digiport International facility. The significance of this announcement was only surpassed by the state's decision to close the domestic sector to competition simultaneously as the global satellite regime and the global satellite market embarked on its own course of liberalization. This decision, however, spelt victory for one of two contending factions. On the one hand was Jampro which initiated the policy that attempted to liberalize the sector's use of satellite technology using the American Satellite Company. On the other hand, the Ministry of Public Utility and Transport, in conjunction with Jamaica's telecommunications providers, Cable and Wireless, Telecommunications of Jamaica, and other interested parties elected to close the sector to competition.

This process which resulted in the closing of the sector to competition raised two salient questions which this dissertation addresses. First, what explains Jamaica's failure to liberalize the sector's use of satellite technology as demonstrated in its 1988 decision to prevent competition? Second, how was it possible to undertake this measure amidst the powerful forces of global market liberalization trends in the telecommunications sector as well as the powerful international satellite regimes of

Intelsat whose principles and practices endorsed liberalization in the provision of satellite services?

This dissertation concludes that there were two overriding sectoral characteristics which allowed Jamaica the ability to withstand these two powerful global forces. The first was compelling domestic interests in the sector that led to its closing. The second characteristic was the Intelsat regime itself. Intelsat's structure and the role played by signatories within the system therefore functioned to protect the status quo of the single global system and to bar the entry of other firms whose activities did not enhance Intelsat's investment goals. Intelsat's leadership therefore served as gatekeeper - monitoring the entry of non-Intelsat satellite firms within the global market. As a result, the monopoly status quo remained intact because of limitations placed by Intelsat's signatories on the operation of competitive firms because the liberalization of Jamaica's domestic satellite services was inconsistent with signatories and their interests.

This dissertation examines both international and domestic factors that impinged on the outcome of the Digiport project. The analysis begins with an understanding of the historical evolution of the Intelsat system that led to new rules and regulations among which was the decision to allow competition and that produced the new separate satellite systems and policies supporting them. These factors were at the heart of the tensions that Jamaica experienced as it sought to liberalize its satellite sector. This study also examines the implications of these changes on Jampro's decision to

liberalize the provision of satellite services and the implications it had on international politics.

An understanding of the structure of Intelsat and the role played by signatories within that structure is also central to this study. That role conditioned their domestic preferences on the issue of telecommunications liberalizing within the domestic satellite sector. It provides the foundation for understanding the way in which the Intelsat monopoly regime impinged on the outcome of the Jamaica Digiport decision and the closing of the sector.

In addition to external characteristics that impinged on the satellite negotiation, this study will address the domestic factors that led to the outcome of the Digiport negotiations. In laying the foundation for explaining why Jamaica failed to liberalize its services in satellite technology, this study will examine the domestic contexts within which the negotiations were embedded and that also impinged on the Digiport decision. Its focus will be on the central actors in the sector and their interests and needs that might impinge on the outcome of the negotiations.

Domestic Institutions and the Teleport Initiative

The Digiport negotiations involved several participants, each of which exercised differing degrees of influence. The participants were: a) The Jamaica Promotions, Inc, or Jampro, b) the Jamaica telecommunications providers: Jamaica International

Telecommunications Company (Jamintel), Jamaica Telephone Company (JTC) and Telecommunications of Jamaica, the parent of both entities; c) Cable and Wireless, the Jamaican subsidiary of the British telecommunications company;² d) the Ministry of Public Utilities and Transport, e) Industrial Commercial Development Ltd., an indigenous enterprise with investments in Jamintel, and f) the prime minister's office.

All of the participants played major roles at different levels of the satellite acquisition.

The Teleport project was initially conceived in 1985 by the Jamaica National Investment Promotion (JNIP) which was later transformed into the Jamaica Promotions (Jampro) in April 1988. Jampro was the result of a merger between three bureaucracies: the Jamaica Industrial Development Corporation (JIDC), the Jamaica National Export Corporation (JNEC), and JNIP. It was established as a limited liability company in 1988 but was changed to a statutory body in 1990. The purpose of the merger was to achieve greater efficiency and to streamline the economic development process.

Jampro's new mandate was "the development and implementation of programs to encourage investment, provide training, modernize industries and stimulate export

²At the beginning of the negotiations the Jamaican government owned the majority share in JAMINTEL; however, in subsequent negotiations with the IMF, Jamaica was forced to abandon its shares, increasing those of Cable and Wireless, and selling the remaining shares to Industrial Commercial Development Ltd.[See Canute James, "State Reduces Holdings in Jamaica Telecoms Group," in The Financial Times (London), Sept., 6, 1988, p.27)].

trade for Jamaica.”³ It was also given the charge to “create jobs and increase productivity in targeted industries through the effective delivery of technical promotional and facilitatory services.”⁴ Jampro’s jurisdiction was the Ministry of Production, Mining and Commerce; however, it had its own board of directors which consisted of 14 members that were drawn from the private sector.

Cable and Wireless, the British multinational corporation, owned 80% of Telecommunications of Jamaica, the parent company of Jamintel. Jamintel was the division of Telecommunications of Jamaica that was responsible for the overseas traffic of telecommunications service. Jamintel was also Jamaica’s signatory to Intelsat. Cable and Wireless and Jamintel were both firmly committed to the Intelsat monopoly system of which they were a part’s owner Eli Matalon purchased 21% of Telecommunications of Jamaica in 1987 when the Jamaican government privatized telecommunications, making him the only private individual investor.⁵

3

Deryck R. Brown, ed. *Evaluating, Learning and Caribbean Development*, (Kingston, Ja.: Canoe Press, U.W.I., 1998)p. 42.

4

Ibid.

5

See unpublished paper by Pablo T. Spiller and Cezley I. Sampson. Regulation, Institutions and Commitment: The Jamaican Telecommunications Sector. March 23, 1993, p. 25.

The interested parties to the negotiations fell in two distinct camps. On the one hand was Jampro whose intent it was to avail itself of newly emerging foreign technology and expertise. On the other hand were the domestic telecommunications suppliers- Cable and Wireless and Telecommunications of Jamaica. The former sought to diversify into new technology whereas the latter sought to remain within the Intelsat system through which it had economic ties. The winning coalition in the negotiations desired the continuation of the Intelsat monopoly which the sector enjoyed since 1963 and with which they had established . This monopoly operation using both Cable and Wireless and Telecommunications of Jamaica was instituted by the Ministry in 1988. Its actions were part of a restructuring plan that was designed to prevent the operation of competitive satellite systems in the domestic component. The goal of the restructuring plan was to facilitate the new cross-subsidization policy to protect the domestic component.

Paradoxically, the decision to allow the use of separate satellite systems was authorized by Intelsat's signatories whose interest it was to have the sector remain closed to competition. In Jamaica, the signatories had an interest in the market's remaining closed, and they would benefit from such a closing. As a result, Intelsat's signatories failed to act to open the market in accordance with Intelsat's policies. Coalition politics had a greater effect on Jamaica's failure to liberalize the use of satellite services than global trends and regime practices. These domestic interests in the sector served as the second set of factors that led to the closing of Jamaica's sector to competitive satellite technology.

Jampro was unsuccessful in liberalizing the Jamaican telecommunications sector because the needs of the domestic signatory were at odds with the prevailing international regime norms. As a result of the structure of the international telecommunications regime and the enormous influence of the signatories in Intelsat, Jamintel and Comsat were able to override the international regimes' separate satellite systems policy in its attempt to preserve Jamaica's monopoly status quo. Jamaica was then able to block competition at the domestic level.

Jamaica Digiport Negotiations

For more than two decades, beginning in 1963, the International Telecommunications Satellite Company (Intelsat) stood at the apex of a highly centralized international satellite regime where it served as the single legitimate supplier and regulator of international satellite service. However by 1984, the regime began to change its character with the introduction of new firms and the passing of a separate satellite system policy by the United States which allowed the operation of non-Intelsat companies. Nevertheless, despite the changing character of the international satellite regime at the international level, nations seeking to take advantage of the new permissive climate found themselves stymied at the domestic level. Those seeking to avail themselves of newer non-Intelsat satellite systems were finding it impossible to do so.

In 1989, the fifth year of Jampro negotiations to acquire licenses for the operation of a United States' satellite company in Jamaica, the negotiators failed. Jampro was unsuccessful in acquiring the domestic license for the operation of the US satellite company despite their initial success in gaining approval from Intelsat and the United States' Federal Communications Commission (FCC). Approvals from both of these agencies were requisite for the use of satellite companies operating outside the Intelsat system. Nevertheless, despite Intelsat and FCC approval, the Jamaican government ultimately continued operating within the Intelsat satellite system in Jamaica instead of using the competitive non-Intelsat satellite system which Jampro originally intended.

Jampro's failure to acquire the license to operate the non-Intelsat satellite system, which compelled Jamaica to remain within the Intelsat monopoly system, occurred after the historic decision to permit the operation of non-Intelsat satellite systems. It also occurred during the decade in which economic liberalization, primarily but not only in the telecommunications sector, spread throughout the industrialized nations in the United States, Western Europe and Japan and then throughout the globe.

This dissertation examines why liberalizing changes in the telecommunications regime at the international level failed to take root at the domestic level and why it was that Jamaica chose to remain within the Intelsat system using Intelsat satellites despite the availability of more competitive satellites. Ignoring international approval to utilize an

outside satellite and the more liberalized international telecommunications climate, Jamaica chose to remain faithful to the single global system.

Jampro was unsuccessful in acquiring a domestic license to operate the separate satellite system. Instead, the government chose to remain within the Intelsat monopoly system even after Intelsat and its most powerful members, the United States and Great Britain, approved the operation of separate satellite systems within Jamaica's borders. The dissertation seeks answers an answer to why Jamaica made such a decision at the historical juncture that it did when liberalization had indeed taken root in the telecommunications as well as in other sectors. Developing nations were also seeking relief from dominant monopolies within their borders.⁶ These issues are examined through the lens of the Jamaica Digiport International project negotiations.

Jamaica's failure to liberalize its telecommunications sector was a peculiar occurrence for several reasons. First, it transpired at a historic juncture when

6

Ben Petrazzini, The Political Economy of Telecommunications Reform in Developing Countries: Privatization and Liberalization in Comparative Perspective (Westport, CT: Greenwood Publishing Group, 1995). See also Paul Cook and Colin Kirkpatrick, eds. Privatization in Less Developed Countries (New York: St. Martin's Press, 1988); Bella Mody, Joseph D. Straubhaar and Johannes Bauer, eds. Telecommunications Policy: Ownership and Control of the Information Highway in Developing Countries (Mahwah, NJ: Lawrence Erlbaum and Associates, 1995); Alex E. Jilberto and Andre Mommen eds. Institutional and Economic Change in Latin America, Africa and Asia (New York: Routledge, 1996); and Christopher S. Adam, William P. Caverdish, and Percy S. Misty, Adjusting Privatization: Case Study for Developing Countries (Oxford: Heinemann, 1993).

liberalization of domestic telecommunications sectors had crescendoed across the globe. Second, at the helm of this movement were the system's leaders from the industrialized nations of the United States, Europe and Japan who were determined in their goal to liberalize the telecommunications regime. Third, Jamaica's failure to liberalize occurred in an issue area which was highly institutionalized, one in which regime rules were established through a hierarchical structure and where rule enforcement was paramount. The goal of this dissertation is to determine how domestic interests were able to prevail given the new order of liberalization in the international telecommunications regime; global leadership committed to this new order and institutionalized system where enforcement was paramount.

While analysts have stressed the importance of either the domestic political process, the structure of the international system or both in explaining policy outcomes, I will argue that explanations which refer solely to either domestic processes or international systems are necessary but not sufficient to explain the international satellite sector. This analysis will define a sector as a population of firms producing a specified range of potentially or actually competing products and the institutional arrangements required to coordinate the activities generated within sectors or across sectors. So while this analysis acknowledges that both domestic political processes and international regime processes are important for explaining the decision to remain within Intelsat's single global system, the defining factor for understanding policy outcomes is the sectoral characteristics that impinge on both domestic and international political processes. These

structural characteristics of the international satellite sector include the number and type of firms in operation and the role played by these firms in both the domestic and international processes.

Globalization and the Liberalization of the International Telecommunications

Sector

The decade of the 1980s was characterized by the liberalization of the telecommunications sectors of many nations within the global economy. This was the process in which domestic telecommunications sectors which had restricted the sector to the operations of one firm, had released these restrictions to accommodate multiple operators. These changes began first in the equipment market and moved to include services, rapidly eroding the position of monopoly suppliers. Beginning first in the United States, Britain and Japan, the changes moved throughout the industrialized nations to the post, telephone and telegraph (PTT) agencies of the developing nations. The wave of liberalization resulted in the breakup of large monopolies in Europe and Latin America and Japan, the privatization of state-owned telecommunications enterprises (SOTEs), liberalization of domestic markets and the deregulation of many domestic telecommunications sectors in developing nations.

Within the industrialized nations, liberalization came as a result of internal pressure from several sources. The first source of pressure came from governments of nations caught up in the information revolution. These governments held the view that,

for them to make the transition into the new post-industrial society, it was imperative that they “unleash the competitive and entrepreneurial drive of the private sector.”⁷ They then allied with large corporate users in service industries such as international banking and finance, the mass media and transportation which relied heavily on telecommunications, believing that the only efficient means at arriving at this post-industrial information age was through the liberalization of the economy. The changing needs of industries required more customized and diversified telecommunications services. The telecommunications sector needed to be free from the burden of regulation as members of the sector moved into a new sphere in which new telecommunications technology began to merge with new computer technology. Both the telecommunications sector and the computer sector preferred a more liberal telecommunications sector where more competition would result in cheaper and more specialized services and equipment, thereby benefitting the nation and the economy as a whole.⁸

The breakup of the AT&T monopoly into smaller firms in the United States began a series of liberalization measures within the global telephone and telegraph sector. A similar trend subsequently spread throughout the major industrialized nations in Europe and Japan, ending in the demise of many national telecommunications monopolies and in the creation of competition. In the international satellite sector, liberalization was not

7

Kelly Lee, Global Telecommunications Regulation: A Political Economy Perspective (London: Pinter, 1996), p 109.

⁸ Ibid, p. 112.

without restraint. Intelsat, with the support of Japan and the major industrialized nations in Europe and the United States, agreed to the use of non-Intelsat systems solely on condition that they did not conflict with or undermine the Intelsat global monopoly.

Unlike the situation in the industrialized nations where liberalization emerged as a result of internal pressures from competition, in the developing nations liberalization was a result of pressures outside the telecommunications sector. Liberalization was precipitated by pressures from international financial institutions in response to the economic and fiscal crises these governments faced. These externally recommended privatization and liberalization of SOTEs were readily adopted by these states as the solutions to the fiscal and economic crises these governments faced.

In the early 1980s developing nations began to give considerable attention to the reform of their telecommunications sectors where liberalization had till then failed to take root. Petrazzini's insightful work attempts to understand why nations fail in their attempts to liberalize their telecommunications sectors. The author argues that a nation's failure to liberalize can be explained by two factors: a) the economic profile of the nation and b) the timing of the nation's liberalization attempt vis-a-vis attempts to privatize. Nations that are not appealing to major investors or who are experiencing economic crises, such as Jamaica and Argentina, those with "poor economic prospects," the author argues, are more likely to fail in achieving privatization and liberalization simultaneously than

nations that attract major investors - those “an attractive economic profile.”⁹ In nations with “reasonable economic prospects” such as Mexico, Malaysia and Thailand, liberalization had a greater likelihood to succeed if it occurred simultaneously with the sale of the SOTE.

In the event that a nation chooses to liberalize its telecommunications sector prior to privatizing the sector, Petrazzini argues, the state has to resist the deeply entrenched domestic anti-liberalization coalitions consisting of state managers and state employees. Opposition to liberalization was relatively high. Nevertheless, when liberalization targeted non-basic services, such as the provision of satellite services, opposition to liberalization was found to be low due to the fact that most national carriers in developing nations were unable to provide non-basic services in the short run; therefore, liberalization was expected to succeed. Other nations, such as Argentina, sacrificed liberalization which allowed the entry of multiple firms in favor of successful privatization where state-ownership was replaced by private ownership.¹⁰

The analysis of the Jamaica Digiport Initiative supplements Petrazzini’s analysis in several ways. First, it highlights the differences in the characteristics of the telecommunications satellite sector from that of the telephone and telegraph sector, a difference which will be explained by the international structure of governance. Second, it

⁹ Petrazzini, pp. 30–33.

¹⁰ Ibid.

addresses and introduces an additional scenario in explaining liberalization in the telecommunications sector distinct from those addressed by Petrazzini, that is, liberalization after privatization. Third, it adds the dimension of liberalization in the context of non-basic services. Finally, it contributes a fuller understanding of the role of nonstate actors in the international telecommunications sector.

International Telecommunications Sector

The international telecommunications sector consists of three elements: international governance, a global network of national telecommunications governance systems, and international markets (Figure 1-2). The governance of the sector consists of international regulatory agencies such as the International Telecommunications Union (ITU), which oversees international telephone and telegraph services, and Intelsat, which oversees international satellite and space technology services as well as telecommunications operations at the national level. These international institutions set the rules within which companies operate in the international telecommunications system. At the international level, the ITU provides governance in the area of telephone and telegraph while Intelsat provides governance that is limited to the telecommunications satellite sector. A third telecommunications institution, the International Maritime Satellite Organization (Inmarsat), provides governance in the area of marine telecommunications

The second element of the international telecommunications system consists of national telecommunications regulatory systems. National regulatory agencies, such as Jamaica's Ministry of Public Utility and Transport, are governmental agencies or national post, telephone and telegraph agencies (PTTs) that oversee and regulate the supply and use of domestic telecommunications services. In many developing nations, where the telecommunications companies that supply telephone and telegraph services have most often been foreign multinationals, these bureaucracies negotiate the terms of the contractual arrangements under which the corporations that supply domestic telecommunications service operate. These bureaucracies may also prevent companies from providing services by denying a license to operate.

The third element of the international telecommunications system is the global market which consists of major telecommunications multinational corporation suppliers or carriers, such as Cable and Wireless and American Telephone & Telegraph (AT&T). These suppliers design, manufacture, and distribute telecommunications goods and services such as telephone, telegraph, satellite, computer equipment and related services. These services are sold or distributed to both corporations and households.

The ownership-control structures of suppliers of telecommunications services in the national markets have ranged from public (100% government-owned) companies to privately owned telecommunications companies. Within this range are suppliers with a combination of private and public ownership. This variety of ownership structures not

only characterizes the global market but may also describe variations in the internal structure of a supplier, for over a period of time a corporation may also shift between private and public ownership.

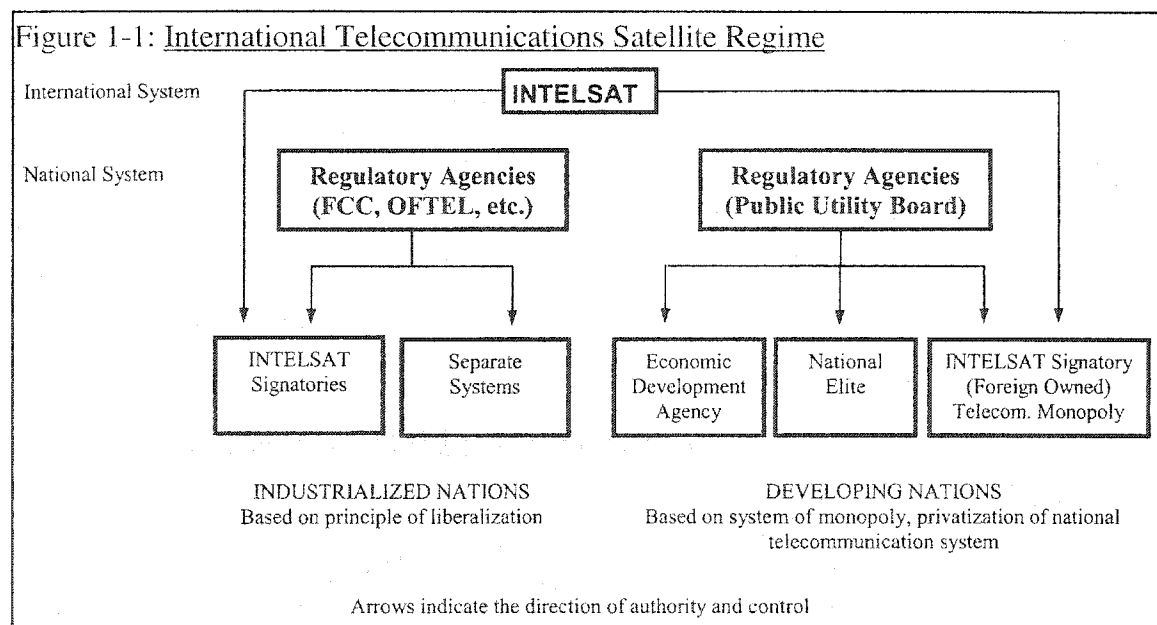
One subset of the telecommunications market is the market for satellite goods and services (Fig. 1-3). This segment has grown in importance as a result of to the rapid changes and developments in information technology since the 1980s. In addition to the proliferation of technological innovations and increasing demand in this sector, there has also been increased participation of both international and national regulatory agencies in the governance and regulatory activities of the sector.

The breakup of AT&T in the United States in 1984 opened the way for new competitive firms to enter the international telecommunications market. Similar breakups were to follow in other industrialized countries. In the same year the state-owned British Telecom (BT) of Great Britain began selling its shares to private investors as a prelude to the creation of a more competitive industry. Concurrently, a similar contagion swept through other European nations as well as Japan — all of which experienced breakups of their telecommunication monopolies and privatization of their telecommunications operations.

Similarly, new companies emerged in the satellite sector. Some companies, such as MCI and Sprint, had already been in existence but were restricted by Intelsat and FCC

regulations from fully accessing the global marketplace. Other newly-created companies, such as Orion and PanAmSat, needed the necessary FCC authorization to operate in the global marketplace and provide services. (Appendix III). Many of the newly created firms that emerged in this period were equipped to supply satellite and other telecommunications services to both developed and developing nations, but while barriers to entry into the telephone sector were eliminated, in the telecommunications satellite market new satellite companies still encountered barriers to free competition. The increasing number of firms seeking to participate in the international satellite market were expected to later impact Intelsat and the international telecommunications satellite regime, resulting in the transformation of its existing operating procedures.

Intelsat and the International Satellite Regime



Jamaica's decision to close the telecommunications sector to competition was determined by two sets of forces - one internal and the other external. The external force which played a large role in the outcome of the sector was the Intelsat regime. Intelsat was an international intergovernmental organization established by the industrialized nations in 1963 as the governing body of the international satellite system. The organization had two types of members: corporate members, known as signatories, and state representatives. The corporate representatives consisted of both the domestic monopolies of developing nations through which member nations received Intelsat satellite services and technology as well as corporations appointed by industrial nations — such as Comsat — to represent their national satellite interests. Participating nations were represented by government officials as well as signatories — both having the responsibility of formulating Intelsat's rules, while being subject to Intelsat Board of Directors.

Intelsat's dual membership structure reflected the organization's dual function in the international telecommunications satellite system. One function of the organization was to govern the international satellite system through legislation and regulation. It established the rules by which the market for satellite technology and services operated. Its second function was that of the principal supplier of commercial satellite services to member nations, a function that was carried out through its signatories. As a commercial organization, Intelsat drew on those of its signatories which manufacture and innovate

satellite technology which the organization's manager in turn distributes to its member nations.

In Intelsat's earlier years, its commercial activities were carried out by the Communications Satellite Corporation (Comsat), the United States' signatory, which also served as manager. During the first decade, Intelsat was the only supplier and regulator of the international satellite system. In that initial stage of Comsat's management, its primary responsibility was supplying satellite services to member nations and to engaging in research and development. Comsat's own commercial satellites were utilized in the provision of satellite services through the Intelsat system. Comsat also became the primary beneficiary of the organization's research endeavors.

Intelsat's commercial operations began to thrive under Comsat's management. However, Comsat's domination of the research, development and manufacturing of satellite technology became a source of contention among the other European signatories seeking a competitive edge in the satellite technology race. Added to the European opposition to Comsat was the mounting opposition from the new firms within the United States such as Sprint, MCI and PanAmSat, which later served as catalysts for change of the international satellite system.

By the late 1970s, when the new firms began to emerge, a new and more competitive international satellite system began to take shape. The new

telecommunications suppliers consisted of the newly-formed Orion and PanAmSat, as well as other regionally owned or operated systems such as Arabsat of the Arab world, Eutelsat of Europe and Association of South East Asian Nation's (ASEAN) Palapa (Appendix II). The member nations from which these new satellite companies emerged welcomed the new satellite systems on the grounds that they provided services in areas which Intelsat did not or could not reach. As the heavily-trafficked North Atlantic route continued to grow, more satellite companies attempted to enter the international satellite market to challenge Intelsat's monopoly in the provision of services within the heavily-trafficked North Atlantic route. PanAmSat was the first of these firms seeking to challenge Intelsat's monopoly.¹¹

The entry of new firms in the international market did not signify an end to Intelsat's monopoly since new companies could not operate without the authorization of Intelsat. Instead, the growing number of new firms only increased the regulatory responsibilities of Intelsat. Because many had the capability of competing with Intelsat's services, states desiring the use of these new firms had to petition Intelsat's executive board, known as the Board of Governors, for approval.

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Terry Dodworth, "Launch Of Private Satellite To Challenge Intelsat's Monopoly," Financial Times (London), October 5, 1987, p.44. See Chapter 3 for a list of other firms that emerged with similar intent.

The Board of Governors makes decisions regarding the use of both international and domestic satellites. Approval would be granted provided that companies did not interfere, either economically or technically, with the provision of Intelsat satellite services.¹² Intelsat allowed non-Intelsat corporations limited opportunities to supply satellite services only if approval from Intelsat and other domestic authorities were granted. Intelsat continued to maintain its monopoly over satellite services by reserving the right not to approve the operation of firms that compete with Intelsat. Nevertheless limited opportunities existed for newer companies to operate in areas that constituted new services or where Intelsat did not possess the technical capability to operate.

The non-Intelsat satellite system had to pass the technological scrutiny of the organization. This meant that such systems had to be technologically compatible with Intelsat satellite systems. The non-Intelsat system also could not jeopardize Intelsat's economic security. A new company could also not interfere with Intelsat's ability to make a profit. All non-Intelsat companies — without exception — were required to undergo the approval process since these new suppliers were perceived by Intelsat's members as competitors to Intelsat and a threat to Intelsat's income.

Any system that failed to adhere to Intelsat's technological or economic criteria would be forbidden to provide satellite services to the global marketplace. This regulatory

¹² See Chapter 3 for more details.

process provided the needed assurance to Intelsat members that Intelsat's income would not be threatened by its competitors. At the same time Intelsat allowed the newer firms to assist in the provision of services in the heavily-trafficked areas, where increased supply was needed, on condition that their activities did not jeopardize Intelsat's income in these markets.

Separate Satellite Systems and the International Telecommunications Regime

In the United States in 1984, following the break up of AT&T, new firms attempted to gain licenses from the FCC to provide satellite services in the international markets. The FCC received a number of applications filed by firms petitioning for authorization to establish separate satellite systems to operate globally. The volume of new applicants and subsequent pressures to grant approvals led to the issuance of Presidential Determination Number 85-2 in 1984, which was later known as the United States' separate systems policy.¹³ This policy authorized the operation of separate satellite systems in the US. It constituted a shift in US domestic policy that would significantly transform Intelsat's twenty-year commitment to Intelsat as the sole provider in this single global system.

¹³ Ibid.

The United States' decision generated a variety of responses both domestically and internationally.¹⁴ Several new firms such as the American Satellite Company seeking to enter the international satellite market, welcomed this new policy because it promised new opportunities for them to provide services. Intelsat signatories such as Comsat, Cable and Wireless, and Jamintel, strongly opposed the new policy allowing the operation of private firms.¹⁵ However, despite the internal opposition of many of Intelsat's members, Intelsat adopted its own separate satellite system policy allowing the operation of new companies under specified conditions.¹⁶

Jamaica and the Political Economy of the Teleport

The new separate satellite systems offered new opportunities for Jamaica's economic growth as well as opportunities for potential conflict. The new policy opened the way for an array of new firms and new services, broadening the scope of services provided by Intelsat. It provided competition among new firms, promising lower costs. In 1984, at the beginning of these cascading international changes, Jampro, the agency with

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Judith Tegger Kildow, INTELSAT, Policy-Makers' Dilemma. (Lexington, MA: Lexington Books, 1973).

¹⁵

See INTELSAT, "INTELSAT Director General Statement on United States' Actions Regarding Separate Satellite Systems," BG-64-76E, August 19, 1985.

¹⁶

Ibid. Intelsat approval would be granted only if the proposed service would not cause economic or technical harm, that is, only if Intelsat could not provide the service and if the proposed service was either new or significantly different from those services offered by Intelsat.

the responsibility of formulating and implementing Jamaica's economic development plans — decided to establish the Jamaica Digiport International.¹⁷ The Digiport was Jamaica's attempt to avail itself of the changes in information technology which would allow Jamaica to establish its offshore processing industry.¹⁸ The upgrading of the infrastructure meant the acquisition of a high speed teleport facility that could most effectively transfer large amounts of data to be processed using more sophisticated satellite systems.

As a result of the liberalization in telecommunications in the industrialized nations and the United States, there were a number of satellite companies available to provide satellite services at a cost that was lower than that of the Intelsat system.¹⁹ From the increasing number of available firms, Jampro selected the American Satellite Company as its carrier, based on research on its technology and its costs. Jampro

¹⁷ Hereafter known as the Digiport

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Interview with Mr. Winston Gooden, a former Vice President of Jampro in charge of Production and Promotion from 1983 to 1994 at the Jampro headquarters in Kingston, Jamaica, on July 21, 1993.

¹⁹

Federal Communications Commission, Separate Satellite Systems for International Communications: In the Matter of Establishing Satellite Systems Providing International Communications, @ 101 F.C.C. 2d 1046 (1985), pp 290-291. Also Interview with Mr. Winston Gooden, a former Vice President of Jampro in charge of Production and Promotion from 1983 to 1994, on July 20, 1993. Also see Memo from Teleport International to JNIP dated May 1984, located at the Jampro Archive (JA) in Kingston, Jamaica, West Indies.

determined that the American Satellite Company was the company which offered the most efficient technology at the lowest cost.²⁰

The selection of a United States non-Intelsat satellite company required three levels of negotiation. Jampro required negotiations with Intelsat, the Federal Communications Commission (FCC) and finally with Jamaica's Ministry of Public Utilities and Transport. Intelsat's separate satellite systems policy required that Jampro first seek approval from Intelsat.²¹ Jampro required FCC approval because the American Satellite Company was a United States company.²² Third, Jampro needed the Ministry's approval for the American Satellite Company to operate locally. These negotiations lasted from 1984 and 1989.

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A teleport is a state of the art telecommunications facility that has three distinct elements; the ability to transport data, voice and images from one location to a next, a high speed satellite that is capable of carrying enormous amounts of information very long distances in relatively short periods of time at lower costs, and a private telephone network that provides special services to businesses, such as 800 numbers.

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INTELSAT, "Technical compatibility Consultation", BG-70-7; INTELSAT, "Preparation for the next Assembly of Parties," BG-70-3E; INTELSAT, "Economic Harm Discussions," BG-70-10E. See also INTELSAT, "Events in the United States Relating to Separate International Satellite Systems", BG-72-44E B/6/87, Pg 5. The document may be found at the FCC office in Washington, D.C., United States of America.

22

Ibid. See also Federal Communications Commission, Separate Systems Notice, 100 FCC 2d at 294, 314; Separate Systems Order, 101 FCC 2d at 1090; Separate System First Reconsidered paragraph 5.

Jampro's commitment to securing the American Satellite Company was met with opposition from several sources. Jamintel, Cable and Wireless, and the Ministry disapproved of the use of American Satellite Company.²³ They perceived that decision as an economic threat to their interests in the Intelsat system.²⁴ They argued that Telecommunications of Jamaica was capable of supplying the requisite satellite services, making use of the American Satellite Company an infringement on the domestic supply of services.²⁵

Industrial Commercial Development also voiced its opposition to the use of the American Satellite Company. Eli Matalon argued that the introduction of a newer telecommunications company constituted a violation of the contract between the Jamaican government and Cable and Wireless, and would undermine Cable and Wireless' ability to generate future profits. Industrial Commercial Development joined with the

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The Ministry raised opposition to Jampro in a letter dated August 28, 1985, (JA). See also a letter to both JAMINTEL and the Ministry from Cable and Wireless dated April 5, 1986, (JA); a letter to JAMINTEL and the Ministry from the chairman of the board of Directors of Cable and Wireless, April 5, 1986, (JA); a letter to the Prime Minister from Mr. Mayer Matalon, brother of Eli Matalon, Chairman of the Board of Industrial Commercial Development, the Chairman and CEO of the Jamaica Telephone company, on April 15, 1986, (JA);

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A letter to JAMINTEL and the Ministry from the chairman of the board of Directors of Cable and Wireless, April 5, 1986, (JA).

25

Ibid. Opposition was based on JAMINTEL's "Proposal for the Provision of Enhanced Telecommunications Services for Jamaica's Free Zone," (JA).

Ministry in maintaining their commitment to maintaining the use of the Intelsat system, of which Industrial Commercial Development and Cable and Wireless were a part.²⁶

At the end of the five years of negotiations with Intelsat, the FCC and the Ministry, Jampro managed to acquire two of the three authorizations - that of Intelsat and FCC. Despite the approvals, the prime minister and his cabinet made the determination to maintain the Intelsat monopoly in Jamaica. Thus, Jampro was unsuccessful in acquiring the authorization for the American Satellite Company to operate in the Digiport project. Instead, Cable and Wireless, AT&T and Jamintel entered into a partnership which allowed them to operate the Digiport project using the Intelsat satellite system.²⁷ Coalition politics was crucial to the outcome of the negotiations

The alliance of Industrial Commercial Development with Cable and Wireless, Jamintel and the Ministry, all desiring to preserve the Intelsat monopoly, resulted in the preservation of the Intelsat monopoly status quo and insuring the use of Intelsat satellites for the teleport. Internationally, Comsat's successful challenge of the FCC approval of the American Satellite Corporation in the US courts further solidified its monopoly of the international satellite market. The powerful influence of the winning coalition was

²⁶ See footnote 16.

²⁷

TCanute James, "AT&T, Britain Join In Jamaica Data Project," Journal of Commerce, February 23, 1988, p.5a. See also "AT&T In Joint Venture Agreement To Establish Digiport," The Daily Gleaner, Kingston, Jamaica, Feb. 19.

responsible for its success and Jampro's failure to negotiate the license needed to liberalize the operation of a separate satellite system in the sector. The result confirms that coalition politics had a greater effect on Jamaica's failure to liberalize the use of satellite services than global trends and regime practices as a result of domestic interests.

Overview

Chapter Two explores the international relations literature, particularly the way in which the present literature has evolved in its analysis of the relationship between international and domestic politics in explaining domestic policy outcomes. The chapter will argue that even though there has been a narrowing of the gap in the literature which has evolved in its inclusion of both realms in the analysis of domestic outcomes, in the area of international regimes, more effort is still needed. This study of the Jamaica Digiport negotiations will be used to demonstrate the fruitfulness of this endeavor. The chapter will argue that in the issue of the international telecommunications satellite, a model that includes both domestic and international systemic analysis is indispensable for understanding domestic as well as international policy outcomes.

Chapter Three is the first of two chapters which lays the international context on which Jamaica's decision to establish the Digiport decision using a competitive domestic satellite system was undertaken. It accomplishes two objectives. First, it analyses the historical evolution of the Intelsat system which produced the regulations that allowed competition. The chapter describes the conditions that preceded Jampro's decision to use

a separate satellite system. The chapter also analyses the structure of Intelsat and the role played by signatories within that structure. It examines the challenges to this system posed by liberalization in the telecommunications sector and the subsequent separate satellite systems rule and the responses of its constituents to the new challenges. Finally, the chapter lays the framework for understanding how Intelsat affected the domestic satellite policy outcomes of member states, as was seen in the Digiport negotiations.

Chapter Four, the second of the two chapters which addresses the international context which impinged on the Jamaica Digiport negotiations, looks at the evolution of the international satellite industry in the United States and Western Europe. In 1984, when the negotiations were under way, the global market began to experience transformations in its structure, where it moved from a sector with few firms and significant barriers to one with many firms and more accessible to newer commercial entities. It examines the way in which the international telecommunications satellite market has been transformed through the emergence of new companies. The chapter examines the evolution of the international satellite market from 1960 until it experienced significant transformations in 1989 when the Digiport decision was implemented, highlighting the technological changes that occurred and the implications of these innovations for the Digiport negotiations. Finally, the chapter examines the implications of these transformations on the global market.

Chapter Five begins the analysis of the Digiport negotiations by examining the domestic context within which the telecommunications sector was located at the time of the negotiations. The chapter begins with an examination of the historical evolution of the sector and demonstrates how it progressed from multiple providers to that of the single Cable and Wireless monopoly. Second, it examines the domestic and international economic contexts that impinged on a state-directed restructuring of the sector that resulted in Cable and Wireless' emergence as the dominant supplier of the sector and the ways in which this restructuring impinged on the Digiport negotiations. The chapter lays the foundation for explaining why Jamaica failed in its attempt to liberalize its services in satellite technology.

Chapter Six examines Jamaica's negotiations for permits from Intelsat, the FCC and the Ministry for the use of a United States' non-Intelsat satellite corporation. The chapter examines the interaction between the domestic political processes and the changing international telecommunications regime processes that resulted in Jampro's failure to win the battle for the non-Intelsat satellite company. The chapter examines the process of intense opposition from Cable and Wireless, Jamintel and the Ministry that ended in defeat for Jampro. Despite liberalization and the apparent openness of the international telecommunications regimes, the choice of satellite technology was still restricted by constraints that can best be understood by an analysis of the sector.

Finally, Chapter Seven concludes that there were two overriding sectoral characteristics which allowed Jamaica the ability to withstand these two powerful global forces. The first factor that led to the coalition's success was the structure and processes within which the regulation of the global sector occurred. The Intelsat system functioned by setting guidelines for the operation of the global satellite. Among the guidelines was the separate satellite systems policy whereby national systems were permitted the use of separate systems which do not undermine Intelsat's operations.

CHAPTER TWO

**DOMESTIC POLITICS, INTERNATIONAL RELATIONS AND THE
POLITICAL ECONOMY OF SATELLITE TELECOMMUNICATIONS****Introduction**

The last two decades have seen a proliferation of international relations literature emphasizing the importance of combining both domestic politics in the analysis of international relations as well as incorporating international factors in explaining domestic decisions.²⁸ This reflects a measure of progress that has occurred in the field since the post World War era when the realist paradigm gained preeminence as the most acceptable conceptual framework for understanding and explaining interstate relations. This system level paradigm was the dominant mode of international politics analysis. Realism was one approach that devalued the role of nonstate actors, international

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Wolfram F. Hanrieder, "Dissolving International Politics: Reflections on the Nation-state" American Political Science Review, Vol 72, #4 (1978), pp. 1276-87; and G. John Ikenberry, "The State and Strategy of International Adjustment" World Politics, Vol 39, #1, 1986, pp 53-77; Lisa Martin and Beth Simmons, "Theories and Empirical Studies of International Institutions," International Organization at Fifty: Explorations and Contestations in the Study of World Politics; , Vol 52 #2, See G. John Ikenberry, David A. Lake, Michael Mastanduno, "Introduction: Approaches to Explaining American Foreign Economic Policy" in International Organization Vol 42, no. 1, Winter 1988, pp. 1-14.

institutions and domestic politics as viable elements in understanding and explaining decision-making within the global arena as states sought to increase their power while pursuing the wealth of the nation.

The need to pay attention to the role of domestic and international political variables must begin with Singer's analysis of the two methodological approaches to the study of international politics - the system level paradigm and the national level paradigm.²⁹ In the former approach, a high degree of universality is assumed, exemplified by Morgenthau's traditional realist assumption of "[all] statesmen think and act in terms of interest defined as power," thereby producing a "black box" or "billiard ball" concept of decision makers.³⁰ This generalization which created a separation between the international and domestic realms for analytical purposes was considered necessary to understand fully understand either sphere of activities. The usefulness of this modus operandi to explain political behavior has since been questioned, especially within the global context of heightened interdependence where domestic and international spheres are heavily intertwined and where the actions of nonstate actors and the presence of civil society in international decisions are prevalent. This dissertation removes this

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See J. David Singer, "The Level-of-Analysis Problem in International Relations" World Politics, Vol 14, No. 1, The International System: Theoretical Essays. (Oct, 1961), pp. 77-92.

³⁰ Ibid, p. 81

false dichotomy and unites both realms which is necessary for understanding Jamaica's decision.

This chapter examines the progression of the literature in international relations and demonstrates the ways in which the incorporation of both levels has been useful in explaining the outcome of the JDI project. It begins with a review of the three major approaches to the study of state decision-making. These approaches are system centered, state centered and society centered.³¹ The goal of the chapter is to develop a multi-level analytic approach which combines the panoramic view of the international system while focusing on the microscopic view that the domestic decision unit provides in explaining the domestic outcome. The chapter will also uncover the limitations of analyses that separate domestic from international levels of analysis and seek an analytic approach that bridges both levels.

System-Centered Analyses

The system centered approach views international politics through the lens of the international system of states as a whole while treating the nation-state and its policy

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Ikenberry et al. "Introduction: Approaches to Explaining American Foreign Economic Policy."

making process as a black box.³² Here, states' behaviors are conditioned more by systemic forces and less by factors internal to the individual states that are the principal actors in the international system. In explaining state behavior, the systems approach rests on a greater understanding of the international system and how it works.

The most significant system approaches are realist and neorealist theories. Realist theory begins with three fundamental assumptions about the international political system: a) states are the central actors and therefore the primary units of analysis in international politics, b) in the international arena states are rational and coherent as they pursue their interests, which is the national interest, and c) human nature is inherently conflictual and as a result so is international politics. As a result of these assumptions, international politics becomes the arena in which states struggle to maximize their power

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Charles Kindleberger, The World in Depression (Berkeley: University of California Press, 1973); Stephen Krasner, "State Power and the Structure of International Trade," World Politics Vol. 28 (April 1976) pp. 317-343; Robert Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes" in Ole Holsti, R. Siverson and A. George eds., Changes in the International System (Boulder: Westview Press, 1980); Duncan Snidal "Limits of Hegemonic Stability Theory," International Organization Vol 39 (Autumn 1985) pp. 579-614; Kenneth Waltz, Theories of International Politics (Reading, MA: Addison-Wesley Publishing Company, 1979); Emanuel Wallerstein, The Modern World System Vol. 1,2 (New York: Academic Press, 1974)

by controlling the military and economic resources necessary to pursue their national interest.³³

Within this perspective, international organizations such as the United Nations and Intelsat are understood as merely arenas in which states convene to pursue their national interests, rather than viable institutions capable of acting in their own right to influence domestic output:

The contributions international functional agencies make to the well-being of members of all nations fade into the background. What stands before the eyes of all are the immense political conflicts that divide the great nations of the earth and threaten the well-being of the loser, if not his very existence.³⁴

The neorealist construct of the international system is one in which two elements are significant for understanding international politics - the structure of the international

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E. H. Carr, The Twenty Years Crisis, 1919-1939: An Introduction to the Study of International Relations (London: Macmillan, 1939); Hans Morgenthau, Politics Among Nations: The Struggle for Power and Peace, 5th edition (New York: Knopf, 1978); Arnold Wolfers, Discord and Collaboration: Essays on International Politics (Baltimore: John Hopkins University Press, 1962); Raymond Aron, Peace and War: A Theory of International Relations (Garden City, New York: Doubleday, 1966), translated by Richard Howard and Annette Baker Fox.

³⁴ Morgenthau, 1960, p. 528.

system and the interactions that occur between the units or states. Waltz defines the structure of an anarchical international system as consisting of two elements: a) the organizing principle which is anarchy, and b) the distribution of power and capabilities. Understanding the structure of the system is to understand and explain behavior of states and policy outcomes. While neorealists concurred with realists that the state is the unit of analysis in international politics, neorealists attributed the behavior of states to their wish to preserve their respective positions in the international system.³⁵

Structural theories of international relations have also looked to the structure of the international system for an explanation of the creation, maintenance and demise of an international order. Structure refers to the organizing principle and the distribution of power and resources in the system.³⁶ In an anarchic structured international system, cooperation can best be explained by hegemonic stability theory. The hegemon is that nation that possesses a preponderance of power and dominance over other states in the

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Kenneth Waltz, Theories of International Politics (Reading, MA: Addison-Wesley Publishing Company, 1979).

³⁶

Charles P Kindelberger, The World in Depression, 1929-1939 (Berkeley: University of California Press, 1974); Robert Gilpin, U.S. Power and the Multinational Corporation (New York: Basic Books, 1975); Stephen D. Krasner, "State Power and the Structure of International Trade," World Politics 28 (April 1976): 317-347. Duncan Snidal, "Limits of Hegemonic Stability Theory" International Organization, Vol. 39, pp.579-614.

system.³⁷ Hegemonic stability theory suggests that international cooperation and the creation of international institutions are best achieved by the hegemon which establishes the rules that govern the system. A change in the hegemonic power weakens the old order and leads to the creation of a new international order of cooperation, under a new set of norms and values.³⁸

Gilpin's analysis of the international system maintains the traditional realist beliefs that the state is the primary unit of analysis and that the nature of the international system is conflictual which he attributes to human nature and its drive for power. He, however, argues that the international market and the pursuit of wealth and control of market forces are important national interest objectives of the state. Central to his definition of the international systemic structure is state power and the formation of

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See Charles Kindleberger, World in Depression (Berkeley: University of California Press, 1973) and "Dominance and Leadership in the International Economy: Exploitation, public Goods, and Free Rides," International Studies Quarterly, 25 (June 1981), pp 242-54. For further discussions of hegemonic stability see Duncan Snidal, "The Limits of Hegemonic Stability Theory", International Organization Vol 39: pp.579-614; Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984) and Keohane "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967-1977" in Ole Holsti, ed., Change in the International System (Boulder, Colorado, Westview Press, 1980)pp, 131-162; Robert Gilpin, US Power and the Multinational Corporation (New York: Basic Books, 1975).

38

Robert Gilpin, War and Change in World Politics (New York: Cambridge University Press, 1981).

economic blocs.³⁹ The neorealist position of both Gilpin and Waltz agree that international organizations such as the United Nations and Intelsat are merely instruments for the maximization of state interests, without the potential to be viable actors in their own right in the international system.

Unlike realism and neorealism, liberal and neoliberal theories explain international outcomes more through the relationships between and among states in the international community and less in terms of the structure of the international system. Mitrany's classic functionalist approach begins with the premise that the authority of international organizations was based on functional criteria performed within these international institutions. Mitrany predicted that functional loyalties would eventually supersede national loyalties, resulting in increasing instances of international corporation and decreasing incidences of international conflict.⁴⁰

Keohane's *After Hegemony* challenge the two fundamental assumptions of hegemonic stability theory - a) that a strong hegemonic power is necessary for economic regimes and b) that a hegemon is necessary for the stability of the system. Keohane

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Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 2001).

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David Mitrany, A Working Peace System: An Argument for the Functional Developmental of International Organization (London: National Peace Council, 1946).

argues three points. First, he argues that a) a hegemon is not a sufficient condition for strong international regimes; b) that hegemonic cooperation is not the only possible form of international cooperation and c) that other forms of non-hegemonic cooperation do occur, such as multilateral institution.⁴¹

Keohane and Nye's neoliberal institutionalism also challenges many of the assumptions of the realist and neorealist paradigms. First, realists perceive the international system as the domain of states who are the primary unit of analysis. Second, the neoliberal institutionalist position challenges the realist view of the international system as an inherently conflictual domain. Third, they established the importance of international cooperation and international institutionalization. They advance the theory of international cooperation to argue that in a world of complex interdependence, nation states are not the only actors in the international system. Neither are security issues and the maximization of national interest the sole nor predominant driving forces behind state action. States are motivated to pursue other economic and social issues. Other actors include multinational corporations (MNCs), government bureaucracies, individuals and groups who may sometimes be at odds with their own official state policies:

The existence of transgovernmental policy networks leads to a different interpretation of one of the standard propositions about international politics — that states act in their own interest. Under complex

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Robert Keohane, After Hegemony: Cooperation and Discord in the World Political Economy. Princeton: Princeton university Press, 1984), p. 7.

interdependence this conventional wisdom begs two important questions: which self and which interest? ... The ambiguity of the national interest raises serious problems for the top political leaders of governments. As bureaucrats contact each other directly across national borders (without going through foreign offices), centralized control becomes more difficult. There is less assurance that the state will be united when dealing with foreign governments or that its components will interpret national interests similarly when negotiating with foreigners. The state may prove to be multifaceted, even schizophrenic. National interests will be defined differently on different issues, at different times, and by different governmental units.⁴²

Complex interdependence consists of three models of interactions: transnational, transgovernmental and intergovernmental relations.⁴³ Transnational relations are activities between individuals and groups in one state with individual and groups in another — all of which occur outside the realm of official state behavior. Rissen Kappen defines transnational relations as “regular interactions across national borders when at least one actor is a nonstate agent or does not operate on behalf of a national government or an

42

Robert O. Keohane, and Joseph S. Nye, “Complex Interdependence, Transnational Relations, and Realism: Alternative Perspectives on World Politics,” in Charles W. Kegley, Jr. and Eugene R. Wittkopf, The Global Agenda: Issues and Perspectives (New York: Random House, 1988), p. 268.

43

Robert O. Keohane, and Joseph S. Nye, eds. Transnational Relations and World Politics (Cambridge: Harvard University Press, 1974).

international organization.⁴⁴ Transgovernmental relations are activities between branches of government that also bypass high-level channels of foreign policy relations.

International intergovernmental relations are interstate activities that involve official governmental actors.⁴⁵ These three approaches have traditionally failed to examine the process through which decisions are made and those actors who influence outcomes, thereby blurring the distinction between domestic and international politics.

Unlike their place in realism and neorealism, under complex interdependence, international organizations play a major role in the international system. They exemplify one mechanism through which international intergovernmental (IGO) relations take place. They have the capacity to set global agendas and build international coalitions.

While Keohane and Nye's models of interaction identified the role of nonstate actors and domestic governmental bodies in international relations, the introduction of these categories left room for developing a better understanding of the role of private individuals and nonstate domestic actors and their effects on IGOs. Further developments are needed for a clearer insight into the interaction between these categories, elucidating

⁴⁴ Rissen Kappen, Bringing Transnational Relations Back In

⁴⁵ Ibid.

the ways in which individuals, national bureaucracies, state representatives and international regimes interact to affect policy outcomes at all levels.⁴⁶

The State-Centered Approach

While the system level analysis of international politics excludes domestic politics by virtue of the “black-box” assumption which allows some generalization about state behavior, the state-centered approach, by contrast, focuses on the internal dynamics of states as the unit of analysis. This approach sees the state as “an important intervening or independent variable between international forces on one hand and foreign policy made at the domestic level.”⁴⁷ The state is that entity that connects both the international and domestic arenas.⁴⁸ Since the state is the institution charged with the responsibility of conducting the nation’s foreign policy, as the unit of analysis, it is used by the state-centric approach to connect international outcomes with decisions made within the context of the domestic political process.

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Andrew P. Cortell and James W. Davis, Jr., “Do International Institutions Matter? The Domestic Impact of International Rules and Norms,” in International Studies Quarterly Vol. 40 No. 4, December 1996, pp. 451-478.

47

Ikenberry et al, “Introduction: Approaches to Explaining American Foreign Economic Policy”

48

Theda Skocpol, “Bringing the State Back In” in Peter B. Evans, Dietrich Ruescheneyer and Theda Skocpol, Bringing the State Back In (New York: Cambridge University Press, 1985).

Snyder *et al* also argue that in order to understand state action, what is needed is an understanding of the goals, wants and needs of the individuals acting on behalf of the state. The actors' perception of the potentially relevant variables within both the domestic and external setting will have an impact on the choices that are made.⁴⁹ These variables may include economic capabilities, military capabilities, other domestic actors, international alliances, bilateral relations or supranational structures. These factors drive the "because of" and the "in order to" motivations of the significant actors involved in state decisions.⁵⁰

There are two dominant views of the role of the state. One, the statist paradigm, views the state as an actor whose goal it is to maximize the "national interest" while insulating itself from narrow parochial interests⁵¹ Krasner views the state as an autonomous actor rather than a summation of private interests. The state, Krasner argues, is a set of roles and institutions, having its own peculiar drives, compulsions and aims that are separate and distinct from those of societal groups. The goals of the state are based on its perception of the "national interest." It is in striving to carry out that

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Richard C. Snyder, H. W. Bruck and Burton Sapin in James N. Rosenau ed. "The Decision-making Approach to the Study of International Politics" in James N. Rosenau ed. International Politics and Foreign Policy: A Reader in Research and Theory. (New York: The Free Press, 1969), 199-206.

50 Ibid.

51

Stephen D. Krasner, Defending the National Interest: Raw Material Investments and United States Foreign Policy (Princeton: Princeton University Press, 1978).

perception of the “national interest,” Krasner argues, that the state encounters resistance from both domestic and international societal groups.

Critics of this perspective reject the notion of the “national interest” on several grounds. First, it presumes an identifiable policy alternative that is distinguishable from other alternatives one that assumes an objective reality outside of the realm of politics, devoid of influence by private interests.⁵² Others argue that the role of the state is to advance the interests of the capitalist class and the needs of the capitalist system as a whole.⁵³ Yet others argue that the state is not an autonomous actor but depends on special interests whose interests they articulate. State policy is seen as the result of societal pressures, “the resultant of effective access by various interests.”⁵⁴ Still other critics also argue that the capitalist system is symbolic of ties between the capitalist class which controls the state and public officials.⁵⁵

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See Joseph Frankel, *National Interest* (New York: Praeger Publishers, 1970). See also Arnold Wolfers, *Discord and Collaboration* pp. 147-166.

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Nicos Poulantzas, *Classes in Contemporary Capitalism* ; translated from the French by David Fernbach. *Imprint* London : Verso, 1979.

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David Truman, *The Governmental Process*, p. 507

⁵⁵

Ralph Miliband, *The State in Capitalist Society* (London, Weidenfeld and Nicolson, 1969).

The state-centric approach is one that engages in the structural analysis of the state. Katzenstein notes that the state's foreign policy is determined by a range of factors that include the level of autonomy from societal groups, the relative strength of the state and the degree of fragmentation along bureaucratic lines.⁵⁶ He argues that while the liberal, the marxist and the realist approaches identify different external limitations on domestic policy outcomes, the "critical" intervening variable between international interdependence and political strategies is the domestic structure of the nation-state and the ability of state officials to realize state objectives.⁵⁷ The domestic structure is defined as the coalition between business, the state and the policy networks that link the public and private sectors.

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Ikenberry et al. See also Peter J. Katzenstein, "Conclusion: Domestic Structures and Strategies of Foreign Economic Policy" in Katzenstein ed., Between Power and Plenty (Madison: University of Wisconsin Press, 1978); Katzenstein, Small States in World Markets (Ithaca, NY: Cornell University Press, 1986).

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Peter J. Katzenstein, ed., Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States. (Madison, Wisconsin: The University of Wisconsin Press, 1978).

One contribution to the state-centric approach is Graham's bureaucratic politics model.⁵⁸ This model holds that a state's domestic and foreign policies are the outcome of a series of rivalries, bargains, and compromises among different bureaucratic entities at the domestic level. The decision-making process is where state policies are formulated after much compromise between competing state bureaucracies with unequal levels of power, authority and resources.

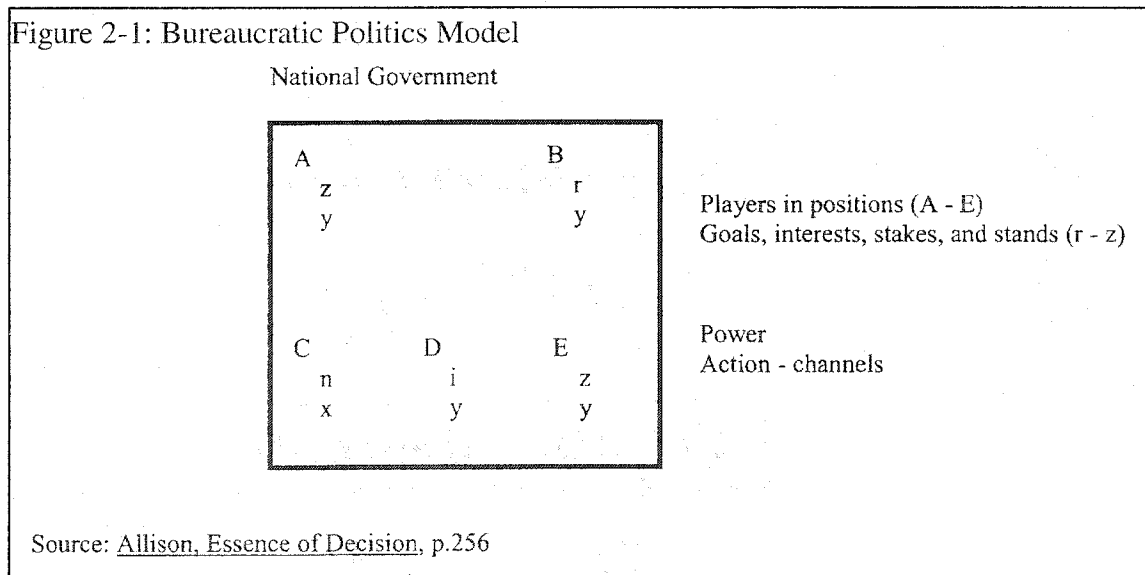
Allison argues that state decisions and actions often involve bureaucracies which hold different perspectives, different goals and different objectives. Often these goals and objectives are parochial, contradictory and conflictual. State decisions are the result of compromise, bargains and coalition-building among bureaucracies which seek to promote their own power, interests and goals and are affected by the sheer power and/or bargaining skills of the actors.⁵⁹

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Graham T. Allison, Essence of Decision: Explaining the Cuban Missile Crisis (Boston: Little Brown and Company, 1971); Morton H. Halpern, Bureaucratic Politics and Foreign Policy (Washington D.C.: The Brookings Institute, 1974); and Graham T. Allison and Morton H. Halpern "Bureaucratic Politics: A Paradigm and Some Policy Implications" World Politics, Vol 24 (Spring 1972).

⁵⁹ Graham Allison, op. cit

Both domestic and foreign policy decision-makers participate in bargaining games with each other. The players from different departments bring to the proverbial table different perceptions, different motivations and a variety of personal objectives. Decision-makers' parochial priorities and perceptions, coupled with their different stands, goals, interests and stakes, all affect the final outcome of state policy.⁶⁰ The dominant actor in the bureaucratic conflict is the one who would determine the outcome of state policy because "what a government does in any particular instance can be understood largely as a result of bargaining among players positioned hierarchically in the government."⁶¹



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Allison Graham, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown and Company, 1971).

⁶¹

John A. Vasquez, *Classics of International Relations* (Englewood Cliffs: Prentice Hall, 1990), p. 159.

The bureaucratic politics model stressed the major role played by mostly state but also non-state actors at the domestic level. The weakness of this approach, however, is that it understates the importance of decisions made in the transgovernmental and transnational contexts. It also understates the significant role played by nonstate actors, such as international institutions and multinational corporations, both nationally and internationally, in domestic decision-making.

In their analysis of bureaucratic politics, Laver and Schepsle make the distinction between cabinet ministers who formulate policies that affect domestic output and civil service bureaucrats who actually implement those policies. They argue that effective power to both make and implement public policy lies more in the civil service than within the cabinet. The reason for its effective power, they argue, is the fact that cabinet ministers are generally politicians who come and go. Since career civil servants are there to stay, they are therefore in a "very strong position to effectively determine government policy outputs."⁶² They note that the preferences of civil servants and bureaucrats may differ from those of elected politicians.⁶³ Garrett and Lange argue that bureaucrats will

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Michael Laver and Kenneth A. Schepsle. Cabinet Ministers and Parliamentary Government (New York: Cambridge University Press, 1994), p 6.

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Geoffrey Garrett and Peter Lange, "Internationalization, Institutions, and Political Change" in Keohane and Milner ed., Internationalization and Domestic Politics (New York: Cambridge University Press, 1996).

not change the way they make and implement policy in lockstep with the preferences of government or societal actors. The more authority over policy rests in the hands of independent bureaucratic agencies, they argue, the less policy change should be associated with a given change in the constellation of preferences in the private sphere.⁶⁴

The bureaucratic politics approach is one that opens the “black box,” providing more insight into the decision-making process that impacts interstate relations. Critics of this model have argued that this approach is problematic in its inability to identify the importance of interests and motivations of individuals and demonstrate their impact on policy output.⁶⁵ The model is also incapable of demonstrating the ways in which societal actors affect policy outcomes.

Putnam argues that the limitation of the bureaucratic politics model is that it is “state-centric.” It is therefore insufficient to grasp the complexities involved in the domestic-international mix. Instead of the state-centric approach, he recommends a society centered approach that incorporates politics, parties, social classes, interest

⁶⁴ Ibid.

⁶⁵

I.M. Destler, “Organization and Bureaucratic Politics” in Presidents, Bureaucrats and Foreign Policy (Princeton: Princeton University Press, 1974), pp. 52-81.

groups, legislators, and even public opinion and elections, not simply executive officials and institutional arrangements.⁶⁶

The Society-centered Approach

The society-centered approach looks at the role of societal actors, particularly the dominant groups or social classes and the manner in which they impact domestic and foreign policy. State officials and institutional processes are not the only significant factors in the policymaking outcome.⁶⁷ Migdal acknowledges different levels of disaggregation where policy is made, ranging from the commanding heights of agencies' central offices to dispersed field offices to the trenches. He disaggregates the state rather

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Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games" International Organization 42 (Summer 1988) p. 442.

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Peter Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press, 1986); David Truman, The Government Process: Political Interests and Public Opinion (New York: Knopf, 1951); Robert Dahl, Who Governs? (New Haven: Yale University Press, 1963); Theodore Lowi, The End of Liberalism (New York: Norton, 1969); Charles Lindblom, Politics and Markets (New York: Basic Books, 1977).

than viewing the state as a monolith.⁶⁸ Vitalis also identifies divisions within states, which he attributes to divided business interests.⁶⁹

Migdal, Kohli and Shue note that boundaries do exist between state and societal actors.⁷⁰ Kohli and Shue, however, note that the boundaries between both state and society are blurred. They have the effect of mutually transforming the nature of state-society interactions.⁷¹ Markovitz acknowledges that boundaries between the state and civil society is in fact blurred. However, he argues that the state and civil society are more than intertwined, for the elements of civil society are not merely affected by the state, but

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Joel S. Migdal, "The State in Society: an approach to Struggles for Dominion" in Joel S. Migdal, Atul Kohli and Vivienne Shue, ed., State Power and Social Forces: Domination and Transformation in the Third World (New York: Cambridge University Press, 1974).

69

Robert Vitalis, "Business Conflict, Collaboration, and Privilege in inter-war Egypt" in Joel S. Migdal, Atul Kohli and Vivienne Shue, ed., State Power and Social Forces: Domination and Transformation in the Third World (New York: Cambridge University Press, 1974).

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Joel S. Migdal, Atul Kohli and Vivienne Shue, State Power and Social Forces : Domination and Transformation in the Third World. (New York : Cambridge University Press, 1994).

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Atul Kohli and Vivienne Shue, "State Power and Social Forces: on Political Contention and Accommodation in the Third World," in Joel S. Migdal, Atul Kohli and Vivienne Shue, ed., State Power and Social Forces: Domination and Transformation in the Third World.

are seated in the state.⁷² He notes that the connection between state and society cannot really be understood if we persist in seeing the state and civil society as separate, balancing entities.⁷³

In the African political economy, Markovitz notes that the state and civil society are intertwined into “networks and webs of relationships,” that are “not of individuals, but of families” which are “repeated and systematic encounters over time.”⁷⁴ These occur when civilians from organizations or interests in civil society are loaned or seconded to the institutions of government that are responsible for the oversight, management or conduct of those organizations or interests; when the structures and organizations of civil society are created, enhanced, supported and promoted by structures, organizations and officials of the state, or the reverse.⁷⁵

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Irving Leonard Markovitz, “Uncivil Society, Capitalism and the State in Africa,” in Nelson Kasfir, ed. Civil Society and Democracy in Africa: Critical Perspectives (London: Frank Cass, 1998)p. 21.

⁷³ Ibid, p. 22.

⁷⁴ Ibid. p. 24.

⁷⁵ Ibid.

Their actions occur within an international and national framework that supports and limits the liberty of interests within civil society.⁷⁶

Markovitz's conception of the "organizational bourgeoisie" is also helpful in the analysis of state-society relations. Markovitz defines the "organizational bourgeoisie" as "a combined ruling group consisting of the top political leaders and bureaucrats, the traditional rulers and their descendants, the leading members of the liberal professions, the rising business bourgeoisie, and top members of the military and police forces."⁷⁷ The "organizational bourgeoisie" is distinct from both the classical and the state bourgeoisie. Its distinction lies in the fact that the business bourgeoisie does not merely use states as instruments or as its allies but it occupies state offices, wielding power and controlling the terms of economic activities.⁷⁸ The organizational bourgeoisie not only managed, they exploited as well.⁷⁹

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Irving Leonard Markovitz, "Civil Society, Pluralism, Goldilocks, and Other Fairy Tales in Africa" in George Bond and Nigel Gibson, ed. Contested Terrains and Constructed Categories: Contemporary Africa in Focus (Boulder, CO: Westview Press, 2000).

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Irving Leonard Markovitz, ed. Studies in Power and class in Africa (New York: Oxford University Press, 1987) p.8.

⁷⁸ Ibid, p. 11.

⁷⁹ Ibid, p. 8.

The power of this class, both cause and consequence of occupying positions of state authority, is such that the state serves its ends to the extent that the two spheres of the public and the private ... have if anything become, in certain ways, at all levels more tightly bound together.⁸⁰

Krasner sees the state as independent from societal forces. He notes that the society-in-the-state position as articulated by Markovitz, fails to explain why some governments have been successful in pushing forth positions that were not supported by dominant groups. He also notes that the society-in-the-state position cannot explain why some governments have prevailed in the presence of conflicts between the state and private corporations.⁸¹

Nordlinger argues that the actions and inactions of the democratic state are determined by the contours of civil society, in conjunction with the distribution of political resources, and the policy preferences of those societal groups that control the greatest amount of societal resources.⁸² However, Nordlinger's position is distinctly different from the latter position when he argues that he sees the state as :

⁸⁰ Ibid, p. 10.

⁸¹ Krasner, Defending the National Interest

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Eric A. Nordlinger, On the Autonomy of the Democratic State (Cambridge, MA: Harvard University Press, 1981), p. vii.

It is most implausible that the democratic state — the elected and appointed officials who populate this large, weighty, resource-laden, highly prized ensemble of offices — is consistently unwilling or unable to translate its preferences into public policy when they diverge from those held by the politically weightiest societal groups.⁸³

Unlike the Marxist, pluralist and social corporatist perspectives which view the state as “malleable” in the hands of the most powerful group, Nordlinger asserts that when state and society preferences diverge, the society centered model denies, ignores or downplays possibilities of public officials acting on their own preferences and denies states turning their preferences into authoritative action when opposed by societal actors who control the weightiest political resources.⁸⁴ He concludes that when state and societal preferences diverge, it is the preferences of public officials that are translated into authoritative action.⁸⁵ In addition, Nordlinger’s analysis presumes the existence of monolithic state preferences rather than a variety of conflicting preferences among competing bureaucracies that often exist around issues before the state.

⁸³ Ibid, p. 3.

⁸⁴ Ibid, p.7.

⁸⁵ Ibid.

Systems Analysis and Domestic Politics: A Combined Approach

Others have acknowledged that both the systemic and domestic perspectives fail in their respective individual attempts to fully explicate the complexities of decisions within the international political economy. Since a knowledge of each level is important in the understanding of domestic policy processes, and since each approach is insufficient without the other, a more fruitful endeavor would be a combined approach — one that looks at the way in which both domestic and international factors affects domestic political output. Keohane echoes this sentiment and argues that

[A]n international-level analysis ... is neither an alternative to studying domestic politics, nor a mere supplement to it On the contrary, it is a precondition for effective comparative analysis. Without a conception of the common external problems, pressures and challenges ... we lack an analytic basis for identifying the role played by domestic interests and pressures Understanding the constraints imposed by the world political economy allows us to distinguish the effects of common international forces from those of distinctive national ones.⁸⁶

Keohane's liberal international relations approach begins with the assumption that state behavior is shaped by both domestic influences and the transnational society in

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Robert Keohane, "The World Political Economy and the Crisis of Embedded Liberalism" in John A. Goldthorpe ed., Order and Conflict in Contemporary Capitalism (Oxford: Clarendon Press, 1984), p. 16.

which it is embedded.⁸⁷ On the one hand societal forces influence the way states behave by shaping state preferences defined as the fundamental social purposes underlying the strategic calculations of governments.⁸⁸ The fundamental actors within domestic and transnational interaction are individuals and private groups whose endeavor is to promote their interests. The state represents a subset of domestic society, the interests of which determine state preferences and which forms the basis of state action in world politics. The new liberal international relations theory, therefore, requires relaxing the fundamental systemic assumption of the state as a unitary actor, instead assuming a polyarchic structure of the state.⁸⁹

Polyarchy, Milner argues, assumes that different groups within the state have different preferences and goals.⁹⁰ A polyarchic analysis therefore allows a more detailed look at the domestic political struggle that ensues among the domestic actors. It fosters the identification of different goals, objectives, motivations, and perspectives within both the state, as well as those external to it.

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Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Relations" in International Organization Vol 54, no. 4, Autumn 1997, pp. 513-53.

⁸⁸ Ibid, p.513.

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Helen V. Milner, Interests, Institutions and Information: Domestic Politics and International Relations (Princeton: Princeton University Press, 1997) p. 253.

⁹⁰ Ibid, p233.

This combined approach is useful for two reasons. First, Milner and Keohane note that the context within which national decisions are made is a global context. They argue that we can no longer understand domestic politics without a realization of the linkages between national economies and the global economy. Second, forces at one level impact actions at the next. The world economy alters domestic politics by creating new policy preferences and coalitions.⁹¹ It also affects political institutions since when actors' preferences change and new policies are pursued, institutions also change.⁹² Policy preferences of actors within countries fluctuate based on their global economic interests.⁹³ Preferences also change as a result of political pressures from powerful actors within the international system such as United States and the International Monetary Fund.

Milner argues that while the international system impacts domestic politics, domestic politics also has the capacity to impact the international system. Domestic political institutions can mitigate the effects of internationalization and offset changes

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Ronold Rogowski, Commerce and Coalition: How Trade Affects Domestic Political Alignments (Princeton: Princeton University Press, 1989).

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Keohane and Milner, p. 244. See also Stephan Haggard and Sylvia Maxfield, "The Political Economy of Financial Internationalization in the Developing World" in Robert O. Keohane and Helen V. Milner, ed., Internationalization and Domestic Politics (New York: Cambridge University Press, 1996).

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Robert O. Keohane and Helen V. Milner, "Internationalization and Domestic Politics: An Introduction" in Robert O. Keohane and Helen V. Milner, ed., Internationalization and Domestic Politics .

from occurring even in the face of systemic pressures.⁹⁴ Milner notes that domestic politics and international relations are intricately bound because a nation's international position affects its internal politics and economics. Conversely, a nation's domestic situation impacts its foreign relations. To overlook domestic politics by assuming the state is unitary actor as realism does, Milner argues, overlooks key elements in explaining state behavior and misinforms our analysis.⁹⁵

The course of action for international political scholars is, therefore, to develop a theoretical position that successfully "acknowledges and accounts for the power of agents [at the domestic level] and recognizes the causal relevance of 'structural factors.'"⁹⁶

Dessler argues that "[s]ince social action is a result of both structural and agential forces, a strict structural or agential explanation of action will necessarily be incomplete. One alone won't do."⁹⁷

The research agenda of the past decade has pursued this new course. Milner's analysis of international trade policies looked at the critical role of domestic interest

⁹⁴ p. 21.

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Helen V. Milner, Interest, Institutions and Information: Domestic Politics and International Relations (Princeton: Princeton University Press, 1997).

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David Dessler, "What's at Stake in the Agent-Structure Debate" in International Organization no. 43 (1989) pp. 441-73.

⁹⁷ Ibid, p. 444.

groups, national governments and foreign governments in the making of trade policies. She argued that the distribution of power among the actors impacts the economic policy outcome and the distribution of wealth.⁹⁸ Frieden also identified the role of the domestic system in the analysis of international political economy, arguing that globalization - defined in terms of a global system of highly-integrated financial markets with a high level of international capital mobility - has a clear impact on the domestic environment. He demonstrated that globalization had a different impact on local interests. Local interests, he noted, in turn applied pressure on the domestic political system to ensure the implementation of policies in their best interests.⁹⁹

Mastanduno et al., using a realist perspective, also incorporated a multilevel analysis. The authors argue that one consequence of interdependence is that international developments constrain the ability of governments to pursue domestic politics effectively. The success of domestic politics depends on the ability of state officials to secure

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Helen V. Milner, Resisting Protectionism: Global Industries and the Politics of International Trade (Princeton: Princeton University Press: 1988), p. 3

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Jeffrey A. Frieden, "Invested Interests: the Politics of National Economic Policies in a World of Global Finance," International Organization, Autumn 1991, Vol 45, #4 pp.425-452.

accommodations in the international arena. Therefore, in order to pursue their international goals, states also needed success in the pursuit of domestic goals.¹⁰⁰

Weiss also argues that the state's ability to respond to international pressures, which she identifies as its transformative capacity, is a result of the state's priorities, its domestic linkages and the nation's key economic actors.¹⁰¹ Katzenstein noted that state capacity depends on the ways in which societal groups are organized. His foreign economic policy model is one that includes political and economic forces operating, both at home and abroad, that have an influence on state bureaucracy.¹⁰² Evans argues that state capacity is based on a set of institutions that insulate the economic bureaucracy from special interests at the same time having established channels of cooperative links between state bureaucrats and organized business.¹⁰³ This state of "governed interdependence" is one in which both spheres maintain their autonomy while cooperating to advance the interests of each.

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Michael Mastanduno, David A. Lake and G. John Ikenberry, "Toward a Realist Theory of State Action" International Studies Quarterly, Vol. 33, Dec 1989, pp 457-474.

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Linda Weiss, The Myth of the Powerless State (Ithaca, NY: Cornell University Press, 1998).

¹⁰²

See Katzenstein, Between Power and Plenty

¹⁰³

Peter B. Evans, Embedded Autonomy: States and Industrial Transformation (Princeton: Princeton University Press, 1995)

While Evans sees a separation between the state and societal actors, Milner, on the other hand conflates the two spheres. Her model of state-society relations is one that identifies the interaction of public institutions, political actors and private interests as they converge to determine policy. The author notes that domestic politics arises due to the fact that the state is not a unitary actor. It consists of different societal and political actors with different policy preferences. Economic actors can be identified by their common interest which is the maximization of income and profits whereas the interest of political actors is to retain political office. While interests remain constant among each group, policy preference does not. Policy preference is the means through which actors interests are realized. Policy outcome is the result of competing policy preferences.

Policy outcome, Milner argues, is determined by the structure of domestic preferences which varies with issue area. Outcome is also based on the ranking of preferences of actors based on the relative power of internal actors. The most powerful actors are the political executive (president or prime minister, the legislature and interest groups.¹⁰⁴ Interest groups are the primary source of information and their access to information affects the power of the group. Information is also central to the outcome in this model. Milner's analysis generates the following hypotheses from her model:

¹⁰⁴

Helen V. Milner, Interest, Institutions and Information: Domestic Politics and International Relations, p. 16.

- a) When the most dovish domestic actor (closest in preference to foreign country) holds greater internal decision-making power in domestic politics, the outcome is positive, that is the absence of armed conflict.
- b) When the more hawkish actor is most powerful in the domestic decision-making unit, the policy outcome is negative, or armed international conflict
- c) When the executive and the legislature have policy preferences that are far apart, the government is far more divided and cooperation is less likely.¹⁰⁵

Milner's analysis introduces another key element in the explanation of policy outcomes - the notion of the "divided government."¹⁰⁶ The divided government is the situation in which there is a lack of consensus between or among the primary state decision-making bureaucracies. This may occur between the executive and legislature branches of government or among cabinet members themselves within the executive branch. The author argues that when the government is divided, successful policy outcomes are the result of factors other than the structure of preferences. In a divided government, the author notes, policy outcome is more the result of party dynamics and coalition formation rather than the ranking of preferences. Divided governments occur in both presidential and parliamentary systems.

¹⁰⁵ Ibid, Chapter 3.

¹⁰⁶ Ibid, p. 38.

Interest groups have a significant impact on divided governments, Milner argues, as a result of the dual role they play. First, they act as information providers to policy-makers, directly helping to shape their preferences. Second, by providing financial support in the form of campaign contributions and by their capacity to mobilizing votes, they serve as pressure groups, whose goal it is to directly affect the policy preferences of decision-makers. The preferences of interest groups, the author notes, depend on the distributional consequences of the policy under consideration.¹⁰⁷

Milner's analysis of the divided government clearly dispels the commonly-held assumption of the state as a unitary actor.¹⁰⁸ It elucidates the many of the complexities that impinge on policy outcomes. However, what is missing from the analysis is a model which better informs us as to why different structures of preferences emerge and vary from issue to issue. The model needs a clearer elucidation of domestic political processes. Such a model helps us to understand the domestic-international link, as well as which sets of actors' preferences and institutions at each level can be expected in the decision-making process.

¹⁰⁷ Ibid, p. 60.

¹⁰⁸

See J. David Singer, "The Level-of-Analysis Problem in International Relations" World Politics, Vol 14, No. 1, The International System: Theoretical Essays. (Oct, 1961), pp. 77-92.

Putnam's "two-level games" is another model that establishes the theoretical link between international politics and domestic outcomes. The author argues that international negotiations in which the statesman is located at the point where international and domestic politics intersect.¹⁰⁹ The statesman is strategically located between two "tables," one representing domestic politics and the other international negotiations. Each context is equally dependent on the outcome of the other.¹¹⁰

At the national level, domestic interest groups compete against each other to have their interests represented in international negotiations as state policy. At the international level states try to gain the maximum benefits that are in line with domestic interests. Decisions that may be rational at one level may be totally irrational at the next. Pressures from local interests that are not in harmony with the interests of competing states are likely to obstruct international cooperation.¹¹¹

¹⁰⁹ Robert D. Putnam, "Diplomacy and Domestic Politics".

¹¹⁰ Ibid.

¹¹¹

Putnam and Bayne, in Peter B. Evans, Harold K. Jacobson and Robert D. Putnam. Double-Edged Diplomacy: International Bargaining and Domestic Politics. (Berkeley: University of California Press, 1993). pp. 10-12. See also Evans et al Double-Edged Diplomacy.

Knopf argues that Putnam's two-level-game approach has three shortcomings. First, it fails to incorporate the complexities of domestic-international interaction.¹¹² Second, it overlooks yet a third level of interaction, namely institutional alliances between groups of states. This third level is especially relevant in understanding the role of military alliances in international security negotiations. Third, Putnam's approach fails to draw out the role that domestic groups play in initiating international negotiations.

Knopf introduces a "three-three approach" to understanding international regimes consisting of three levels of analysis and three types of domestic interaction. The three levels of analysis are international, national, and the group level. The three types of domestic-international interactions are: a) trans-governmental interactions where internal divisions result in state bureaucracies from one nation connect across borders with the like-minded faction in the next b) transnational interactions where different societal groups from one nation connect across borders with groups in the next as in international non-governmental organizational relationships and c) cross-level interactions where leaders from one nation connect with societal groups of a next. Examples of each, Knopf argues, are apparent in the US-Soviet negotiations on intermediate-range nuclear forces in the 1980s.

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Jeffrey W. Knopf "Beyond Two-Level Games: Domestic-International Interaction in the Intermediate-range Nuclear Force (INF) Negotiations" International Organization, Vol 47, No. 4 Autumn 1993.

Knopf's work incorporates international institutions, alliances, state and nonstate actors in the analysis of international negotiations. Knopf's analysis, however, contains one weakness. In his explanation of the way international regimes and domestic politics impinge on domestic output, Knopf's model is unable to explain why the specific domestic-international interaction emerged and why some patterns of domestic-international interactions are more likely to emerge in some issues and not in others.

A successful model needs to explain why we are more likely to see a greater level of transgovernmental interactions over transnational interactions in some issues more than in others. It ought also to inform us of when we can expect to see a greater degree of cross-level interactions in some issues and not in others. As with Putnam, the focus on the negotiator as the unit of analysis is insufficient to give us the depth of details required to address the broader issues of transnational and transgovernmental interactions. Nevertheless, the strength of Knopf's analysis is its inclusion of both domestic and international interactions as they impinge on international institutions, a move which many have argued has been seriously lacking in the international regimes literature.

Theories of International Regimes

The study of international regimes had its beginnings in discourse on the role of the hegemon in maintaining international corporation and stability. Keohane and Nye's neoliberal institutionalist position argues that while the hegemon may facilitate international cooperation, it is neither a necessary nor a sufficient condition for fostering

international cooperation. Instead, they argue that international cooperation is possible in the absence of a hegemon because shared interests can result in the creation of international regimes.¹¹³ Strong international regimes, especially economic ones, depend on a hegemonic power for sustenance and stability. Similarly, the demise of an international regime could have been attributed to the decline of the system's hegemon.¹¹⁴

An international regime is defined as embodying "sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations."¹¹⁵ Haggard and Simmons identify four categories that have traditionally defined the study of international regimes. These categories are structural, functional, game-theoretical and cognitive.¹¹⁶

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Robert O Keohane and Joseph S. Nye. Power and Interdependence. Glenview, Ill: Scott, Foresman and Co. 1989, pp 39-40, and Stephen D. Krasner, International Regimes (Ithaca: Cornell University Press 1983). p. 50.

¹¹⁴ Ibid.

¹¹⁵

Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," International Regimes, (Ithaca: Cornell University Press, 1983), p. 2. See also Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984), p. 57.

¹¹⁶ Haggard and Simmons. pp. 491-517.

Three of them- structural, functional, and game-theoretical - approach their analysis from the level of the international system.¹¹⁷

The structural approach, where international regimes are viewed through the prisms of the realist perspective, explains international regimes largely through the role of the powerful states. The functional approach to international regimes explains the presence of international regimes by the extent to which they provide benefits for their member nations and satisfy the needs of the international community. Benefits include reduction of uncertainty, reduction of costs (information costs and transaction costs), and correction of market imperfections.¹¹⁸

While changes in the world political economy affect the regime's ability to continue to provide benefits to its members, the expected result would be changes in the international regime that would seek to address emerging needs. Keohane and Nye point to the examples of technological changes and changes in the world political economy

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Stephen Haggard and Beth A. Simmons, "Theories of International Regimes", International Organization, Vol. 41, Summer 1987, pp. 491-517.

118

Robert O. Keohane, "The Demand for International Regimes" International Organization, Vol36, no 2 pp. 141-171, 1982. See also Ernst Haas, Beyond the Nation-State: Functionalism and International Cooperation (Stanford University Press, 1964); James P. Sewell, Functionalism and World Politics (Princeton University Press, 1960); Both Haas and Sewell's conception of functionalism provided the foundations for later functionalist approaches of international regimes.

which make existing international regimes obsolete.¹¹⁹ New international regimes would emerge to address new functions and new needs as a result of changes in the system.¹²⁰

Nevertheless, in spite of major technological changes that create new needs and that require new norms, older international regimes often fail to address the new reality even after the conditions from which they emerged have vanished. Once institutions and their norms are established, the authors argue, they are quite difficult to eliminate even when they become obsolete. When significant international economic changes fail to produce regime change, several underlying factors may be at play. Keohane and Nye argue that when important economic changes take place and regime changes fail to occur, bureaucratic inertia often serves as an obstacle to change.¹²¹ Elsewhere, Keohane also argues that regimes continue to exist despite the disappearance of those conditions under which they were created because the regimes perform functions that are important to the

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Robert O. Keohane and Stanley Hoffmann "Institutional Change in Europe in the 1980's in Keohane and Hoffmann, ed, The New European Community: Decision-making and Institutional Change (Boulder, Colorado: Westview Press, 1991) and Robert O. Keohane and Joseph S. Nye, Power and Interdependence, 2nd ed. (Glenview, Ill.: Scott, Foreman and Co., 1989) pp. 39-40. .

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Keohane and Nye, Power And Interdependence. The authors refer to this phenomenon as the economic process model.

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Keohane and Nye, Power And Interdependence, p 55.

states they serve, one of which is the arena for cooperation in which states interests are harmonized.¹²²

The third approach, the game theoretical approach, looks at international regimes as games in which states have clearly defined goals and objectives. States, diligently pursuing power and wealth under conditions of anarchy, are rational utility maximizers, pursuing their national interests.¹²³ In so doing conflict of interest situations arise among players who interact according to predetermined rules.¹²⁴ Each actor faces its own sets of benefits and stakes which determine its level of participation. Regime change occurs when the benefits and stakes are no longer the same as different sets of rewards and payoffs emerge among actors.

While the game theory approach provides insight into the range of options that elicit certain responses from states, the approach has failed to incorporate non-systemic

¹²² See Keohane, After Hegemony

¹²³

R. Harrison Wagner, "The Theory of Games and the Problem of International Cooperation," American Political Science Review 70 (June 1983), pp. 330-46; Robert Axelrod, The Evolution of Cooperation New York: Basic Books, 1984) and "The Emergence of Cooperation among Egoists", American Political Science Review 75 (June 1981) 306-318; George Downs and David Rocke, Tacit Bargaining, Arms races and Arms Control, (Ann Arbor: University of Michigan Press, 1990); Andrew Kydd and Duncan Snidal, "Progress in Game-Theoretical Analysis of International Regime" in Volker Rittberger, ed. Regime Theory and International Relations (Oxford: Clarendon Press, 1993).

¹²⁴

James T. Tedeschi, Barry R. Schlenker and Thomas U. Bonoma, Conflict, Power and Games (Chicago: Aldine Publishing Co., 1973).

factors such as domestic political factors. It also has not helped us in understanding of how regimes' benefits and stakes are established and changed. For that we need to examine the domestic context out of which regime actors emerge.

The fourth approach to the analysis of international regimes, the cognitive approach, begins with the assumption that international regimes are made up of humans who selectively respond to their environment. Chister Jonsson argues that the definition of international regimes — “Principles, norms, rules and decision-making procedures around which **actors' expectations converge** (Jonsson's emphasis) in a given issue area” — seems to set the stage for a strong cognitive thrust in the analysis of international regimes. This definition, therefore, places us in the cognitive world of the decision makers.¹²⁵

This approach looks at individuals in the context of international institutions responding to their environments, on behalf of their states.¹²⁶ The key elements that condition international cooperation, according to the cognitive perspective, are the shared ideology and world view of the actors, how they define their reality and interests and the

¹²⁵

Chister Jonsson, "Cognitive Factors in Exploring Regime Dynamics", in Volker Rittberger, ed. Regime Theory and International Relations (Oxford: Clarendon Press, 1983), pp. 202-203.

¹²⁶

Robert Jervis, Perception and Misperception in International Politics (Princeton: Princeton University Press, 1976). Jervis looks at the cognitive process and its impact on decision-making in the international arena.

limitations imposed on their rationality.¹²⁷ These factors lead to the creation and maintenance of international regimes that facilitate cooperation.¹²⁸ Jervis also adds that a decision-maker's beliefs about politics, the images he holds of key players, and instances of misperception will play a key role in international interaction.¹²⁹

The cognitive approach is significantly different from other approaches to the study of international regimes in that it demonstrates the importance of the roles played by ideology, belief systems, information and learning of individuals as they define the interests of actors. The approach attributes changes in these factors to changes in international regimes¹³⁰ Nye has shown that regime changes have resulted from changes in the learning process. Regimes, he states, change in response to new information, therefore learning is the principal factor that accounts for regime change.¹³¹ The learning

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Ernst Haas, "Words Can Hurt You: Or Who Said What to Whom About Regimes" in Stephen D. Krasner, International Regimes (Ithaca: Cornell University Press 1983) p. 57; Haggard and Simmons, pp. 509-511.

¹²⁸

Ernst Haas, "Words can Hurt You: Or Who Said What to Whom About Regimes: in Stephen Krasner, International Regimes (Ithaca: Cornell University Press, 1983) p. 57; haggard and Simmons, pp. 509-511.

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Jervis, Perception and Misperception in International Politics.

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Haggard and Simmons, pp 509-511.

¹³¹

Joseph S. Nye Jr. "Nuclear Learning and United States-Soviet Security Regimes", International Organization, Vol 41 no. 3 1987 pp. 371-402.

process is where actors acquire and use new knowledge for the purpose of adopting “different, and more effective, means to attain one’s end.”¹³²

In their critique of the literature on international regimes, Haggard and Simmons noted that the literature has been written largely from a systemic level of analysis, to the exclusion of domestic politics and nonstate actors.¹³³ As a result the structural, functional and game theory approaches have fallen short for several reasons in explaining international outcomes. First, they assume the state as a rational and unitary actor. Their analyses therefore fail to inform us of the way in which domestic politics and the domestic policy process impact international outcomes. The authors argue that what has been missing from the literature on international regimes is a discussion of the domestic political determinants of international cooperation and how international regimes influence policy choices at the national level. They advocate an approach to international regime analysis that not only looks at the interaction among states, but that also looks at the interaction of nonstate actors at the domestic level, international level and between cross-national coalitions.¹³⁴

¹³² Joseph Nye "Nuclear Learning" International Organization Vol 41, 1987 p. 378.

¹³³ Ibid.

¹³⁴ Ibid.

Haas cites yet another factor that affects regime change — the epistemic community.¹³⁵ He credits the epistemic community as a source of new knowledge and notes that it promotes learning within regimes.¹³⁶ The epistemic community is the community of intellectuals from the realm of academia or government or other sectors of knowledge in society which provides the intellectual justification for a particular outcome. It is "... a professional group that believes in the same cause-and-effect relationships, truth tests to assess them, and shares common values, ... shares a common vocabulary, common political objectives, a common network in which findings are exchanged and shared concerns are formulated, common world view and concerns about the same subject matter."¹³⁷

As the source of ideas and knowledge which sometimes run counter to the established mode of thinking of those in power, epistemic communities provide legitimacy for emerging social groups that are in opposition to the dominant groups and their ideas. As a result they greatly inform us on the genesis of regime change. The goal

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Peter M. Haas. Saving the Mediterranean: The Politics of International Cooperation (New York: Columbia University Press, 1990).

¹³⁶

Peter M. Haas "Do Regimes Matter?: Epistemic Communities and Mediterranean Pollution Control" in International Organization, Vol 43, No. 3, Summer 1989, pp 377-404; Peter Haas, Saving the Mediterranean: The Politics of International Environmental Cooperation (New York: Columbia University Press, 1990); Peter Haas, "Epistemic Communities and International Policy Coordination" in International Organization, Vol 46 No. 1, Winter 1992, pp 1-36;

¹³⁷

Haas, Saving the Mediterranean, 55.

of emerging social groups is to implement their new policies and objectives. Policy makers with different points of view often refer to the epistemic community for information and policy advice. It is the epistemic community that validates the new information and the changes in belief system, ideology, and ultimately the changes in the international regime.

Haufler attempts to broaden the scope of systemic analysis by including the role of nonstate actors in international regimes. The author argues that states sometimes build on a foundation of norms and practices that have been laid down by nonstate actors. States may use nonstate actors to implement some of the functions of the regime. nonstate actors may also create their own regimes or they may at times play an equal role with states. Where nonstate actors play an equal role with states, a "mixed parentage" regime, state actors do not always determine the outcome. Nor do states always prevail in decision making when conflicts arise.¹³⁸ The author cites Amnesty International as an example of a nonstate international organization that is often successful in achieving its objectives in conflicts against the state. Haufler's analysis notes a relationship between domestic politics, international regimes and nonstate actors. However, the analysis does not identify the ways in which each factor can be expected to influence international outcomes.

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Haufler, Virginia, "Crossing the boundary Between Public and Private: International Regimes and Nonstate Actors," in Volker Rittberger, ed. Regime Theory and International Relations. Oxford: Clarendon Press, 1993. pp. 94-111.

Martin and Simmons also advocate the introduction of domestic politics back into the analysis of international institutions. They argue that international institutions can change state behavior by substituting for domestic practices. The crucial variables, they point out, are the conditions under which domestic actors are willing to substitute international institutions for domestic institutions; identifying the beneficiaries of this transfer of power; and the possibilities of enforcibility and compliance with international institutional decisions by domestic institutions. They concluded that domestic actors intentionally delegate policy making authority to the international level when it means the advancement of their interests.¹³⁹

International Regime and Domestic Politics

In their analysis of the relationship between international regime rules and norms and domestic policy outcomes, Cortell and Davies begin by asserting that international rules and norms do have an influence on national policy. This influence is exerted when domestic political actors incorporate international regime values and belief systems in the

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Lisa Martin and Beth A. Simmons, "Theories and Empirical Studies of International Institutions," International Organization, Vol. 52 no. 4, Autumn 1998, p. 747.

standard operational procedures of bureaucracies as well as when regime values and norms are incorporated in domestic laws and policy measures.¹⁴⁰

International regimes become more relevant in the context of bureaucratic conflicts. When bureaucratic actors or societal groups choose to question the legitimacy of a competing position or seek to justify an unpopular position, each side in the conflict may appeal to international regime rules and norms to justify its particular stance. The act of bringing international regime norms and rules in the national policy debate, the authors note, is a strategy that has been frequently employed by both bureaucrats and interest groups in their attempts to influence policy outcomes.

For such a strategy to successfully affect policy outcomes, Cortell and Davis note that two conditions must be present. First, the issue around which the conflict is generated, and on behalf of which the international rules or norms are being appealed, must be a salient issue. Second, the appropriate domestic decision-making structure that fosters societal penetration must also exist. The authors classify the range of possible domestic decision-making structures along two continua. The first continuum is the degree of centralization of the decision-making authority whereby decision-making institutions may be centralized to decentralized. The second continuum is the pattern of

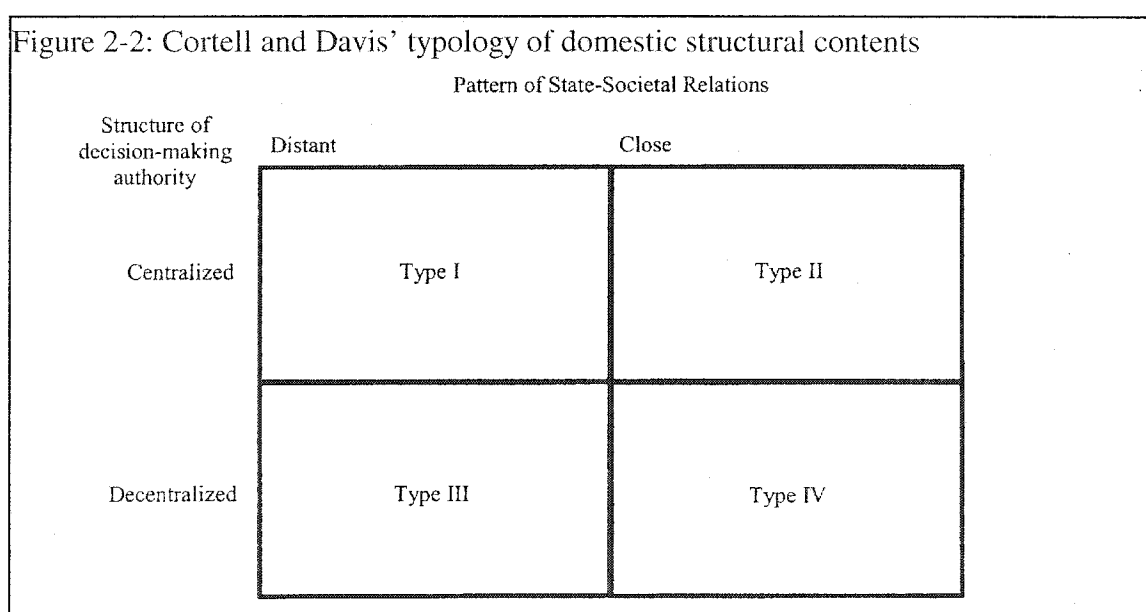
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Andrew P. Cortell and James W. Davis, Jr. "How Do International Institutions Matter? The Domestic Impact of International Rules and Norms." in International Studies Quarterly, Vol 40 No. 4 Dec. 1996. pp 451-454.

state-society relations that relate to the issue to be considered whereby the relations between state and society may either be distant to the decision-making process or close. These two categories result in four types of decision-making structures (Fig. 2-3).¹⁴¹ These structures are centralized states with distant societal relations, centralized states with close societal relations, decentralized states with distant societal relations and decentralized states with close societal relations. Type I and Type II structures are centralized decision-making units that involve fewer bureaucratic players while type III and Type IV are decentralized involving more bureaucratic players. Type I and Type II structures are expected to be more independent of international regimes where decision-makers are unlikely to appeal to international rules and norms to validate their positions whereas Type III and Type IV, are more likely to appeal to international rules and norms to validate their positions.

¹⁴¹ Ibid, p. 457.

Type I and Type III are distant structures where decision-makers may or may not make appeals to relevant international rules and norms to validate their positions, depending on the salience of the issue. If they do appeal to international rules and norms, their appeal may or may not be successful. In Type II and IV structures where there are



close relations with societal actors, societal actors are more inclined to appeal to international rules and norms to influence policy outcomes. When there are close societal relations, in the event of domestic conflict, the international regime rules and norms become central to the resolution of the conflict. The successful appeal to international regime rules and norms to resolve the conflict, Cortell and Davis argue, is more likely to occur in a decentralized decision-making environment where societal groups play a role and when one side appeals to international regime rules and norms to legitimize its position. This is especially relevant when

...the societal actor utilized a domestic procedure that sets in motion the prescriptions of an international institution. In this case, the institutional arrangements linking societal actors to the policy process serve a dual role, not only enabling societal actors to invoke the international rule, but also according them a legal right by which to elicit the government's implementation of the rule's prescription.¹⁴²

Risse-Kappen's analysis of domestic output addresses the one major shortcoming of Cortell and Davis. Like that of Cortell and Davis, the author's analysis seeks to determine under what domestic and international conditions transnational actors and coalitions will induce policy change in a specific issue-area. The author identifies two factors that affect the ability of transnational actors and coalitions to successfully determine state policy. The first factor is the degree of international institutionalization of the issue-area. International institutionalization is defined as "the extent to which the specific issue-area is regulated by bilateral agreements, multilateral regimes, and/or international organizations."¹⁴³ The more the issue-area is regulated by international

¹⁴² Cortell and Davis, p. 457

¹⁴³

Thomas Risse-Kappen, "Bringing Transnational Relations Back In: Introduction" in Thomas Risse-Kappen, Bringing Transnational Relations Back In : Nonstate Actors, Domestic Structures, and International Institutions (Cambridge ; New York, NY, USA : Cambridge University Press, 1995) p.6.

Figure 2-3: Types of Structures and Countries Investigated

		Society			
		Strong		Weak	
		<i>Policy Networks</i>		<i>Policy Networks</i>	
		Consensual	Polarized	Consensual	Polarized
<i>Political Institutions</i>	Centralized	Corporatist (Japan)	Stalemate (India, pre-1989 Hungary)	State-Dominated (Singapore, South Korea, Zimbabwe)	State-Controlled (USSR, East Germany, Romania)
	Fragmented	Society-Dominated (Hong Kong, Philippines, USA)		Fragile (Kenya, Russia)	

Source: Thomas Risse-Kappen, Bringing Transnational Relations Back In : Nonstate Actors, Domestic Structures, and International Institutions, p. 23.

regime norms of cooperation, the more “permeable” the domestic society becomes as a result of these transnational activities.¹⁴⁴

The second factor that impacts domestic outcomes is differences in domestic structures. Domestic structure is the avenue that facilitates the penetration of transnational actors into the political system. Risse-Kappen’s domestic structure consists of three elements: a) the structure of the state, b) the structure of society and c) the policy network. The state may be centralized or fragmented, the society may be weak or strong, and the policy network may be consensual or polarized. From this scheme emerge six

¹⁴⁴ Ibid, p. 5.

types of domestic structures: state-controlled, state-dominated, stalemate, corporatist, society-dominated and fragile.¹⁴⁵

The state-controlled structure is highly centralized with strong government and weak societal organizations to which belong the USSR, East Germany and Romania. Here, the society is too weak to counter the power of the state. State-dominated, on the other hand, also possesses a strong state and centralized domestic structures. In this category we find Singapore, South Korea, Zimbabwe. However the political culture and societal organizations provide more of a challenge to the power of the state than exists under the state-controlled structure. Under the stalemate domestic structure, to which belong India and pre-1989 Hungary, a strong state faces strong social organizations in a decision-making system that is highly polarized.

In the context of weak state structures, the corporatist structure is one that operates in the face of powerful social organizations where continuous bargaining takes place, the result of which is often compromise. Here, Risse-Kappen places the Japanese state. The society-dominated system, also possessing a weak state, consists of fragmented and decentralized government where there are strong societal interest groups. Here we find Hong Kong, the Philippines, and the USA. To this category, this author adds Jamaican. Finally, fragile domestic structures are also systems that possess

¹⁴⁵ Ibid, pp. 22-24.

fragmented state institutions and weak social organizations. In this category, we find Kenya and Russia. Based on these ideal types, Risse-Kappen makes the following conclusion. Given similar international conditions, variation in the policy impact of transnational actors will be determined by differences in domestic structures. It is the domestic structures, the author argues, that “mediate, filter, and refract the efforts by transnational actors and alliances to influence policies in the various issue-areas.”¹⁴⁶

Risse-Kappen also notes that two hurdles must be overcome in order for transnational actors to affect policy outcomes. First, they must gain access to the domestic political system. Their ability to gain access is largely a function of the domestic structure. Access is most difficult in state-dominated or controlled structures, and easiest in fragile or society-dominated structures. In state-controlled domestic structures, governments have the freedom to restrict transnational access, whereas in fragmented states the governments are less capable of preventing transnational activities. In society-dominated and fragile structures, transnational actors have easy access and are able to penetrate the political system.

While access is a necessary first step to control of policy outcomes, Risse-Kappen notes, it is not sufficient to achieve the desired outcome. The second hurdle and necessary step is generating winning coalitions or alliances among social groups that lead to the

¹⁴⁶ Ibid, p. 25.

implementation of predetermined policy objectives. The structure of the state is what determines the ability to not only gain access, but more important, to form winning coalitions.¹⁴⁷

The third, and important element which, the author argues, plays an important role in mediating the policy impact of transnational actors is international structures of governance. The more institutionalized and regulated the international environment, the more transnational activities are expected to flourish and the less national governments should be able to constrain them. However, in an atmosphere that is unregulated by international agreements, domestic structures should account “almost exclusively” for the differences in policy impact, the author notes.¹⁴⁸

International institutions, the author argues, are expected to facilitate the access of transnational actors to the national policymaking process and increase the availability of channels which transnational actors can use to target domestic structures in order that they might influence national outcomes. In so doing they reduce the effects of domestic structures on domestic outcomes. International regimes and organizations provide the channels into the domestic political systems which domestic structures might otherwise limit. The author concludes that international institutions facilitate access to national political processes, enabling the creation of transgovernmental networks. Secondly,

¹⁴⁷ Ibid, p. 29.

¹⁴⁸ Ibid, p. 30.

international institutions in the respective issue-area are expected to reduce the coalition-building requirements for transnational coalitions, particularly those advocating norm compliance.¹⁴⁹

Risse-Kappen's analysis identified three important elements that affect domestic output. First is the nature of the domestic decision-making structure and the ability of societal actors to gain access to that structure. The second is the international structure of the issue and the extent to which the issue is regulated and institutionalized. Third is the ability of societal groups to generate winning coalitions in order to achieve desired policy objectives.

Hypothesis

The hypothesis of this dissertation is that Jamaica's failure to liberalize the domestic telecommunications satellite regime by acquiring the domestic license for the operation of the US separate satellite system at a time when economic liberalization had permeated the global economy can be explained by three characteristics of the domestic satellite sector. First, the sector's monopoly was control by the Cable and Wireless/Jamintel partnership which doubled as supplier of telecommunications services as well as Intelsat signatories doubled as enforcers of the rules of the international satellite regime. Intelsat's structure was one in which signatories occupy the dual role as

¹⁴⁹ Ibid, p. 32.

both rule-makers and rule enforcers in the international satellite sector. Their rule-making function occurred within the Intelsat global context whereas their rule-enforcement function is carried out within the confines of the domestic telecommunications sector.

Second, Cable and Wireless/Jamintel partnership maintained a close relationship with the state regulatory institution. This relationship allowed the partners the dual capacity to effectively nullify the rules of the system by simply failing to enforce them. Therefore, while the mandate of the new separate system policy was to create a competitive environment, Jamintel's mandate was to eliminate competition. As the environment gave way to a new climate of liberalization internationally, the new competitive climate were at odds with the interest of domestic telecommunications companies, such as Jamintel. Therefore, despite approvals from both Intelsat and the FCC, Jamaica remained within the Intelsat due to pressures from Cable and Wireless, COMSAT and TelePhone Company of Jamaica to maintain a closed domestic industry.

CHAPTER THREE

THE INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION (INTELSAT)

Introduction

For two decades the International Telecommunications Satellite Organization (Intelsat) stood at the apex of the global satellite system and played a major role in international and domestic satellite decisions. From its inception in 1963, it oversaw and regulated all aspects of international and domestic transactions, requiring domestic authorization prior to all transactions involving satellite technology. As a result, Jamaica's decision to broke new ground in international satellite communications by using a non-Intelsat satellite company warranted their intervention and prior approval. Jamaica's decision therefore had international as well as domestic repercussions.

This is the first of two chapters which lay the international foundation on which Jamaica's decision to establish the Digiport decision using a competitive domestic satellite system must be understood. It has two objectives. First, it outlines the historical evolution of the Intelsat system that led to new rules and regulations among which was the decision to allow competition. This history includes a look at the conditions that

produced the new separate satellite systems and policies supporting them - all of which were at the heart of the tensions that Jamaica experienced as it sought to liberalize its satellite sector. The chapter examines the implications of these changes on Jampro's decision to liberalize the provision of satellite services and the implications it had on international politics.

Secondly, this chapter also analyses the structure of Intelsat and the role played by signatories within that structure. That role conditioned their domestic preferences on the issue of telecommunications liberalizing within the domestic satellite sector. It provides the foundation for understanding the way in which the Intelsat monopoly regime impinged on the outcome of the Jamaica Digiport decision and the closing of the sector. The chapter presents the view that the decision of the Intelsat signatories Cable and Wireless and Jamintel to close the sector was one which benefitted the Intelsat and provided its signatories with a motivation to maintain a closed sector. Chapter Four examines the changing satellite market over which Intelsat presided.

The Intelsat System

It began as an international intergovernmental organization when a group of 18 industrial nations attempted to meet their own domestic and international satellite needs and the needs of other nations in the world. This intergovernmental organization was established to function as a global satellite monopoly. In addition to government representatives, its primary members also included national telecommunications

companies which collectively owned and operated Intelsat's communications satellite system. The purpose of the organization was cooperatively to provide uninterrupted global satellite services to all interested nations.

The Intelsat satellite system consists of a two segments: space segment and an earth segment. Together they comprise the equipment required for the transmission of Intelsat services. The space segment consists of 15 satellites in geosynchronous orbit above the Atlantic, the Pacific and the Indian Oceans. Geostationary satellites are located exactly 22,238 miles above the Equator. At that orbit the satellites rotate at the same speed as the earth, making them perfectly synchronized with the earth stations that send messages back and forth between them. The space segment is fully owned by Intelsat. Member nations possess investment shares in the space segment based on their respective use of the satellite system. Nations with high telecommunications volume such as the United States possess a larger number of shares of the space segment than smaller developing nations whose level of usage is relatively lower. The United States' signatory, Communications Satellite Corporation (Comsat), owns the largest proportion, 61% of total shares.

Intelsat has made great strides in the development of its space segment. The first satellite for commercial use, Intelsat I, was launched and placed in orbit in April 1965 over the Atlantic. A second set of satellites, the Intelsat II series, was launched two years later, placing two satellites in orbit over the Atlantic and two over the Pacific.

Components of the third series, Intelsat III, were launched between 1968 and 1969 and were placed in orbit over the Atlantic Ocean, the Pacific Ocean and the Indian Ocean. The Intelsat IV series of satellite were launched in 1970 at Cape Canaveral. It had the capacity of transmitting six thousand telephone calls and twelve simultaneous television programs. It was designed by Hughes Aircraft Company. By 1984, Intelsat had launched five new generations of satellites, each generation more powerful in their capabilities and more extensive in their global reach. Six new Intelsat V satellites were in operation. In addition to the newer generation, the number of earth stations also increased from five in the United States, France, Great Britain, West Germany and Italy, to 300 stations in 146 countries in 1982.¹⁵⁰

The ground segment consists of each nation's earth stations. Intelsat has established the standards for earth stations to which each signatory is bound to comply. Adhering to these standards allows the proper transmission of services to more than 1600 earth station-to-earth station paths. Communications between the earth stations and the satellites have resulted in the existence of more than two thousand paths that transmit services between satellites and earth stations for business users located in the member nations. Services include television, telephone, data, telex, facsimile and specific business services such as video conferencing, electronic mail and high speed data services. Intelsat's services are made available to all member nations at the same rate regardless of

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Edward Plowman, Space, Earth and Communication (Westport: Quorum Books, 1984) p. 82.

a nation's membership status. Membership is extended to any nation which is a member of the International Telecommunications Union (ITU). While Intelsat owns the space segment, the earth stations are owned and operated by the signatories or telecommunications companies of the countries in which they are located.

The Origin of Intelsat

In 1962, partly as a result of the reaction of Congress to the 1957 launch of the Soviet satellite, Sputnik, and partly to advance its own fledgling space program, the United States took the initiative in forming Intelsat by passing the Communications Satellite Act.¹⁵¹ The Act stated that:

...it is the policy of the United States to establish, in conjunction and in cooperation with other countries, as expeditiously as practicable, a commercial communications network, which will be responsive to public needs and national objectives, which will serve the communications needs of the United States and other countries, and which will contribute to world peace and understanding.¹⁵²

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Richard R. Collino, "Global Politics and Intelsat: The conduct of Foreign Relations in an Electronically Interconnected World," Telecommunications Journal September 1986, pp. 195-208.

¹⁵²

Section 102 of the United States Communications Act of 1962.

In late 1962, the U.S. began preliminary discussions with the United Kingdom and Canada, followed by a series of negotiations with the nations of western Europe, Australia, Canada and Japan,

Table 3-1: INTELSAT'S FOUNDING MEMBERS		
Country	Date of Entry*	% Shares
Australia	23612	2.372
Belgium	23782	9.49
Canada	23608	3.234
Denmark	23803	0.345
France	23759	5.261
Germany	23640	5.261
Ireland	23654	0.302
Israel	23710	0.564
Italy	23810	1.898
Japan	23608	1.725
Netherlands	23608	0.863
Norway	23619	0.345
Portugal	23755	0.345
Spain	23608	0.949
Sweden	January 18, 1965	0.604
Switzerland	23635	1.22
United Kingdom	23608	7.245
United States	23608	52.6
Vatican City	23608	0.043
Source: Comsat Annual Report, 1970, pp. 101-106		
*date on which agreement was signed		

to determine the specifics of the new organization. The new organization was formed with eighteen member nations (Table 3-I), which together controlled more than 80% of world telephone traffic.

The US Communications Satellite Act authorized the creation of Comsat to provide the United States with official representation to Intelsat. Comsat had as its head a fifteen-man board of directors. Six of these were appointed by the United States Congress to represent the public shareholders, three were appointed by the President and six were appointed representatives of carrier shareholders. Of the six carrier representatives, three represented AT&T, two represented ITT, and one represented the Hawaiian Telecommunications Company (HTC). By 1969, ITT and HTC had sold their shares in Comsat to the public, giving up their seats on the Board and leaving AT&T as the only common carrier with representation on the board.

Organizational Structure: the Old Agreement

Early discussions between COMSAT and the founding member states resulted in the establishment of specific guidelines within which the organization would function. These early discussions yielded two separate but interrelated agreements: a) the intergovernmental "Agreement Establishing an Interim Arrangement for a Global Commercial Communications Satellite System" or Interim Agreement and b) the "Special Agreement and Supplementary Agreement on Arbitration" or Special Agreement. Both agreements resulted in the creation of a four-part organizational structure. This structure

consisted of a) the consortium of states, b) the consortium of signatories c) the executive organ, the ICSC, and d) the manager Comsat. This four-part structure was put in effect in August of 1964.¹⁵³

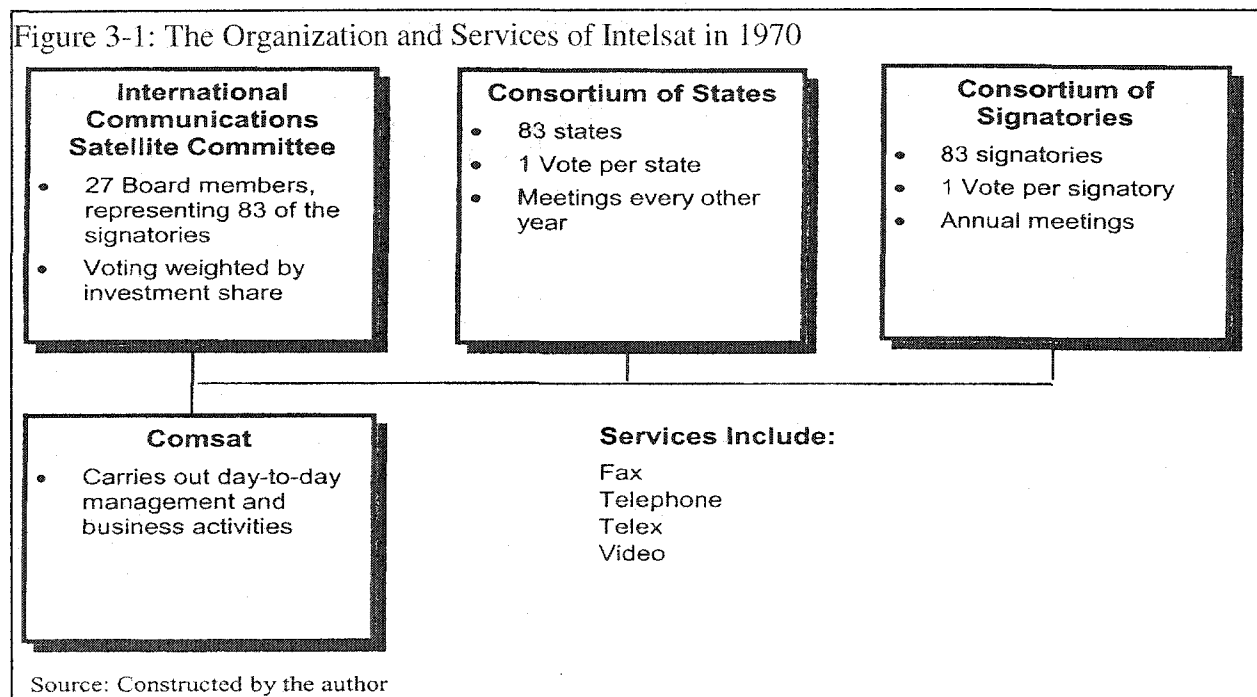
The Interim Agreement created a consortium of member states, whereas the Special Agreement authorized the creation of a consortium of officially-designated national telecommunications agencies or signatories. Signatories range from 100% government-owned operations to 100% private enterprises, such as Comsat. The Special Agreement also assigned ownership of the Intelsat space segment to the signatories “in proportion to their respective contributions to the costs of the design, development, construction and establishment of the space segment.”¹⁵⁴ Both state representatives and signatories shared the responsibilities of establishing and implementing long range policy goals and objectives.

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United States Department of State, “Agreement Establishing Interim Agreements for a Global Commercial Communications Satellite System,” Treaties and International Acts Series, No. 5646, Article VIII.

¹⁵⁴ Ibid, Article III.

The Interim and Special Agreements authorized the establishment of two additional bodies, an executive body and a manager. The Interim Communications Satellite Committee (ICSC) served as the executive body while Comsat served as the



manager. The ICSC established guidelines on operational issues such as the criteria for joining, the use of services by nonmembers, payment of dues and penalties for lack of payment, withdrawal from the organization, minimum shares, procurement matters and the rights and obligations of Signatories and Parties. Decision-making in the ICSC was achieved by voting. Each nation's vote was equivalent to its ownership share or use of Intelsat's space segment. Comsat controlled 61% of the organization's shares; the European nations controlled 30%; and the remaining 9% was owned by Canada, Australia

and Japan combined. Because of its technical expertise, Comsat agreed to assume the role of manager.

In the first decade of its operation, the organization's decision-making was plagued by disagreements. Disagreements revolved around three major issues. The first was whether Comsat was in fact exercising excessive control over Intelsat with limited or no accountability to Intelsat's members. Accusations of excessive control emerged from European nations, led by France. Europeans perceived a conflict of interest between Comsat's role as the majority shareholder of the Intelsat space segment and its role as the space-segment manager. The European members argued that Comsat's decisions were designed to maximize Comsat's gain vis-a-vis the other service providers. As a result, Comsat's research and development decisions were viewed with suspicion, being perceived instead as directed towards maximizing its Comsat's corporate profits rather than those of the international community.¹⁵⁵

A second range of issues revolve around the growing power imbalances between developing nations and industrialized nations within the organization. Since decision-making was allotted according to ownership shares and since more than 80% of the shares were owned by the industrialized nations, the organization's control rested heavily in the hands of the industrialized nations and to whom also accrued the sector's profits.

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Richard R Collino. "The Intelsat System: An Overview" in Apter and Pelton. The INTELSAT Global Satellite System, p. 69.

Developing nations desired that Intelsat begin to address the growing concerns of inequity within the organization and look for ways in which this issue could be resolved to the satisfaction of all.¹⁵⁶

The third issue of concern was the structure of the international telecommunications satellite system itself. Comsat continued preference was for the single global system despite opposition whereas others sought the liberalization of the international satellite regime by allowing the operation of separate satellite systems.¹⁵⁷ Separate systems were privately owned communications satellite system established to provide new or specialized communications needs outside of the Intelsat system, that led to the opening of the international telecommunications market to outside competition.¹⁵⁸ Whereas in the United States and several European nations there were considerable domestic pressures in support of separate satellite systems, Europeans, nevertheless preferred the establishment of their own regional systems where they could control decisions concerning research and development and technological innovation.¹⁵⁹

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Judith Tegger Kildow, INTELSAT, Policy-Maker's Dilemma. (Lexington, MA: Lexington Books, 1973), p. 63.

¹⁵⁷ Ibid

¹⁵⁸

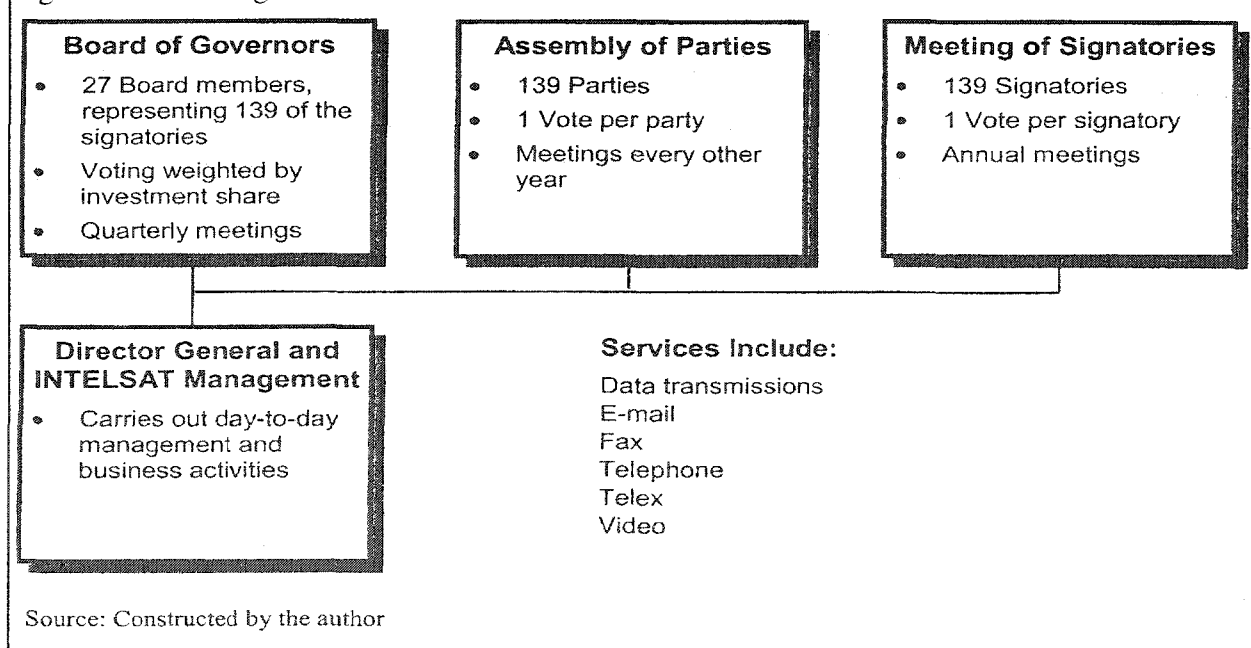
Twentieth Century Fund. Task Force on International Satellite Communications. Communicating by Satellite: Report of the Twentieth Century Fund Task Force on International Communications (New York: Twentieth Century Fund, 1969) p. 3.

¹⁵⁹ Ibid

The New Operating Agreement

By 1973 when Intelsat's membership had grown from the original 18 members to 83, they met to negotiate a new set of agreements, the Operating Agreement that replaced the temporary Interim Agreement. The Operating Agreement was established as a mechanism through which the organization attempted to address the issues of Comsat control, the power imbalance between states and the issue of access to the global market. The new agreement maintained the four-tier structure which consisted of a) the Assembly of Parties, b) the Meeting of Signatories, c) the new Executive Organ of the Board of

Figure 3-2: The Organization and Services of Intelsat in 1989



Governors which met four times per year, and d) Intelsat's management led by the new

Director General.¹⁶⁰ Under this new arrangement, the Board of Governors replaced the Interim Communications Satellite Committee, and the Director General replaced Comsat.

The newly created Assembly of Parties consisted of a representative from each member state as it did under the old arrangement. Representatives met every two years to transact the business of the organization and to discuss constitutional matters and long term issues. Voting in the Assembly was based on a one-nation one-vote policy allowing all nations equal representation. A two-thirds vote was required formally to approve decisions that came before the Assembly.

The Meeting of Signatories convened annually to discuss technical, financial and operational matters. Like the Assembly of Parties, the Meeting of Signatories, had a one-nation one-vote policy. Membership was open to any ITU nation or its signatory that wished to join. Membership continued to increase annually as states sought to avail themselves of the benefits of access to and use of the space segment.

The Board of Governors, which replaced the ICSC, consisted of twenty-seven members chosen by the Assembly of Parties to reflect the geographic diversity of the organization. The Board's responsibilities were to supervise the organization's mandate

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United States Department of State, "International Telecommunications Satellite Organization, Agreement between Intelsat and United States of America," Treaties and International Acts, Series # 7532.

to design, develop, construct, establish, operate and maintain the Intelsat space segment and any other activities upon which Intelsat was authorized to embark. The Board established a new system of voting that allowed all nations representation. Unlike the ICSC, where a system of weighed voting tied a nation's voting power to its level of investment, the new arrangement limited large investors such as the United States, which possessed more than 40% of Intelsat shares, from exercising more than 40% of the vote, opening the way for the inclusion of other nations in decision-making. Under this new arrangement, representation on the Board was not limited to nations with large amounts of shares, but was open to any nation that possessed more than 1.5% of shares.

For those nations whose shares fell below the 1.5% minimum range for board representation, the Board reserved five additional seats as set-asides. These set-asides could have been used by either the individual nation whose shares fell below the minimum or by a group of nations who, together, failed to fulfill the minimum of shares required for representation on the Board. Nations below the range were permitted to form coalitions with similar nations to gain representation on the Board or to increase the level of representation that they already possessed. This new arrangement was designed to prevent excessive influence by a small number of large investors and to prevent the exclusion of small developing states. The new voting rule also created a wider geographic base, allowing more developing nations representation on the Board for the first time (Appendix D).

The fourth structure, an Executive Organ, was established in Washington, D.C., under the leadership of the Director General. Appointed by the Board of Governors, the Director General, was the new structure that had been created to replace Comsat as manager of Intelsat and reported directly to the Board of Governors,. The manager was responsible for technical staffing, budget and finance, administration, and other operational functions. Comsat continued to function as Management Services Contractor of technical affairs until 1979. After 1979, its role have been reduced to that of an independent contractor as the Director General's office assumed Comsat's managerial role.

The role of the manager was to "design, develop, construct, establish, maintain, and operate the space segment of a the global commercial communications satellite system."¹⁶¹ To bring greater accountability to the process, however, the Director General appointed foreign staff "assignees" for specified periods and created a committee to review all Comsat decisions. Foreign "assignees" were non-U.S. staff appointed to create a more nationally diverse institution. The review process continued until Comsat's role of Management Services Contractor ended in 1979.¹⁶² It was successful in ensuring that Comsat's influence was reduced.

¹⁶¹ See Collino. The INTELSAT System, p. 61.

¹⁶² Ibid p. 62.

Separate Systems and International Satellite Communication.

The Intelsat monopoly persisted virtually unchallenged in the first two decades following its inception, occasionally making allowances for other suppliers to provide services under specified conditions. However, in 1984, the deregulation of the telecommunications industry in many industrialized nations resulted in a plethora of new satellite suppliers seeking to enter the world market. As the AT&T monopoly was dismantled, in the United States, satellite companies such as PanAmSat, Orion and Telstar, emerged and petitioned the Federal Communications Commission (FCC) for approval to provide satellite services to the global community. Pressures from these new firms resulted in the introduction of the first separate satellite system rule in the United States which permitted new companies to operate under specified conditions. This new rule posed the first real threat to the stability of the Intelsat monopoly.

Despite the domestic opposition of the new firms to the international satellite monopoly, their presence, however, was not enough to erode Intelsat's domination of the global satellite market monopoly. Intelsat's continued dominance can best be explained by structural characteristics of the international satellite sector which distinguishes it from other international regimes. Since Intelsat's inception, the national signatories have played a central decision-making role through Intelsat's Meeting of Signatories. All decisions to allow competition in the global satellite market have to meet with their approval. Intelsat' structure allowed national telecommunications suppliers to play significant decision-making roles while being isolated from bureaucratic politics in

member states. This structure empowered signatories to selectively restrict competition from nonIntelsat suppliers.

The tensions over the issue of separate satellite systems was addressed in the new agreement was that of competition within the global system. In the first decade of its operation, competition in the provision of international satellite services was prohibited. However, in the second decade of its operation, the consensus around this position began to erode, creating major disagreements among members as to how the international satellite system should and would be organized. The resistance to the Intelsat monopoly system emerged in the second decade of the organizations and had its roots among the Europeans.

The United States' initial support for a single global system was based on technical and commercial criteria: "There are political, economic and technical reasons for the basic United States objective of a single global system.... With a single global system, there would be avoidance of major problems of interference, and more efficient use of the frequency spectrum."¹⁶³ As a result, the parties to the Interim Agreement agreed a single global telecommunications system and agreed not to participate in any satellite system other than Intelsat. The agreement did acknowledge that there might be times when other satellite systems would be needed in order to meet the unique needs of some governments or that the creation of separate satellite systems might be necessary for the

¹⁶³ Kildrow, p. 59.

sake of the national interest. While allowances were made for such needs, nevertheless the overriding mandate was a commitment to the monopoly system that discourages competing satellite systems.

The European discontent stemmed from a distrust of COMSAT's control of research and development and its control of contracts for services.¹⁶⁴ They argued that separate satellite systems would achieve greater operational flexibility at a substantially lower cost when compared to that of using Intelsat services, and that Carriers could provide business data and video distribution services at a comparatively lower cost.¹⁶⁵ Separate systems, they argue, would stimulate technological innovation, improve network efficiency, reduce user costs and create new business opportunities resulting in major benefits for the public without economic harm to Intelsat. Intelsat would not be harmed economically, they argued, because the proposed separate systems would be established only in areas in which Intelsat did not operate and had no intention of operating in the future.¹⁶⁶

Comsat deeply opposed the operation of separate satellite systems. Comsat argued that separate systems seeking to enter the global market were from companies that were

¹⁶⁴ Ibid.

¹⁶⁵ INTELSAT, "Flexibility to Complete: INTELSAT in an Era of Separate Systems," Addendum No. 1 to BG-63-39E B/6/85, August 19, 1985.

¹⁶⁶ Ibid.

supplying the same technology and services as those provided by Intelsat, resulting in a loss of traffic and revenue for Intelsat. The consequences, Comsat argues, was be an increase in Intelsat's rates with devastating consequences for developing nations.¹⁶⁷

Despite its objections, Comsat acquiesced to separate systems within the Intelsat framework under certain circumstances. The system had to be technically compatible with Intelsat, should not result in loss of income or traffic for Intelsat, and must not interfere with Intelsat's ability to carry out its primary function, which is to transmit voice, record and data traffic. These conditions were established as the criteria for Intelsat's approval of separate satellite systems.¹⁶⁸ However, Comsat maintained its opposition to regional satellite systems.

In March of 1983, in reaction to the impending breakup of AT&T and the creation of competition in the United States' telecommunications industry, the FCC received petitions from several United States' firms for authorization to establish separate satellite systems independent of Intelsat. These petitions (Table 2) prompted the FCC to reexamine existing US policy to determine whether separate systems should be allowed to operate in light of existing laws, treaties and foreign policy. As a result, in 1985, the

¹⁶⁷ Ibid

¹⁶⁸

These recommendations came out of the Report of the Twentieth Century Task Force, *op. cit.*

FCC establish a committee to review the concerns of separate satellite systems and to propose changes in United States' international satellite policy established in 1963.

The outcome of the review was President Reagan's 1984 Presidential Determination Number 85-2, which marked the beginning of a monumental shift in US policy when the Federal

Table 3-2: United States Companies Licensed, Operational, and with Applications Pending to Provide International Satellite Communications Services (1984-1994)			
Type of System	Licensed	Operational	Unlicensed, with Application Pending
Geostationary ¹⁶⁹	4	4	0
Big LEO ¹⁷⁰	3	0	3
Little LEO ¹⁷¹	3	1	6
Broadcasting satellite services ¹⁷²	0	0	1
28 Gigahertz frequency or higher ¹⁷³	0	0	11
Source: The United States general Accounting Office, Telecommunications: Competition Issues in International Satellite Communications. Washington, D.C.: NTIS, October 1996), page 27.			

¹⁶⁹

These satellite systems were located 22,300 miles above the earth and operated on the C band (4 to 6 gigahertz portion of the spectrum) and the Ku band (12 to 14 gigahertz of the spectrum).

¹⁷⁰

Big LEOs transmitted radio signals above 1 gigahertz portion of the spectrum. These satellite systems were generally used to send voice and facsimile, as well as data transmissions.

¹⁷¹

Little LEOs transmitted radio signals below 1 gigahertz on the spectrum. These satellite systems were generally used to send only non-voice data transmissions.

¹⁷²

These satellites are geostationary but were licensed by the FCC under a separate licensing category. They offer one-way communications. These satellites were not in competition with Intelsat.

¹⁷³

These satellite systems were either geostationary or LEOs. Their services included on-demand data or video applications directly to the home. These satellite services were also not in competition with Intelsat.

Communications Commission (FCC) authorized the operation of alternative satellite systems for reasons of national security.¹⁷⁴ These private commercial international satellite systems were permitted to independent of the Intelsat system. The new FCC policy included the following restrictions established by Intelsat to prevent new suppliers from undermining the flow of traffic and profits to the Intelsat system:

- a) separate systems may not interconnect directly or indirectly with the existing public-switched network, that is, the Intelsat network,
- b) separate systems operators cannot operate common carriers, that is, providers of telephone and telex services
- c) the use of separate systems by United States carriers require authorization from the FCC in accordance with Section 214 of the Communications Act of 1934.¹⁷⁵

The FCC's decision authorizing the operation of United States domestic separate systems was met with a variety of responses. The United Kingdom supported the introduction of competition:

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Senior Interagency Group on International Communication and Information Policy, *A White Paper on New International Satellite Systems* (Springfield, Va: National Technical Information Services, 1985).

¹⁷⁵

Federal Communications Commission, "Separate satellite Systems for International Communications: In the Matter of Establishing Satellite Systems Providing International Communications," 101 F.C.C. 2d 1046 (1985), pp 290-291.

It is the United Kingdom's continuing strong commitment to Intelsat as the principal organization responsible for the provision of global satellite facilities for international communications. [However its support of separate systems] was clearly consistent with the United Kingdom government's support for the development of competing international telecommunications systems, both satellite and cable, in response to market needs. ...Intelsat must be prepared to meet competition.¹⁷⁶

The position of the FCC and its counterpart in the United Kingdom conflicted greatly with the principles, norms and values of the Intelsat regime. As Intelsat's Director General stated in his response:

It is well known that Intelsat Governments (Parties) and telecommunications entities (Signatories) have steadfastly opposed any change in the policy embodied in the Intelsat Agreements which provides for the establishment and operation of a single global communications satellite system. These member Governments and telecommunications authorities have expressed both outright opposition to the authorization of separate international communications satellite systems apart from Intelsat, and serious reservations about the change in U.S. policy reflected in the 28 November Presidential Determination. They have communicated both directly with appropriate agencies of the United States' Government and through the passage of unanimous resolutions by the Assembly of

¹⁷⁶

A letter to the Director General of Intelsat dated August 22, 1986 from Mr. Robert Priddle of the United Kingdom department of Trade and Industry in response to an inquiry from Intelsat regarding the United Kingdom's position on separate systems.

Parties, the principal organ of Intelsat, and the Meeting of Signatories, representing the investing telecommunications entities of Intelsat.¹⁷⁷

Intelsat remained committed to a single global system with limited use of separate satellite systems despite growing domestic pressures for change. Even the ensuing changes in domestic policy we see in the United States, Great Britain and will see in Jamaica, were insufficient to alter Intelsat's fundamental operating principle of a single global system which remained intact. The principle of the separate satellite system did not take root in Intelsat despite the proliferation of private satellite companies (Appendix III) and changes in the domestic policy of its representatives. National representatives continued to maintain strong support for a single global system. While national governments continued to press for the use of separate systems, rather than resulting in changes in Intelsat policy, domestic pressures and domestic policy changes only resulted in an inconsistency between domestic policy on separate systems and that of the principles and norms of the international regime and states' representatives.

Inconsistencies between domestic satellite policy and the position of national signatories within Intelsat can be attributed to the organizational structure of Intelsat. At the heart of the inconsistency were the Intelsat structures the Meeting of Signatories and the Meeting of Parties. The signatories were the primary decision-makers as well as the

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INTELSAT, "INTELSAT Director General Statement on United States' Actions Regarding Separate Satellite Systems." BG-64-76E, August 19, 1985.

organization's principal investors in the Intelsat system and therefore sought to maintain and protect its investment. The signatories' interests were clearly enhanced by the preservation of the Intelsat monopoly. The Assembly of Parties is also empowered to protect the organization's investments. Intelsat's structure therefore functions to protect the status quo of a single global system and deter entry of competition or any changes that are inconsistent with the investment goals of the organization.

International Telecommunications System and International Regime Change

To summarize the dynamics of the first three decades of the organization's existence - first, the regime experienced a significant growth in membership during its first three decades. The new members, which consisted mostly of developing nations, sought more of a voice in the organization. While these developing nations sought to increase their power, they echoed the European nations' demand for a reduction in the power and influence of Comsat.

The number of new states seeking to participate in the governance of the satellite regime was only surpassed by the number of new firms seeking to enter the global satellite market. The new firms posed a threat to the single global satellite system as it sought to end the Intelsat monopoly. While the needs of developing states and the new firms placed new demands for change on Intelsat, the developing states were initially more successful in realizing their objective of reducing Comsat's influence.

One analysis that proves useful in explaining why new states were more successful than the new firms within the international satellite regime is Stephen Krasner's analysis of international regime change.¹⁷⁸ In his analysis, Krasner argues that there are two kinds of changes that occur in an international regime - internal and external regime changes. Internal regime change is where there are changes in regime principles and norms and changes that occur in rules and procedures.¹⁷⁹ By contrast, external regime changes occur where there are changes in principles and norms. This latter change, Krasner argues, constitutes a change in the regime itself. On the other hand, Krasner argued that a lack of coherence in a regime's principles, norms, rules or decision-making procedures results in the weakening of the regime, making the regime less coherent or highly inconsistent.

The Intelsat members were successful in negotiating the Definitive Agreement. It introduced changes in the organization's rules and decision-making procedures. These changes constituted the successful internal adjustment that occurred in Intelsat's internal organizational structure. These changes in the Definitive Agreement were the outcome of the inclusion of the growing number of developing nations in the organization's decision-making and the reduction of the control of the largest member, the United States. The

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Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables" in Stephen D. Krasner ed., International Regimes (Ithaca, New York: Cornell University Press, 1983) pp 3-4.

¹⁷⁹ Ibid.

Agreement reflected internal regime adjustments rather than regime change and was successful in making significant adjustments to Intelsat's rules and decision-making procedures.

The Agreement was not an attempt to transform the regime's single global system structure. The separate satellite system policy, on the other hand, constituted an attempt to fundamentally transform the regime's character by changing its principles and norms. If successful, it would bring a significant transformation to the very character of the Intelsat system, changing it from monopoly to a more competitive system. As a result, it met with resistance from Comsat and those who benefitted from the monopoly system.

Conclusion

There were many changes in the international telecommunications sector in the 1980's which impinged on the Intelsat regime. Chief among these changes was the deregulation of the telecommunication industry in the United States that resulted in the end of the AT&T monopoly. As other nations followed suit the character of the global telecommunications industry changed from one of monopoly control to one where competition became increasingly acceptable. As the industry changed globally, pressures from the domestic systems were exerted on Intelsat to introduce a separate systems policy that reflected the changes that were already evident in the international telecommunications regime.

Intelsat's national signatories, such as those of the United States, Great Britain and Jamaica, battled internally with competing economic interests over the introduction of separate satellite system into the global satellite market. Comsat had been the strongest major supporter for a single satellite system. However, the deregulation of the United States telecommunications market resulted in the creation of new competitive satellite firms which posed a threat to the continuation of the single global system. The use of separate satellite systems conflicted with the interests of national signatories and created the basis of conflict between domestic groups seeking their use.

Jamaica's teleport demonstrated several features of the global satellite sector. First, it described the obstacles inherent in the attempt by a separate satellite system to penetrate the Intelsat dominated global system. Second, it uncovered the mechanisms that were in place that serve to preserve the monopoly status quo in the face of new and conflicting principles that emerged to challenge the monopoly status quo that would undermine the liberalization of the sector. Third, the project highlights the ways in which transnational cooperation between satellite systems in both the United States and Jamaica impact the sector. The combined strategies of both Comsat, Cable and Wireless and Jamintel were employed to keep intact the global organizational structure of Intelsat as well as the national satellite sector.

CHAPTER FOUR

THE INTERNATIONAL TELECOMMUNICATIONS SATELLITE SECTOR: ITS HISTORY AND TRANSFORMATION

Introduction

There were two kinds of changes taking place in the international telecommunications satellite sector in 1984. One was the change in the international regime which governed the sector. The second change, which precipitated the change in the regime was the change in the international telephone and telegraph market. The satellite sector had also been impacted by these significant transformations.

In 1984, when the liberalization of the global market began, the global market began to experience transformations in its structure, where it moved from a sector with few firms and significant barriers to entry to many firms and more accessible to newer commercial entities. Other changes can be partly attributed to technological innovations in the telecommunications sector and in the computer industries. These innovations facilitated new enterprises which brought about an increase in the number of actors seeking to provide services. However, Intelsat continued to place limitations on new entrants so that they operated within the context of governmental regulations and authoritative oversight.

The chapter examines the evolution of the international satellite market from 1960 until it experienced significant transformations in 1989 when the Digiport decision was implemented. It was over this market that Intelsat presided. The chapter highlights the technological changes that occurred within that period and discusses the implications of these innovations for competition and change. It sheds some light on the conflicts and contradictions of this sector as a result of these changes that later culminated in the separate satellite system policy. Finally, it reflects on the implications for competition within the satellite sector for the future of the Intelsat regime.

The History of the Development of the International Telecommunications Satellite Industry

In 1957, the Soviet Union launch its first satellite, Sputnik. This launch created an urgency in the United States to develop its own satellite sector. As a result, in 1960 AT&T applied for and received an FCC license to engage in experimental satellite communications with the goal of implementing an operating satellite system. As a result of this experimentation, TELSTAR was launched in 1962. In 1963, RCA and Hughes Aircraft Company, both of which had also been granted the same privilege by NASA, also launched their projects - RELAY and SYNCOM, respectively. These innovations led to the passage of the US Communications Satellite Act in 1962 which authorized the formation of Comsat. The satellite systems of RCA and Hughes became the basis on which Comsat formed its operation. Then in 1965 Comsat launched its own commercial communications satellite, EARLY BIRD.

These innovations in the United States prompted Canada to launch its first domestic communications satellite in 1972. Two years later, Western Union launched the first United States private domestic satellite, WESTAR. RCA also followed soon thereafter with the launch of a second domestic satellite, RCA SATECOM. By 1976, AT&T and Comsat had collaborated in the launch of the COMSTAR series of satellites which were intended for voice and data transmission. This satellite series provided a tremendous boost to the television and cable industries.

Of the satellite corporations that played a role in the emergence of the satellite sector, Western Union, one of the primary forerunners of the industry, is no longer in existence. Hughes continues to operate and is currently a manufacturer of satellite systems. However, Hughes, which had partnered with GTE, in the early 1960s, now provides satellite services for the domestic market and does not interfere with the international market controlled by Intelsat. AT&T still operates satellites but is no longer in partnership with COMSAT.

By 1978, fourteen years after Intelsat was established, these companies began gearing their operations for real competition in the international telecommunications market. As a result, for the first time, Intelsat faced the possibility of competition from the new companies attempting to operate outside of the Intelsat system and furthering their own private pursuits. While these domestic companies were emerging, suppliers from other regions of the world also began to surface as another possible source of

competition. In 1976, PALAPA, a regional system, was launched in Indonesia. The same year, Japan launched its domestic satellite system, followed by India in 1982 and Australia, Mexico and Brazil in 1985. The major challenge to Intelsat, however, came with the creation of PanAmSat in 1983 and later Orion in 1984. Both firms attempted, for the first time, to provide services to a market dominated by Intelsat. Technological innovation also posed a major challenge to the Intelsat system, creating potential alternatives to satellite technology.

Technological Challenges

The transformation of the telecommunication sector was affected not only by the deregulation of the telephone and telegraph markets but also by the proliferation of technological innovation in fiber optics, personal communications systems and in maritime and mobile technology. These technological changes provided alternatives to satellite communications and posed a threat to Intelsat's market. The greatest threat from these technological changes, however, was that they provided a point of accessibility to the international satellite market for potential new separate satellite systems.

The technology that had a significant impact on the satellite sector was fiber optics. In 1988, the first fiberoptic trans-Atlantic telephone cable, known as TAT-8, was laid across the Atlantic ocean. Trans-Pacific cables were soon to follow. Fiber optic technology had the potential of transporting a greater volume of telephone, data and video traffic at a significantly lower cost than satellite technology. Fiber-optics, however, unlike

satellite technology, was designed to only relay information from point to point and not from point to multipoint as television broadcast technology. Nevertheless, the ability of fiber optics technology to transfer larger volumes of telephone calls provided an alternative to satellite communications.

A second innovation that directly affected the international satellite system was personal communications systems (PCS) technology. PCS is a new generation of wireless phone technology that three types of digital technology - Code Division Multiple Access (CDMA), Global Systems for Mobile Communications (GSM), and Time Division Multiple Access (TDMA).¹⁸⁰ Digital technology is a significant improvement over the former analog technology. The difference is not only in the quality of the reception received, but also in the range of service possibilities. Digital phone technology provides a variety of user possibilities - wireless phone, paging, message services and data services. PCS technology, which operates through low earth orbit (LEO) satellites, has the capable of being used anywhere. The major drawback of PCS technology is that with the three digital technologies, phones using one of the digital technologies may not work on another.¹⁸¹

A third technological innovation, which provided a challenge for the international communications satellite industry, occurred within the area of maritime and mobile

¹⁸⁰ See http://dmsweb.badm.sc.edu/grover/telecomold/pcs_home.htm.

¹⁸¹ See <http://inventors.about.com/library/weekly/aa072199.htm>.

technology, also. In 1976, COMSAT launched a new type of satellite — MARISAT — for the purpose of providing mobile services to the United States Navy and other maritime clients. Europe followed shortly after with the launch of MARECS. As a result of both endeavors, in 1979 the United Nations International Maritime Organization established the International Maritime Satellite Organization (INMARSAT) to regulate services in that sector in the manner similar to Intelsat. At its inception, INMARSAT utilized both MARISAT and MARECS, doing so until it launched its own satellites, INMARSAT II and INMARSAT III. The maritime and mobile telecommunications market for the first time offered alternative means of communication thereby posing a threat to the land-based satellite systems which Intelsat represented.

Competition and the International Telecommunications Satellite Industry

The gravest threat to the international telecommunications satellite industry, however, came from companies seeking to compete in the market with Intelsat. Beginning in 1983, the FCC received five applications from satellite companies seeking licenses to operate in the international satellite market. The companies were Pan American Satellite Corporation (PanAmSat), Orion Satellite Corporation, International Satellite Inc., RCA American Communications, and Cygnus Corporation. The FCC immediately began its deliberations on PanAmSat, International Satellite Inc. and RCAAC. However, deliberations on Orion Satellite and Cygnus were postponed until a later date. PanAmSat's goal was to provide services between North America and Latin America while RCA's was to provide services between the US, Europe, and Africa.

Based on the Communications Satellite Act of 1962, satellite companies outside the Intelsat system were not permitted to operate unless the United States determined that their operation was necessary and required in the national interest. The Senior Interagency Group on International Communication and Information Policy was established to review existing policy to determine whether the operation of separate systems would be in the national interest. It was the recommendation of this committee that the national interest would be enhanced allowing the operation of separate satellite systems. As a result, on November 28, 1984, the president of the United States issued a determination which permitted the operation of separate satellite systems on the grounds that they enhance the national interest.¹⁸²

Prior to the November 1984 declaration, United States firms faced restrictions from both Intelsat and the FCC that limited their ability to provide satellite services internationally. They were allowed to compete only in the area of television broadcasting, video, data and voice transmission. They were restricted from entry into any area of telephone services between companies and individuals that involved the use of local telephone services. This restriction resulted in the protection of 85% of Intelsat's income since firms were allowed to operate on condition that the services they provided caused neither technical nor economic hardship to Intelsat.¹⁸³

¹⁸² Department of State Bulletin, Communications Satellite Systems, 1985.

¹⁸³ New York Times, July 26, 1985.

United States firms providing satellite services overseas encountered additional restrictions imposed by foreign regulatory agencies which limited their overseas operation. As a result of these restrictive policies, these companies diverted their efforts from providing telephone services into operating private communications networks and providing international television and video services.¹⁸⁴ Both markets, particularly the international television and video market have been the least restrictive of the telecommunications markets and where private firms have managed to create a niche.

The international television and video market can be distinguished by regional and international or transoceanic broadcasts. United States firms as well as foreign firms have found the market for regional broadcasts more profitable and traditionally have formed a market characterized by fewer restrictions than the telephone service market. As a result, this market became an area of growth for satellite service providers. The international and transoceanic broadcasts market, however, was largely controlled by Intelsat which continued to dominate the television and broadcast market due to its excess capacity, its market access and its size. Services such as local news media, transmitting news from one region to another, generally relied on Intelsat services, so fewer providers emerged in this area.

As a result of Intelsat's dominance in transoceanic broadcasting, regional broadcasters tended not to develop the capacity for transoceanic broadcasting. Companies

¹⁸⁴ Ibid. p. 29

entering the market for transoceanic services were often government-owned or had strong ties to government. This relationship allowed them added privileges in the setting of the price for the services they offered.¹⁸⁵ The international television and video market became the avenue through which emerging firms, such as PanAmSat and Orion could launch their entry into the international satellite market.

PanAmSat

PanAmSat was the first private commercial entity that emerged to challenge Intelsat's dominance in the international satellite market. While PanAmSat led the way for the introduction of separate satellite systems, its survival within the satellite sector remained dubious. As a result it waged a long and protracted battle both domestically and internationally to establish its operation. Its battle for survival persisted against what it perceived as unfair competition, despite its successful presence in the global satellite markets.

In May 1984 PanAmSat, which is owned by Alpha Lyracom, a Connecticut-based sole proprietorship, filed an application with the FCC for the establishment of a private satellite system in Latin America to provide international satellite services between Latin America and the United States. This application came in the light of President Reagan's

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See, United States, General Accounting Office, "Telecommunications: Competition Issues in International Satellite Communications. Report to the Chairman, Committee on Commerce, Science and Transportation - United States Senate, October 1996, GAO/RCED-97-1,

1984 declaration that private satellite operators be allowed to compete with the Intelsat system in global satellite communications. As the first privately-owned international communications satellite system, PanAmSat was the first commercial entity to officially challenge the Intelsat monopoly. Prior to the PanAmSat launch, US and foreign companies used satellites within their borders but no one sought to challenge the Intelsat monopoly. PanAmSat's goal was the establishment of international satellites for business communications and television links between the US, Latin America and Western Europe. Using its geostationary satellite, PAS I, which had the capacity to beam television programs, video, audio and data signals to all sites in the United States, Europe and Latin America, it could simultaneously carry 36 TV channels.

A year after it requested FCC approval, PanAmSat was granted the conditional approval requested for the construction of its satellites.¹⁸⁶ In its bid for approval, PanAmSat was required to disclose to Intelsat the full range of equipment it planned to use in its operations and where and how this equipment was to be used. The nations which would be the recipients of these intended services also had to send documents in support of the claims made. Intelsat responded to the bid for approval with a request that PanAmSat demonstrate financial qualification by the end of the year, without which the approval for operation would not be granted.

¹⁸⁶ This occurred on September 3, 1985.

After several requests from PanAmSat for extensions for meeting the requirement of financial qualification, on July 9, 1986, Intelsat's board of governors rejected PanAmSat's bid to launch and operate its satellite system on the grounds that PanAmSat had failed to fully inform Intelsat of how it had planned to use its 24 transponders.¹⁸⁷ The United States and Peru had provided information for only five transponders that would be used to transmit video, data and private voice services between the United States and Latin America instead of twenty-four.¹⁸⁸

A year later in April of 1987, Intelsat granted conditional approval for PanAmSat's operation of twenty-four transponders, including the five Latin American transponders between the US and Peru. Six of the 24 transponders were designed for traffic between Europe and North and South America. The satellite, which was located at the eastern tip of Brazil, would also handle data, telex and radio communications for the financial, manufacturing and mining industries. It was also designated to broadcast 36 television channels simultaneously.

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See "Intelsat Board of Governors Rejects U.S. call for Extraordinary Assembly of parties on PanAmSat Coordination," Rio De Janeiro, Brazil, June 23, 1986. Requests by PanAmSat for 45-day extensions for meeting the requirement of financial qualification were made on November 21, moving the deadline from December 1 to January 15, 1986. The request was granted by Intelsat on December 12th, 1985. Five subsequent requests for extensions were made and granted on January 21, 1986, March 24, 1986, May 2, 1986, June 18, 1986, and July 31, 1986.

¹⁸⁸

The San Diego Union-Tribune, "Consortium Rejects U.S. Bid for Satellite", Thursday July 10, 1986, pg. A-24.

The battle for entry into the international satellite market was soon followed by the battle over who would dominate the market. After Intelsat's approval of PanAmSat, a series of confrontations between PanAmSat and Intelsat soon surfaced. PanAmSat accused Intelsat of promoting an international boycott against its satellites by putting up "bureaucratic roadblocks" that prevented PanAmSat signals from being received in places where Intelsat had control of the market. Both Intelsat and Comsat vehemently denied PanAmSat charges, claiming instead that Intelsat had increased PanAmSat's access to Intelsat member nations instead of embarking upon a strategy of obstruction.¹⁸⁹ PanAmSat also accused Comsat of unfair competition and petitioned the United States courts to intervene.

In September of 1991, the U.S. Court of Appeals ruled that PanAmSat could pursue a \$1.5 billion antitrust suit against Comsat, alleging that Comsat practiced predatory pricing and that Comsat had discouraged other signatories from doing business with PanAmSat. Because Comsat's action was the result of its role as the US signatory to Intelsat, a prior court had earlier decided that, because it was an international organization, Comsat was immune from U.S. antitrust laws. The 1991 Court decision was

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Los Angeles Times, November 27, 1988 in
[Http://web.lexis-nexis.com/universe/document](http://web.lexis-nexis.com/universe/document).

a reversal of the earlier lower court decision, where it concluded that Comsat was not immune.¹⁹⁰

Additional charges of unfair business practices and obstructions to PanAmSat's efforts had also come from outside the United States. Since launching PanAmSat, its parent company, Alpha Lyracom, has been embroiled in a battle with Entel, the state-run Argentinian telephone and telegraph cartel and seven independent TV network stations. The networks desired to be linked to PanAmSat's satellite.¹⁹¹

Peru had initially chosen the Intelsat system. However, it later decided against Intelsat, particularly because only a small percentage of Intelsat's transmitting capacity was allotted for television broadcasting. That allotment had already been dominated by Entel who, as Argentina's signatory to Intelsat, also owned the only microwave grid that TV broadcasters needed to transmit programs to stations. By restriction of access to the microwave grid, Entel denied potential broadcasters the ability to transmit programs using PanAmSat satellites.

In 1985, PanAmSat was successful in luring business away from the Intelsat network when its parent company Alpha Lyracom, offered Peru the use of a high-powered video transponder that would cover Peru, Ecuador, Bolivia and Northern Chile.

¹⁹⁰ See "Monopoly in Orbit," *The Economist*, October 26, 1991, p. 19.

¹⁹¹ *Ibid*

for a mere \$1 per year. Despite the many obstructions, by 1995, PanAmSat's income managed to rise to \$116.1 million, almost doubling from the previous year's \$63.7 million.¹⁹²

Orion

The second private domestic satellite company to receive both Intelsat and FCC approval was the Orion Network Systems. Though the first to apply for approval before the FCC, Orion followed PanAmSat in breaking the 25-year Intelsat monopoly on international communications between nations. Orion launched two geostationary satellites to locations above the Atlantic, the first in 1992 and the second in 1993. Its licenses prohibited telephone calls on the public telephone network.

After a long battle with Intelsat which began in 1983 when it petitioned the FCC for approval for the provision of voice, data and video services for corporations and government agencies between the US and the United Kingdom, Orion finally won approval from the FCC in 1987. Two years later, Orion received an approval from Intelsat to operate its commercial satellites.¹⁹³ Its licenses prohibited the use of telephone calls on the public telephone network.

¹⁹² New York Times, June 16, 1996.

¹⁹³ This occurred on June 22, 1989.

Unlike PanAmSat, which planned to provide services between the United States and Latin America, Orion was the first firm that attempted to provide services between nations that were outside of the United States. It was designed to be the first transoceanic separate satellite system engaging in intercontinental provision of services and as a result would be in direct competition with the Intelsat market.¹⁹⁴ Also unlike PanAmSat which focused on transmitting television signals through its satellites, Orion concentrated 20% of its efforts in video and 80% in private telecommunications networks for businesses. It was therefore expected to cause Intelsat “significant economic harm.” In spite of the impending threat, the decision was made by Intelsat to grant approval for Orion to operate after receiving assurances from United States and the United Kingdom that both nations would remain committed to do business with Intelsat in the long run and that Orion’s operations would be limited to private corporate networks.¹⁹⁵

Factors Affecting Competition

In spite of PanAmSat and Orion’s presence in the international satellite market, sustained international competition failed to take root within the international telecommunications market. The failure of competition can be attributed to several factors. First, Intelsat’s signatories had close ties to their governments. As a result, their

¹⁹⁴

PR Newswire Association, Inc., “Intelsat Board of Governors Consults Orion System,” Washington, June 22, 1989.

¹⁹⁵

John Burgess, “Rockville Company Rejoices Over Satellite Network Okay,” The Washington Post, July 19, 1989, p. F1. Also Nancy Dunne, “Board of Intelsat Backs Competitors”, The Financial Times (London), June 23, 1989, p. 8.

governments were willing to protect them at any cost, from outside competition. As in the instances of the American Satellite Corporation in Jamaica and PanAmSat in Peru, new firms seeking access to foreign markets were denied access as governments imposed regulations to prevent separate satellite systems' access to the local market.

Competitors had to seek permission from domestic licensing bureaus to provide services to a country. Domestic telecommunications bureaus were entrusted with the authority to approve applications for use of the specific spectrum of radio frequencies, for setting up ground stations to send or receive satellite signals or to interconnect with the domestic telephone system. These bureaus served as an extension to the International Telecommunications Union Radiocommunications Sector (ITU-R), whose responsibility it is to allocate radio frequencies and to register radio frequency assignments in the geostationary satellite orbit in order to avoid harmful interference between radio stations of different countries. Again, as in the case of Peru, the necessary approvals were not forthcoming.

Second, the Intelsat signatories were often the only domestic institutions authorized to grant licenses for the operation of competitive firms. They therefore lacked the incentive to approve service providers who posed challenges to the existing or future markets served by the signatories. Signatories had a financial motive to restrict

competitors' access to local markets.¹⁹⁶ In 1996, seventy one percent of Intelsat's signatories were directly responsible for making the decisions concerning licensing, spectrum allocation and market access, allowing them to restrict or deny licensing of prospective competitors.¹⁹⁷ An additional fourteen percent of the signatories were separate from but nevertheless related to the licensing bodies and were able to exert some influence on decisions.¹⁹⁸

The third restriction to competition is that, in the event that a separate satellite system did gain access, there were no guarantees that needed access would continue in the future for that company. A company getting approval for access for a period of one year, would not be guaranteed for another, neither would there be any guarantee that other companies seeking access to that country's market thereafter would be successful. Each non-Intelsat company had to negotiate entry into a foreign market to provide global services each time access was desired, with no guarantee of success. Intelsat's access, on the other hand, was automatic and it never needed to negotiate its privileges.

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United States General Accounting Office, Telecommunications: Competitive Impact of Restructuring the International Satellite Organizations, Report to the Chairman, Committee on Commerce, House of Representatives, GAO/RCED-96-204 p.5.

¹⁹⁷

United States, General Accounting Office, "Telecommunications: Competition Issues in International Satellite Communications. Report to the Chairman, Committee on Commerce, Science and Transportation - United States Senate, October 1996, GAO/RCED-97-1, p. 27.

¹⁹⁸

Ibid.

A fourth factor hindering competition in the telecommunications market was that separate systems first had to secure agreements from local companies to provide services after which negotiations with Intelsat for access would take place. Because the negotiation process was lengthy and time consuming, time delays resulted in heavy financial losses for separate satellite systems. New companies' abilities to freely compete in these markets were undermined by the possibility of denials and delays.

Finally, Intelsat had been the recipient of special advantages that were not available to its competitors. Intelsat had easy access to financial capital and enjoyed other special privileges, the most important being exemptions from taxation and easier access to orbital slots (locations in space). It also enjoyed special immunity from lawsuits. These advantages gave Intelsat a competitive edge while undermining the survival of new companies.

COMSAT argued that there were no special advantages given to Intelsat over competing firms. It noted that the existence of separate satellite systems was itself an indication that there were few barriers to entry and that Intelsat had no market dominance.¹⁹⁹ Intelsat, COMSAT argued, bore tremendous responsibilities for providing universal services at nondiscriminatory prices to the international community, especially to developing nations, thereby posing limitations on its ability to compete in the market. COMSAT also noted that because Intelsat was an intergovernmental organization, its

¹⁹⁹ Ibid.

efficiency as an economic entity was greatly undermined since consensus was needed on all decisions. The organization was thereby impeded in its attempts to respond rapidly to changes in the market. Intelsat's competitors disagreed with this stance.²⁰⁰

Restructuring

By 1996 new domestic and foreign companies had surfaced (Tables 4-2 to 4-4) resulting in the creation of the Alliance for Competitive International Satellite Services (ACISS). This was a seven-company lobbying group that was created within the United States to oppose the market advantage that Intelsat possessed.²⁰¹ Members of the consortium agreed that in its initial stages Intelsat had served a vital function in creating a global network. However, they argued that the needs of the satellite sector had changed. As a result, Intelsat's preferential treatments - its tax privileges, immunity from lawsuits, preferential access to radio spectrum and space for satellites - had become a hindrance to the satellite sector. ACISS was organized to press for a change and to urge a restructuring of the satellite sector.

One proposal for restructuring called for the elimination of the Intelsat intergovernmental arrangement. The intergovernmental arrangement has allowed it to

²⁰⁰ Ibid. p.27.

²⁰¹

ACISS consisted of PanAmSat, Orion Network Systems, Columbia Communications Corporation, Motorola Inc., Odyssey Worldwide Services, Orbital Communications Corporation, TRW and Loral Space and Communications Limited.

authoritatively allocate commercial benefits such as its tax exemptions and preferential access to radio spectrum to the organization, thereby resulting in market advantages. For its opponents, the elimination of the intergovernmental arrangement would also mean the elimination of benefits that Intelsat received and ultimately Intelsat's global market dominance, making it possible for the creation and entry of new firms into the global satellite market.

Many developing nations had grave concerns about the elimination of the intergovernmental arrangement. They believed that the arrangement not only allowed the organization benefits but with it also came the responsibility of ensuring the provision of basic satellite services to developing nations. As a result, they argued that access to basic telecommunications services such as telephone using satellites would be threatened in the absence of Intelsat's intergovernmental arrangement. Should the intergovernmental arrangement be relinquished, these states would be unwilling to rely on the private sector to ensure the provision of these basic services.

A second proposal for restructuring which was also advanced by ACISS, was to split Intelsat into three companies in order to reduce Intelsat's size and market dominance. Under this arrangement, Intelsat would remain an intergovernmental organization, and create two affiliate companies, the shares of which would be sold to the public. The two affiliates would focus on improved satellite services, whereas Intelsat

would focus on basic telephone services, especially for developing nations. The affiliates would have no special privileges or immunities.

The third proposal for restructuring Intelsat, endorsed by the US government, was to divide the organization in two entities - an intergovernmental arrangement and an entity for providing advanced services. The first entity would be the intergovernmental arrangement which would be 20% owned by signatories. This entity would continue to focus on basic telecommunications services such as telephone. The affiliate entity would be privatized, and would concentrate on providing more advanced services such as video and data. The privately owned affiliate would have no special privileges or immunities. Business transactions between the two entities would take place as if they had no prior economic relationship. The affiliate would be subject to competition laws in the countries in which it operates.

ACISS's proposal for restructuring was turned down on the grounds that "[t]hat view does not have any support in the rest of the world."²⁰² ACISS argued that the restructuring effort could not be successful unless Intelsat's large transoceanic capacities were reduced and countries were willing to accept the new companies. However ACISS, the United States government and COMSAT all agreed that the market was capable and

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Statement made by John Mattingly, vice president and general manager of Comsat quoted in Investor's Business Daily, September 12, 1996.

willing to offer services such as video, data and mobile telephone services and should be open for such ends.

Conclusion

The transformation of the Intelsat system began in the United States with one firm, PanAmSat receiving a license to operate and less than a dozen looming in the background awaiting their approval to operate. Internationally, other firms followed suit. PanAmSat's approval set a precedent that paved the way for future transformations of the international telecommunications satellite industry and that later affected the decisions of companies such as the American Satellite Corporation which were now able to act as intermediaries to deliver satellite services for international business transactions.

Table 4-1 Significant Events in Communications Satellite:1945 - 1990²⁰³

1945	Arthur C. Clark's article: "Extra-Terrestrial Relays"
1956	First Trans-Atlantic Telephone Cable: TAT-1
1957	Sputnik: Russia launches the first earth satellite
1960	First successful DELTA Launch Vehicle
1960	AT&T applies to FCC for experimental satellite communications license
1961	The start of TELSTAR, RELAY and SYNCOM programs
1962	TELSTAR and RELAY launched
1962	US Communications Satellite Act
1963	SYNCOM launched
1964	INTELSAT formed
1965	COMSAT's Early Bird — the first commercial communications satellite
1969	INTELSAT-III series provides global coverage
1972	ANIK: The first Domestic Communications Satellite (Canada)
1974	WESTAR: The first US Domestic Communications Satellite
1975	INTELSAT-IVA:
1975	RCA SATECOM: The first operational body-stabilized communications satellite
1976	MARISAT: The first mobile communications satellite
1976	PALAPA: Indonesia launches domestic communications satellite
1979	INMARSAT formed
1988	TAT-8: The first Fiber-Optic Trans-Atlantic telephone cable

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Source: David J. Whalen, "Communications Satellites: Making the Global Village Possible." <http://www.hq.nasa.gov/office/pao/History/satcomhistory.html>.

Table 4-2: The United States Domestic Satellite System²⁰⁴

PanAmSat
 Orion Network Systems
 Columbia Communications Corporation
 Motorola Inc.
 Odyssey Worldwide Services
 Orbital Communications Corporation
 TRW
 Iridium
 Globalstar
 Design Publishers, Inc.
 Dialink Satcoms, Ltd
 WESTAR
 GTE

Table 4-3: Domestic Satellite Systems in the Americas²⁰⁵

Satellite Systems	Nation
Anik	Canada
Solidaridad	Mexico
Hispasat	Spain
Nahuelsat	Argentina
Brazilsatk	Brazil

²⁰⁴

By 1995 there were a total of 30 US operational domestic satellites authorized by the FCC. There are the top firms in operation.

²⁰⁵

Source: Comsat's written comments on the GAO Draft Report: "Telecommunications: Competitive Impact of Restructuring the International Satellite Organization," p. 29.

Table 4-4: European Domestic Satellite Systems²⁰⁶

Satellite Systems	Nation
EUTELSAT	Pan-European
Astra	Luxembourg
Telecom	France
Italsat	Italy
Turksat	Turkey
DFS-Kopernicus	Germany
Hispasat	Spain
TV SAT/Tele-XThor	Nordic countries

Table 4-5: Regional Satellite Systems²⁰⁷

Satellite Systems	Nation
Arabsat	Pan-Arab
Amos	Israel
Optus	Australia
Asiasat	(Private)
Apstar	(Private)
Chinasat/Dongfangong	China
Insat	India
Koreasat	Korea
Measat	Malaysia
Palapa	Indonesia/Asean countries
Rimsat	Tonga
Thaicom	Thailand
BS	Japan
J-SAT	Japan
N-STAR	Japan
SCC/Superbird	Japan

²⁰⁶ Ibid.

²⁰⁷ Ibid.

Table 4-6: International Satellite Systems and their Investors²⁰⁸

<u>Competing satellite system</u>	<u>Intelsat Investors</u>
Astra	British Telecom
Telecom	France Telecom
Optus	Cable and Wireless
Asiasat	Cable and Wireless
Hispasat	Telefonica
DFS-Kopernicus	Deutsche Telecom
Palapa	Deutsche Telecom
Solidaridad	Telecom Mexico
Brazilsat	Embratel

²⁰⁸

Ibid

CHAPTER FIVE

THE JAMAICAN TELECOMMUNICATIONS SECTOR

Introduction

The rapidly transforming global satellite market of the 1980's had a cascading effect on the domestic telecommunications market, and as international competition increased, so did concerns for the viability of these domestic sectors. In the decade between 1980 and 1990, two patterns began to emerge in the revenue of the Jamaican telecommunications sector. First, the revenue in the international component of the sector began to escalate, while simultaneously, a pattern of decline of revenue in the domestic sector, set in. The decline, which began in 1980, continued until 1989, the period of the Digiport negotiations. It resulted in more than a 50% reduction in the income accruing to the domestic component of the sector. [Fig 5.1]

The concerns for the viability of Jamaica's domestic telecommunications segment emerged from both Cable and Wireless and the Ministry of Public Utilities and Transport (MPUT) - both sought an immediate solution to the decreasing revenue in the domestic component and the possible impact on the continued provision of domestic services. The Ministry's solution to the decline in revenue stream, proposed in 1985, was a policy of cross-subsidization, whereby income generated from the international component was transferred to the domestic component. This transfer was intended to

offset the costs of the provision of services in the domestic component.²⁰⁹ The cross-subsidization policy was adopted in 1989.

The restructuring of the Jamaican telecommunications sector initiated in 1985 by the Ministry of Public Utilities and Transport (MPUT) to address the decline in revenue began shortly after several significant global events; most notably, the opening of the global telecommunications market to competition, and the action of the global satellite regime, led by Intelsat, to allow limited competition in satellite services. The restructuring consisted of three stages: a) the privatization of the sector, b) the merger of domestic and international operations under a single entity - Telecommunications of Jamaica (TOJ), and c) a revised regulatory regime that would solidify Cable and Wireless' control of the sector. It ultimately resulted in the elimination of all competition within the sector, and subsequently, it led to the closing of the sector to international competition. Moreover, Jampro's attempt to liberalize the sector using the services of the American Satellite Company for the Digiport was defeated, as it represented a threat to the state's restructuring of the sector.

Several key actors facilitated the restructuring the Jamaican telecommunications sector. These actors were Cable and Wireless, Jamintel, Jamaica Telephone Company, Telephone of Jamaica, the Ministry of Public Utilities and Transport, the National Investment Bank of Jamaica (NIBJ), and Industrial Commercial Development. Cable and Wireless International initially supplied international services but later supplied all

²⁰⁹ Spiller and Sampson, p. 66.

telecommunications services. The Jamaica Telephone Company and Jamintel were domestic entities in partnership with Cable and Wireless to provide domestic and international services respectively. The Industrial Commercial Development was an indigenous firm with ownership shares in the telecommunications sector. The stages of the restructuring were conducted under the auspices of the National Investment Bank of Jamaica.

This chapter will begin with an examination of the historical evolution of the telecommunications sector in order to demonstrate how it progressed from its previous use of multiple providers to that of the single Cable and Wireless monopoly. Secondly, it will examine the domestic and international economic contexts that impinged on the state-directed restructuring of the sector and which resulted in Cable and Wireless' emergence as the dominant supplier of the sector. Thirdly, the chapter will look at the impact of the restructuring on the Digiport negotiations and Jampro's decision to use the American Satellite Company, a competitive non-Intelsat satellite system. And finally, the chapter will examine the roles played by these actors in the restructuring of the sector in order to determine the causes of restructuring and its effects on both the liberalization of the sector and the Digiport negotiations.

The chapter lays the foundation for explaining why Jamaica failed to liberalize its services in satellite technology. The creation of new telecommunications firms and the establishment of the separate satellite systems policy of both the U.S. and Intelsat posed a potential threat to the viability of Jamaica's telecommunications sector, which

led to the state's decision to eliminate competition. Germane to the closing of Jamaica's telecommunications sector to competition was the new cross-subsidization policy, which involved its full restructuring. Cross-subsidization was designed to rescue the sector from the diminishing returns from the provision of domestic telecommunications services. Under the new restructuring agreement, all attempts to liberalize the sector using non-Intelsat satellites would be eliminated.

The History of Jamaica's Telecommunications Sector

The Jamaica telecommunications sector, which began in 1870 under the colonial regime of Great Britain, consisted of both a domestic and an international component. The first international telephone was installed that same year by the state-owned West India and Panama Telegraph Company (WI&PT), which later was renamed Cable and Wireless. Because West India and Panama Telegraph Company (WI&PT) and Cable and Wireless were imperial operations, Jamaica's relationship with the companies was an intrastate relationship, which changed in 1962 at the onset of Jamaica's independence.²¹⁰

During the colonial period, the domestic segment of the sector had been served by a succession of monopoly telecommunications providers. In 1892, the Jamaica Telephone Company was incorporated to provide services once provided by the West India and Panama Telegraph Company (WI&PT). Its operator was the British Telephone

²¹⁰Pablo T. Spiller and Cezley I. Sampson, "Telecommunications Regulation in Jamaica" in Brian Levy and Pablo T. Spiller eds. Regulations, Institutions and Commitment: Comparative Studies of Telecommunications (New York: Cambridge University Press, 1996), p. 45.

and General Trust (T>), Jamaica's first telecommunications service provider and the majority shareholder in the Jamaica Telephone Company. It provided services on a non-exclusive basis until 1925 when it received its forty-year exclusive license to operate in the capital area of Kingston and St. Andrew. The All Island Telephone System provided services for the rest of the island under the ownership of the Jamaica Post Office.

In 1945, the Jamaica Telephone Company acquired the All Island Telephone System, resulting in its provision of services to the entire island. Telephone and General Trust (T>) became the provider of services to the domestic component. It received a forty-year exclusive right to provide such services under the All-Island License, which stipulated that the provision of domestic services would be under private ownership and that there would be a "fair" as well as an "attractive" rate of return.²¹¹ Jamaica Telephone Company operated under this agreement until 1966. Prior to this period, the telecommunications sector consisted solely of telephone and telegraph services, and had experienced a "modest but continued growth" in services.²¹²

Shortly before the nation's independence from Britain in 1962, T> announced its refusal to continue to invest in the Jamaica Telephone Company's

²¹¹Spiller and Cezley I. Sampson p.39. See also Alvin G. Wint, "Pioneering Telephone Privatization: Jamaica," in Ravi Ramamuti, ed. Privatizing Monopolies: Lessons From the Telecommunications and Transport Sectors in Latin America. (Baltimore: Johns Hopkins University Press, 1996), also p. 63.

²¹²Spiller and Sampson, p. 39.

operation in the domestic component because of uncertainties in both the market as well as the in the newly independent political regime. After independence, T> began negotiations to renew its license. These negotiations lasted three years and ended in 1966. T>'s unprofitable operation in Jamaica resulted in the sale of 50% of its shares in the Jamaica Telephone Company to a Canadian holding company, the Continental Telephone Company, which was contracted to provide domestic services and to increase existing levels of investment in Jamaica's telecommunications sector. Continental's expectations, however, were greatly inflated, and the company soon suffered extensive losses from which it never recovered.²¹³

The sector's instability extended beyond its service providers to its regulatory framework. The post independence period saw a change in the sector's regulatory regime: from a system of ad hoc and temporary regulatory boards, to one replaced by the permanent and independent Jamaica Public Utilities Commission in 1966. The Commission issued new licenses to the Jamaica Telephone Company, and vowed to introduce a "Jamaicanization" plan designed to increase the percentage of indigenous ownership of the sector that would be implemented by the year 1971.²¹⁴ However, by 1975, the Commission was disbanded with the nationalization of the Jamaica Telephone

²¹³Ibid, pp. 49-50.

²¹⁴Ibid.

Company. It, nevertheless, later resurfaced as the Ministry of Public Utilities and Transport in 1976.²¹⁵

The Continental Telephone Company made various attempts to extricate itself from its troubled performance, making several petitions to the utilities commission for a rate increase. Each petition was met with opposition from both the regulatory commission and the Seaga regime. In 1975, when the Manley regime assumed power, the prime minister undertook the full nationalization of the domestic sector - a decision that was welcomed by Continental Telephone. It availed itself of the opportunity to sell all its holdings to the state, thereby initiating the process of the nationalization of domestic telecommunications in 1975. These domestic holdings remained nationalized until 1987. Cable and Wireless continued to maintain control of 51% of the shares in the international component.

Negotiations to privatize all domestic holdings began in 1985 with the return to power of a new government headed by Seaga, and under the influence of the privatization recommendations of the IMF Structural Adjustment Program of 1982. Negotiations began two years later and Cable and Wireless emerged as Jamaica's sole provider of telecommunications services after it had acquired the majority of government shares in the domestic component. All other providers of domestic service had since departed, leaving Cable and Wireless the sole investor in both the domestic

²¹⁵Ibid. p. 56.

and international segments.

While the domestic component repeatedly changed service providers, the international component, by contrast, was characteristically more stable, with Cable and Wireless as the component's only provider of international telecommunications services since its inception in 1870. Unlike the domestic component, which initially was more profitable and more regulated, the international component of the sector was relatively less regulated. It operated without a license, with minimum to no regulation, and with a fixed price system.²¹⁶

In 1961, in the shadows of Jamaica's independence, Cable and Wireless successfully negotiated with the soon-to-be newly independent state its first exclusive license to provide external services under the Radio and Telegraph Control Act. Prices remained low and continued so until the late 1970s. Cable and Wireless increased its investments in the segment with the addition of an earth station and the development of its satellite technology. In 1968 it renegotiated with the government and received a twenty-year extension of the 1961 license that allowed it to operate until 1988.²¹⁷ Cable

²¹⁶Ibid, p. 60

²¹⁷Ibid, p. 63.

and Wireless operated the international segment jointly with the state even as the domestic component remained completely nationalized.²¹⁸

In 1971, Cable and Wireless began negotiations with the state for the creation of the nation's first international telecommunications service provider. Jamintel was created as a joint venture between Cable and Wireless and the Jamaican government in which Cable and Wireless owned 49 percent of the shares and the government owned 51 percent and operated as a separate entity from the domestic service provider. The Jamaica Public Utilities Commission licensed Cable and Wireless under this new arrangement. In addition, the government assumed the cost of the international telecommunications operations that had formerly been wholly owned and operated by Cable and Wireless. By 1975, the international segment experienced yet another milestone with the introduction of international direct dialing. This milestone triggered a tremendous boom in Jamintel's profit levels.

Cable and Wireless and the Jamaica Telecommunications Sector

Jamaica's telecommunications sector has endured many changes since Jamaica's independence in 1962. However, the presence of Cable and Wireless in the international component has remained a constant since 1870. Its presence shaped and conditioned Jamaica's modern telecommunications sector. First, Cable and Wireless' presence was proved profitable for its operations in the domestic segment. Even as the state

²¹⁸ Wint p.50.

nationalized the domestic component, Cable and Wireless continued to hold 51% of the shares of the international component, maintaining control over Jamintel during the state take-over of the domestic component. By 1987, when the state privatized the sector, Cable and Wireless took the opportunity to solidify its control over the entire telecommunications sector through the acquisition of the majority 80% of the shares of both the domestic and international components. Upon privatization of the sector, Cable and Wireless renegotiated a favorable 25-year agreement in 1987.

In addition to the continued rise in revenue from international telecommunications, three factors have led to Cable and Wireless' presence and dominance in Jamaica's telecommunications sector. The first was Jamaica's regulatory regime, from which Cable and Wireless benefited greatly; the second was Cable and Wireless' ability to minimize the risks involved in operating within the Jamaican economy; and the third was the strategic importance of Jamaica, which allowed the company the opportunity to fulfill its goals for the Caribbean region.

The Sector's Regulatory Climate

The telecommunications sector's regulatory and pricing regime consisted of three features: a) the negotiation of license agreements, b) the regulation of operations within the sector; and c) the creation of incentives by the state that encouraged corporate expansion within the sector – and which time and again proved favorable to Cable and Wireless. The licensing of telecommunications operators was central to the operation of

the sector. The speed with which the state awarded the operator its license and the duration and conditions of the license determined the nature of the relationship between the operators in the sector and the state. It affected the level of involvement the operator elected to undertake as well as the risks it was willing to assume. Cable and Wireless' license negotiations had been speedy, generous and favorable. Dunn and Gooden contend that the terms of the negotiations between Cable and Wireless and the Jamaican government were "unduly generous."²¹⁹

The state's generosity toward Cable and Wireless was evident in both the 1968 and 1988 negotiations in which the company was granted a 20-year monopoly over all aspects of domestic telephone operations in the latter instance, and control over the international component in the former. In addition, it was granted other sub-licenses to operate in the areas of external telecommunications, wireless telephone, telegraph, telex and teleprinting services.²²⁰ Dunn and Gooden note that globally, the average length of a license is approximately 7 to 10 years, a period that allows a company to recover its investments. Furthermore, the Ministry also allowed Cable and Wireless the right to install and to approve the installments of all attachments to the network by any of its users, and the right to levy tariffs or fines for any unauthorized connections. Cable and

²¹⁹Hopeton S. Dunn and Winston S. Gooden, "Telecommunications in Jamaica" at <http://www.vii.org/papers/jama.htm>. p. 2.

²²⁰Ibid.

Wireless' license also guaranteed a return rate of between 17.5 and 20% of assets that were revalued to adjust for inflation.

Additionally, Cable and Wireless received favorable treatment with regards to the protection and regulation of operations within the sector. McCormick argues that the regulatory regime in Jamaica, as well as in other developing nations, can best be described as lacking both the power to exert regulatory control over the sector and the presence of any well-constituted set of regulatory policies.²²¹ Spiller and Sampson also note that the Public Utilities Commission, which was charged with the responsibility of regulating the sector, had, on occasion, faced great challenges due to the company's accounting procedures. These accounting procedures, they argue, were "designed to facilitate control by the holding company rather than by the regulators."²²²

The state's regulatory regime facilitated Cable and Wireless' preferential access to investment opportunities within the sector, from which it benefited significantly. Moreover, Ministry inducements resulted in Cable and Wireless' increasing investment levels that led it to expand its operations in the sector. The Ministry also guaranteed Cable and Wireless exclusive access to investment opportunities, as evidenced in the 1988-privatization negotiations, which facilitated the state transfer of its ownership of

²²¹ Patricia McCormick, "Telecommunications Privatization Issues in Jamaica," in Telecommunications Policy, Vol. 17, No. 2, March 1993, p. 151.

²²² Spiller and Sampson, p. 54

shares in the domestic component, and its portion of shares owned in the international component, to Cable and Wireless. During these negotiations, Cable and Wireless was the only private entity invited to the negotiating table. Once there, the terms the company received added up to enormous benefits – benefits that Wint argues were tantamount to a government “giveaway” of shares to Cable and Wireless.²²³ These “giveaways” were the contractual arrangement between Cable and Wireless and the state, in which Cable and Wireless included a twenty-five year monopoly agreement instead of the seven to ten year norm, with an added benefit of the guarantee of return of between 17% to 20% on assets, among others. These “giveaways,” Wint further states, were the result of the state’s weak bargaining position.²²⁴

Familiarity with Jamaica and the Risks Involved in Business Operations

Cable and Wireless’ longevity in Jamaica’s telecommunications sector gave it a familiarity with the risks involved in its Jamaica operations. Its longevity included its ability to survive a period of nationalization, emerging as the only supplier in both domestic and international operations when the sector was later privatized. However, while the domestic component was nationalized, Cable and Wireless maintained majority control of the international component, which remained privatized. It operated in partnership with the state during this period, and its profits in the international component increased while the component expanded.

²²³Wint, p. 68.

²²⁴Ibid, p. 68..

When the domestic component was privatized in 1989, Cable and Wireless acquired majority control of that component as well, making it the only supplier in the sector. The company had outlived all other foreign suppliers. Jamaica began to rely on Cable and Wireless for its technology, capital and expertise to modernize the country's aging telecommunications infrastructure, while the company, in turn, enjoyed unrestrained access to the domestic telecommunications market.²²⁵ It experienced a favorable economic climate in which both its needs and the needs of the state were adequately met, compared to the less than viable operations of its predecessors T> and The Continental Telephone Company.²²⁶

The Sector's Strategic Importance

After five years of state ownership of the domestic telecommunications operations under the Manley regime, the Seaga regime assumed control of the government in 1982, touting a privatization agenda.²²⁷ Moreover, Seaga became the recipient of the IMF's Structural Adjustment Program from 1982 to 1987, which was in harmony with his administration's privatization agenda. Privatization negotiations began in 1985 and ended successfully in 1987 with the sale of state shares to Cable and Wireless. Seaga's privatization agenda allowed Cable and Wireless to acquire

²²⁵Ibid.

²²⁶Ibid, p. 57.

²²⁷Wint p. 50; McCormick p. 151.

controlling interests in the sector, resulting in the shift of 100 percent of state ownership of the domestic component to the private sector. Thus, state ownership of the domestic component shifted from 100% of the telecommunications shares in 1987 to 0% ownership by 1990.

The sale in 1987 of Jamaica's domestic segment to Cable and Wireless signaled, for the first time, Cable and Wireless' control of both the domestic and international components of the sector. Cable and Wireless gained control of JTC and Jamintel and was in a position to realize the company's strategic plans for the region. As Cable and Wireless acquired shares in Jamaica's telecommunications sector, it simultaneously undertook a multi-year program to acquire telecommunications markets across the globe.

Beginning in 1986, the company purchased shares in the telecommunications sectors of Barbados, St. Kitts and Nevis in the Caribbean, and as well as in the South Pacific, Sub-Sahara Africa, and in the Middle East.²²⁸ Wint maintains that Cable and Wireless' acquisition of Jamaica's telecommunications sector was central to the company's vision for the region and was consistent with its initiatives throughout the globe. Cable and Wireless' domestic and international acquisitions in Jamaica, Wint argues, would complement its other acquisitions in the Caribbean, making it well suited

²²⁸ Wint p.60.

as a regional hub.²²⁹ It was this strategic interest in the Caribbean that, according to Wint, was the driving force behind Cable and Wireless' acquisition and control of the majority of the shares in the sector.²³⁰ Jamaica's market size was therefore, not an indicator of its importance to Cable and Wireless.²³¹

While Wint's analysis demonstrates a clear interest on the part of Cable and Wireless in Jamaica's telecommunications sector, his conclusion that Cable and Wireless' interest in Jamaica was more strategic than economic is rather dubious. The period of 1985 to 1987 when Cable and Wireless strategically sought to acquire holdings in Jamaica from the privatization of the sector was also the period in which the Digiport Project had its genesis. During this period, Jampro had initiated a feasibility study, which indicated the revenue potential of the establishment of an offshore information processing industry. This industry, using telecommunications satellite technology, would have the potential of transcending the local market to reach its multinational clientele worldwide, extending to corporations located within the industrialized nations. The income-generating potential of Jamaica's information-processing industry was clearly established.²³² Cable and Wireless' interest in providing

²²⁹Ibid.

²³⁰Ibid.

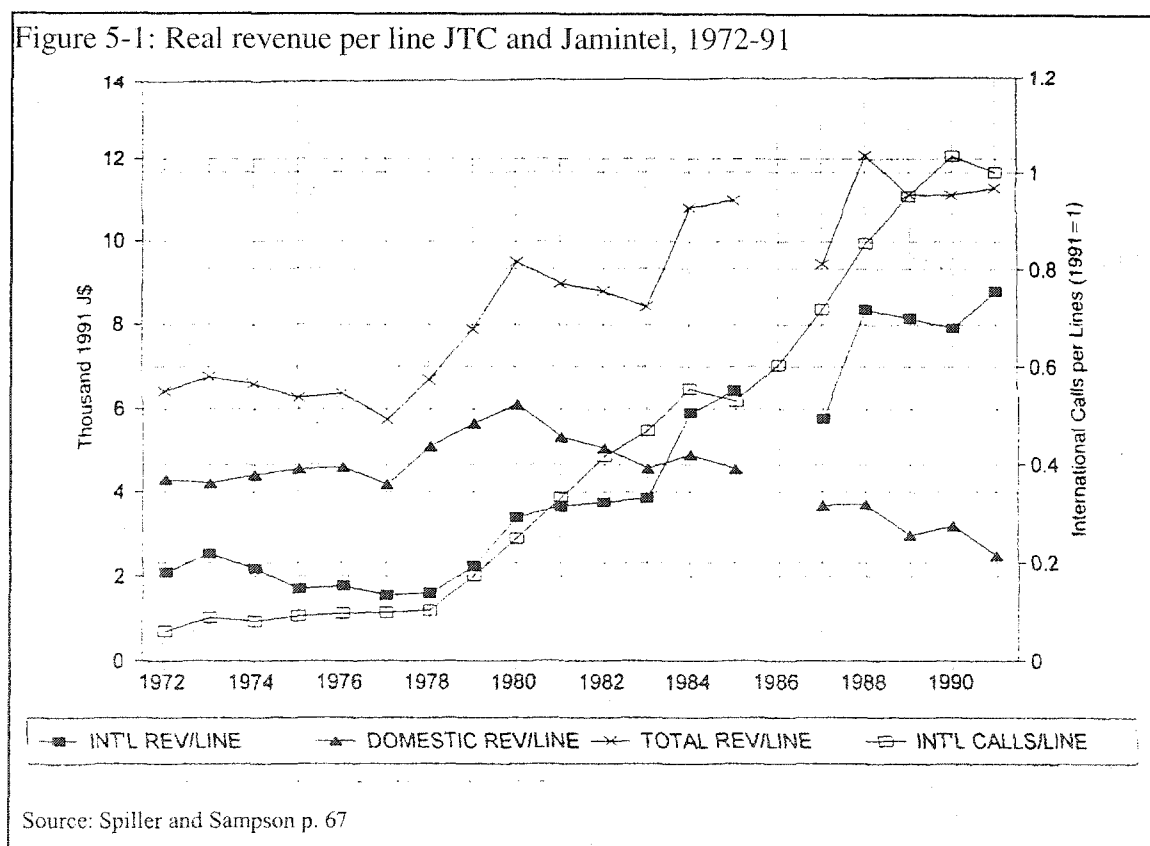
²³¹Ibid.

²³²

See "Proposal for the Provision of Enhanced Telecommunications Services for Jamaica's Free Zone," (JA), 1986.

services for the Digiport project and its concerns about competition from the American Satellite Company clearly demonstrated economic concerns more than strategic considerations.²³³

Cross-Subsidization and the Political Economy of the Jamaican Telecommunications Sector: 1980-1990



²³³Letter to the Jamaican Prime Minister dated April 15, 1986 located at the Jampro Archive (JA) in Kingston, Jamaica, West Indies.

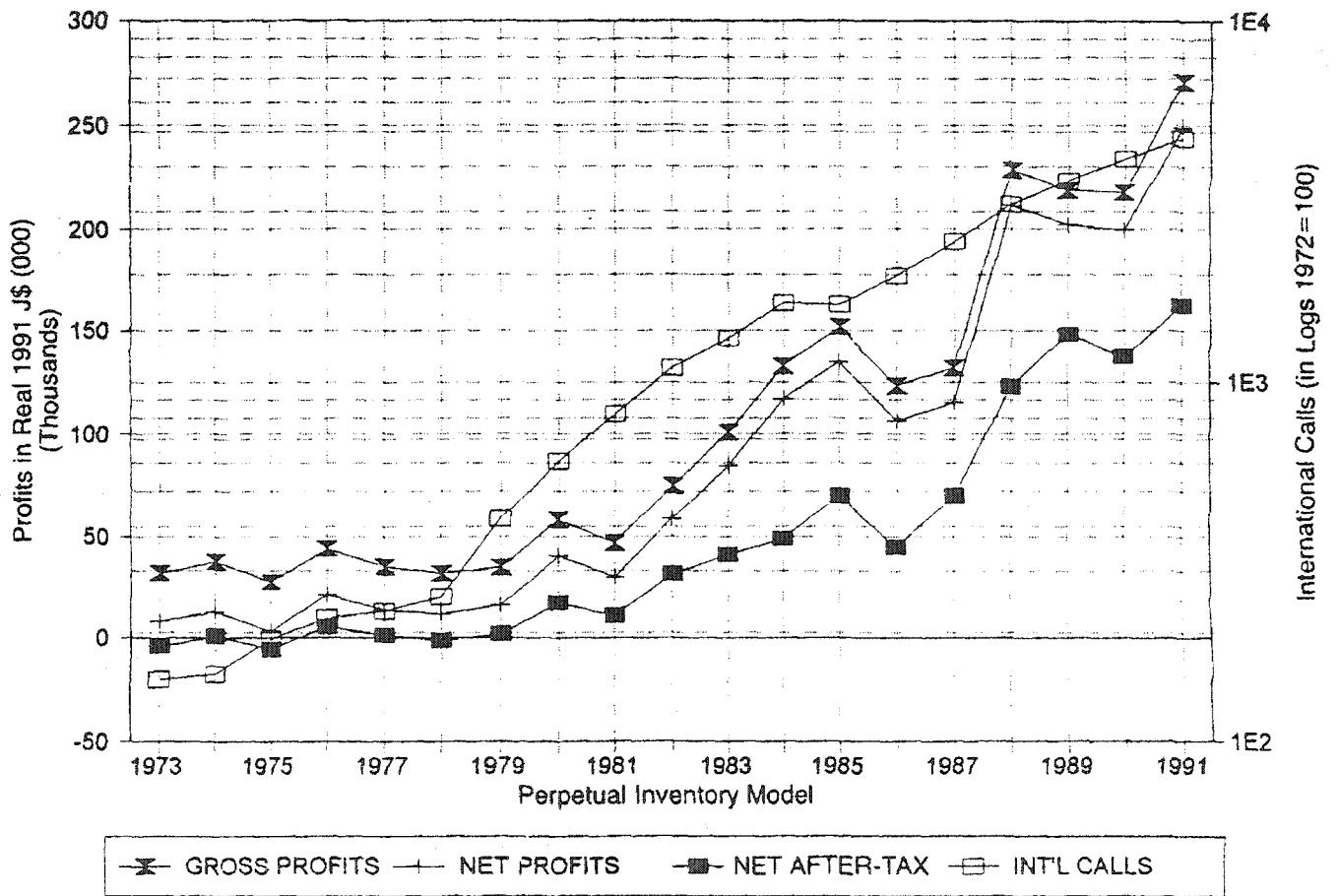
From 1980 until 1990, two trends began to emerge in the revenue of Jamaica's telecommunications sector. The first trend was the rapid increase in revenue in the international segment, reflecting more than a 100 percent increase over that of the 1980 level. [Fig. 5-1] It began with close to \$J 4,000 per line in 1980 and increased to \$J 8,000 per line in 1989. Net profits in real income for the provision of international services increased significantly from less than \$J 50,000 in 1981 to \$J 200,000 in 1989. [Fig. 5-2]²³⁴ Thus, the steady increase in profits from 1980-1989 in the international component, made it central to the survival of the sector as a whole.

This boom in the sector was attributed to two domestic actions.²³⁵ The first was the introduction of international direct dialing in 1977 which resulted in an increase in international long-distance calling, with calls more than doubling between 1980 and 1989. [Fig 5-2] With the exception of the period between 1984-1985 when the level of international calls remained constant, growth in international direct long-distance calls continued virtually uninterrupted for the remainder of the decade, albeit at a reduced rate of growth after 1984. [Fig. 5-2]

²³⁴ For total number of lines see Appendix VII: Number of Main Lines (Thousands)

²³⁵ Spiller and Sampson, pp. 65-71.

Fig: 5-2 Jamintel's Total Profits, 1973-91



Source: Spiller and Sampson p. 68

The second factor that added to the growth of the international segment was Prime Minister Seaga's reversal of the former Prime Minister Michael Manley's "controversial socialist policies."²³⁶ These policies included Manley's decision in 1976 to establish diplomatic relations with Cuba during his visit to Cuba. Castro subsequently visited Jamaica a year later, and the reciprocal visits resulted shortly thereafter in an influx of Cuban doctors to provide medical services to Jamaica. Other controversial Manley policies included the nationalization of the bauxite and telecommunications sectors, a land reform policy, which consisted of the expropriation of lands and businesses without compensation, and a controversial Crash Program where transfer payments were made to large numbers of individuals.²³⁷ Manley's policies led to the flight of both domestic and foreign capital from the nation, further intensifying the pressure from the International Monetary Fund and the World Bank to liberalize the Jamaican economy.

The result of the flight of capital from Jamaica was the involvement of the IMF in Jamaica's economic affairs. The flight had produced a strain on the nation's balance of payment reserves and the fiscal budget of the Manley regime, increasing the pressure for

²³⁶ Ibid, p. 42.

²³⁷ Nelson, W. Keith and Novella Z. Keith. The Social Origins of Democratic Socialism in Jamaica (Philadelphia: Temple University Press, 1992) p. 260. The Crash Program was an employment creation program where opportunities were created for the society's poorest through the cleaning of road embankments and gullies, roads and buildings maintenance, and some construction projects.

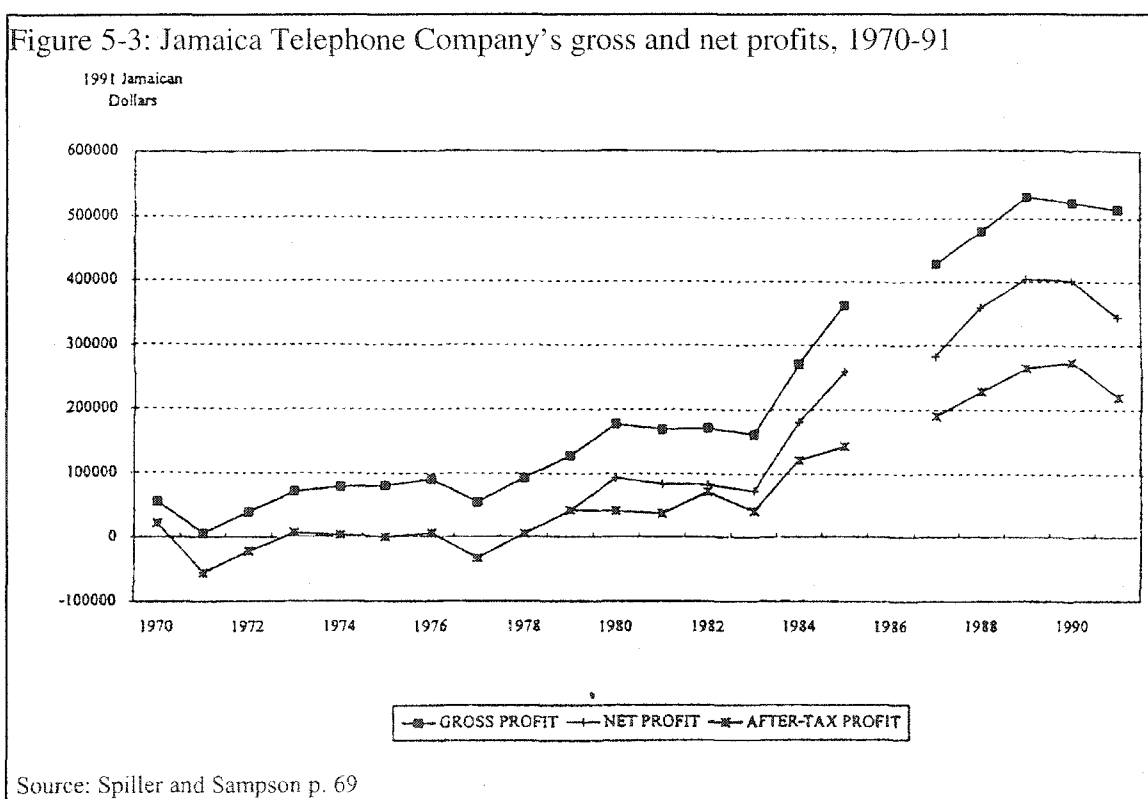
reform from the IMF.²³⁸ Seaga's electoral victory and his determination to reverse Manley's policies began a flow of new and increased investment back into the telecommunications sector. Segments of the business community which had fled to the United States during the Manley regime for fear of losing their businesses, returned to Jamaica, their fears now relieved. Thus, renewed confidence resulted in increased investments in many areas of the economy including the telecommunications sector, and increased telecommunications revenues at the start of the decade.²³⁹ This trend, however, would not continue.

While revenue from the international service increased continuously, revenue from the domestic segment experienced a downturn. In 1980, revenue from the domestic component, which had increased by 50 percent over the 1977 level, began to experience a sharp reduction in income – which was in direct proportion to the increasing flight of capital that was taking place during the same period. This reduction continued until 1989 where it rested at less than 60 percent of the 1980 level. [Fig. 5-1] Income from domestic services declined from \$J 6,000 per line in 1980 and continued steadily downwards to approximately \$J 3,000 per line in 1989. In 1984, for the first time in the sector's history, revenue from domestic services fell and continued to fall below that of the international component [Fig.5-1], primarily due to outmoded

²³⁸ Wint, p. 53.

²³⁹ Ibid.

equipment unable to meet the segment's demands.²⁴⁰ The continued decline in income in this segment foretold a potential disruption in the segment's ability to continue providing domestic services. It led to the proposal of a cross-subsidization measure that would offset declining revenue in the domestic component with revenue from the more vibrant international segment.



²⁴⁰ NTIA Leads Effort: Jamaica to Get Telecommunications Development Recommendations Today, May 9, 1986, in *Communications Daily*, Television Digest, Inc.

The Cross-Subsidization Measure

The proposed cross-subsidization measure was designed, and depended on, the successful negotiations and implementation of three prerequisite steps - with no guarantee that under separate ownership of domestic and international services, the providers of international services could be relied on to consistently transfer the needed revenue to the providers of domestic services. Thus, the first step in cross-subsidization was the merger of the international and domestic operations of Jamintel and JTC under a single entity that would facilitate the transfer of state shares to the private sector; the second was the privatization of the sector to comply with IMF structural adjustment mandates; the third was the establishment of the necessary regulatory framework that would guarantee Cable and Wireless monopoly control of both segments. The new regulatory regime would ensure that income from both domestic and international components would not be diverted to the emerging competitive international suppliers that resulted from the new international separate satellite policy. All three steps constituted the restructuring of Jamaica's telecommunications regime, which was instituted in 1987 in order to facilitate the new cross-subsidization arrangement.

The Merger of the Jamaica Telephone Company and Jamintel

The first step in the cross-subsidization scheme was the merger between JTC and Jamintel. Negotiations for the merger began in 1985 between Cable and Wireless and the Jamaican government through its agent, the National Investment Bank of Jamaica

(NIBJ), the autonomous quasi-governmental body headed by Mayer Matalon. Negotiations were designed to bring together under one entity, Jamaica's state-owned domestic component and its international component, which was majority-owned by Cable and Wireless. The process began with the creation of a holding company, Telecommunications of Jamaica, TOJ, which was chaired by Matalon, who also served as the chairman of the domestic service provider JTC.²⁴¹ Negotiations successfully ended on May 19, 1987, with an agreement between the government, Cable and Wireless, and the new entity, Telecommunications of Jamaica (TOJ).

As a result of the negotiations, TOJ was incorporated as a private company that would serve as the holding company of both JTC and Jamintel. The two entities turned over their shares to the new TOJ, and in return, they received shares in the newly formed TOJ. Under the merger agreement, both JTC and Jamintel became wholly owned subsidiaries of TOJ. The state agreed to divest itself of any remaining shares it still held in either of the two pre-existing companies. New regulatory procedures for licensing and price setting were set into place. The Board of Directors of TOJ established a date of April 1, 1991, in which all aspects of the merger would be completed. The Board stipulated that the merger was designed to create greater efficiency and that TOJ would be the coordinator of different functions which prior to the merger had been handled separately by the individual firms.

²⁴¹Wint. p. 55.

The Privatization of the Jamaican Telecommunications Sector

The second step in the cross-subsidization scheme was the privatization of both Jamaica Telephone Company and Jamintel in which the state-owned shares in the newly created TOJ would be transferred to Cable and Wireless. Privatization was more than the mechanism through which cross-subsidization would occur. This solution also represented the method that met the approval of the international community to address Jamaica's poor economic performance. When Seaga was elected Prime Minister in 1981, the new administration's first challenge was to address the nation's economic concerns.²⁴² These concerns included escalating oil prices, high importation of consumer goods, escalating flight of capital, high debt obligations and declining bauxite and agricultural revenues on which the nation very heavily depended. The new regime also encountered an increased budget from the social programs established under the Manley regime.

As a result of the nation's poor economic performance, the IMF had proposed a comprehensive plan of economic restructuring aimed at increasing competition, the reduction of the public sector in some areas, and a reduction in the national deficit.²⁴³ These prescriptions were included in the IMF Structural Adjustment Program of 1982-

²⁴²Seaga began serving in 1982.

²⁴³ McCormick, p. 156.

1987 as a precondition for future IMF structural adjustment loans.²⁴⁴ At the heart of this proposal was the privatization of industries that had been nationalized under the Manley regime. Other IMF measures included the removal of price and wage controls, foreign exchange controls, food subsidies, tariffs, and extensive financial reforms. To address the problems in the Jamaican telecommunications sector, the IMF prescribed a mandatory privatization program, which Seaga accepted. Seaga's privatization endeavor was designed to reverse the nationalization policies of the previous Manley regime in order to restore economic performance to previous levels.

The first act in the privatization process, after the creation of TOJ, was the transfer of shares to the private sector, following a prescribed formula of 80% / 20% indigenous / foreign ownership that was based on a post-independence decision to 'Jamaicanize' the sector. The formula required that Cable and Wireless control a maximum of 20% of the shares. However, at the conclusion of the privatization negotiations, the state elected to digress from its "Jamaicanization" goal, opting instead for a larger foreign-control of the sector.

The privatization began in July of 1987, when Cable and Wireless received its first 20% of state-owned shares. By October of that year, the state transferred an additional 19% of the shares to Cable and Wireless, bringing its shares to 39%, with the state maintaining the remaining 61%. In September of 1988, in accordance with its

²⁴⁴Ibid.

“Jamaicanization” policy, the goal of which was to increase indigenous ownership, the state transferred 21% of its total shares to the locally owned Industrial Commercial Development (ICD), the largest non-financial private company that was listed on the Jamaican Stock Exchange, and which was owned by Eli Matalon, brother of Mayer Matalon. The state continued holding 40% of the total shares, while Cable and Wireless maintained 39%. With this proportion, the state continued to hold the largest interest in the sector.

In July of 1989, the state sold an additional 20% of its totally held stock to Cable and Wireless, which at that point assumed the controlling interest in the sector, its stocks totaling 59%, and the state’s, 20%. In November of 1990, the state disbursed the remaining 20% of its shares to Cable and Wireless, bringing Cable and Wireless’ total to 79% of the total shares and 21% to indigenous, that is, Jamaican ownership. Clearly, the remaining percentage of Jamaican ownership of the sector reflected a reversal of the previously stated “Jamaicanization” objective.²⁴⁵

Moreover, as the state privatization of the telecommunications sector and the newly established Digiport project was being negotiated, Cable and Wireless was simultaneously successfully negotiating with the state for the exclusive provision of the project’s satellite services as Intelsat’s signatory. Cable and Wireless’ success was

²⁴⁵Hopeton S. Dunn and Winston S. Gooden, “Telecommunications in Jamaica” at <http://www.vii.org/papers/jama.htm>. <http://www.vii.org/papers/jama.htm>, p. 3.

sealed with the purchase of 35% of the shares in the Digiport project. AT&T, the U.S. signatory to Intelsat, was invited to acquire 35% of the total shares while the remaining 30% was acquired by TOJ.²⁴⁶ Cable and Wireless and TOJ became the majority owners of the project, making Intelsat, rather than the American Satellite Company, the supplier of satellite services to the Digiport.

Monopolization and Regulatory Oversight

The third step taken by the state in the cross-subsidization scheme was the establishment of the new regulatory framework. In 1987, when the merger between the domestic and international components under TOJ was finalized, the Ministry of Public Utility and Transport issued a new license for TOJ's operation in compliance with Jamaica's Telecommunications Act. This license guaranteed the company a 25-year monopoly for the provision of both domestic and international services. Jamaica Telephone would exclusively provide domestic telephone services, while Jamintel would exclusively provide international services. The Ministry assumed the role of sole regulator of the sector. Its primary task was to end competition in the sector.

At the issuance of these licenses, Jamaica Telephone and Jamintel were each 80% owned by Cable and Wireless and 21% owned by Industrial Commercial Development Ltd. The new license barred the participation of interest groups from decision-making

²⁴⁶McCormick, p. 152.

in the sector, a privilege which had been granted under the previous license.⁴⁹ This new arrangement ensured the success of the new cross-subsidization scheme given that the American Satellite Company, and any other operator that threatened the sector's ability to generate a profit, were restricted, thus, making all profits from the provision of international services available to TOJ for subsidization of the domestic component.

Jamaica's decision to eliminate competition in the telecommunications sector came at a pivotal time in the history of the international satellite system. In 1987, the year the restructuring began, Intelsat granted conditional approval for PanAmSat to operate its twenty-four transponders for provision of services to the U.S. and Peru. This action broke new ground for the international satellite system, creating a more competitive international environment. Soon other firms such as Orion followed suit, creating a niche for companies such as the American Satellite Company that emerged as intermediaries or brokers for the new emerging satellite companies.

Cross-subsidization and its Discontents

Spiller and Sampson note that the shift in the state's policy from its original goal of indigenous ownership to the disbursement of state-owned shares to Cable and Wireless was due to "strong fiscal and foreign exchange pressures" in 1988 to 1989.³⁹ Instead of offering the shares to the local business enterprises as the post-independence

⁴⁹Spiller and Sampson p. 40.

³⁹Spiller and Sampson, p. 77.

'Jamaicanization' policy of 1966 mandated, the state instead opted for the wholesale distribution of its shares to Cable and Wireless.⁴⁰ Spiller and Sampson argue that the nation's economic crisis, coupled with its demand for foreign exchange, made the sale of shares to Cable and Wireless more desirable for addressing the issues with which the nation was faced, than the planned indigenous ownership of the telecommunications sector Cable and Wireless possessed the needed finances and foreign exchange. The state depended on Cable and Wireless for the needed foreign exchange, capital, technology, and entrepreneurial leadership. That dependence was, therefore, a deciding factor in the state's decision not to 'Jamaicanize' the sector.

Wint notes that the privatization negotiations between the state and Cable and Wireless demonstrated several features of Jamaica's domestic telecommunications sector. First, Cable and Wireless' management enjoyed amicable relations with the state in its operation of the sector.⁴¹ As a result of the company's importance to the sector the state was more than willing to conduct the privatization negotiations in secrecy rather than to invite the participation and involvement of other players. The process was therefore not open to bids from other suppliers.⁴²

⁴⁰Ibid, p. 39.

⁴¹ Wint, p. 60.

⁴²Ibid, p. 58.

Wint argues that the outcome of the privatization process demonstrated that the regime had ulterior motives other than meeting IMF Structural Adjustment requirements for dissolving the shares. He points out that the level of secrecy with which the shares were transferred to Cable and Wireless reflected other motives. Wint contends that the regime motivation might have been the state's desire to acquire Cable and Wireless' technological expertise, their capital, as well as their managerial expertise for the modernization of Jamaica's telecommunications infrastructure.⁴³ Nevertheless, these goals could also have been achieved using the resources of the American Satellite Company since the Digiport project was only one aspect of Jamaica's strategy to modernize the infrastructure, and one which the initial feasibility study done by Jampro demonstrated would enhance the overall income and goals of the sector. The level of secrecy therefore represented the protection of Cable and Wireless' control of the sector rather than a mere acquisition.

Dunn and Gooden attribute to the regulatory regime that existed between the state and Cable and Wireless the method by which the state transferred ownership to Cable and Wireless, and the ease with which Cable and Wireless was able to gain ownership of Jamaica's telecommunications sector. The state failed to open the sale of shares in TOJ to the highest bidder. Instead, it allowed Cable and Wireless to be the only bidder. Telecommunications policymaking in Jamaica, as well as in other Caribbean nations, they argue, has traditionally followed the pattern of a "private, almost secret

⁴³Ibid, p. 57.

arrangement between political and bureaucratic elites within the state, on one hand, and the foreign or local operating company on the other.”⁴⁴ They claim that in Jamaica, this modus operandi has continued because the leadership in the Ministry of Public Utilities holds views that are similar to those held by elite managers within Cable and Wireless. As a result, Cable and Wireless “has been operating without any independent regulatory control to represent or protect the public interest.”⁴⁵ The Ministry’s stated preference for the operation of Cable and Wireless resulted in a shift in the Ministry’s role, that is, the Ministry became the protector of Cable and Wireless’ interests. In carrying out its role, the Ministry would soon articulate Cable and Wireless’ interests as the interests of the sector and the nation as a whole.⁴⁶

Dunn and Gooden attributed the exclusion of competition in the divestment of telecommunications assets as the result of the “secret arrangement between political and bureaucratic elites within the state” which characterizes the regulatory environment between the state and Cable and Wireless. This arrangement was one that had been forged as a result of Cable and Wireless’ ability to survive despite the sector’s legacy of discontinuity. The sector’s history included the fluctuation between different telecommunications providers such as Telephone and General Trust (T>) and

⁴⁴ Dunn and Gooden, p. 3.

⁴⁵ Ibid.

⁴⁶ Letter from The Ministry to Jampro dated August 28, 1985, (JA), in which the Ministry strongly stated its opposition to the use of a US firm for the Digiport project.

Continental Telephone Company. It was only two decades prior to the privatization attempt of 1985 during which the operations of both companies proved unsuccessful and unproductive, and resulted in the state extricating the Continental Telephone Company's holdings by nationalizing its assets in 1975. On the other hand, the operations of Cable and Wireless had proven successful, with its profits increasing significantly from the provision of international services and realized returns - all of which allowed the state to realize a sizable revenue.⁴⁷ [Fig. 5-2]

Wint also raises concerns about the National Investment Bank of Jamaica's (NIBJ) ability to promote the nation's interests with Mayer Matalon at its helm, and who also headed TOJ, given his fraternal relationship to Eli Matalon, the head of Industrial Commercial Development Ltd., which acquired the state's 21% share that was slated for indigenous ownership.⁴⁸ Wint describes this arrangement as a "sweetheart deal" in which actors who headed the privatization negotiations - the Matalon family and Cable and Wireless - stood to gain both personally and corporately from the outcome of the negotiations. The negotiations, structured in this manner, would inevitably eliminate outside bidding through secret agreements between interested parties.

This Cable and Wireless / Matalon "sweetheart deal" of high returns and lengthier monopoly privileges in the sector, Wint further contends, was the price the state had to

⁴⁷In Figure 5-2, state revenue is indicated by the gap between gross profits and net after tax

⁴⁸Wint, p. 55

pay in order to accomplish its goal of modernizing the sector. This reliance on the sector, Wint maintains, placed the state in a weak negotiating position. On the other hand, the state had in fact benefited from the investment decisions and the flow of capital and income generated from Cable and Wireless' operation in the island when compared to its negative experiences with other providers such as Continental Telephone Company and T>. The new competitive international environment and Jamaica's new niche in the offshore information industry made other alternatives available to the state, such as the American Satellite Company, on which to base its economic development agenda. Nevertheless, Cable and Wireless and Jamaica's domestic providers in favor of the exclusive use of Cable and Wireless, resisted the possibility of considering alternative service providers.

Jamaica's sector had initially involved the provision of domestic telecommunications services by several different telecommunications providers. Because of the failure of these firms to realize a profit on their investments, the sector experienced turnovers in the providers of services, which in turn, led to the reduction of investment capital to the sector. Cable and Wireless, however, remained the exception. It remained a constant supplier of international services and later, a supplier of both domestic and international components. Therefore, a more plausible explanation of the Ministry's willingness to transfer capital to Cable and Wireless without seeking the highest bidder may be attributed to the Ministry's institutional memory of failed efforts in the past. The state's past unsuccessful and unfavorable experiences with T> and

Continental Telephone Company contrasted with long and close relations with Cable and Wireless that were likely to explain the preferential treatment accorded to it.

Conclusion

Beginning in 1980, Jamaica's telecommunications sector faced several challenges, at the heart of which was the new competitive global telecommunications environment. The new international global environment created new economic possibilities for Jamaica – it as well created new challenges for the nation's development. Jampro rose to the new opportunities with the introduction of the Jamaica Digiport initiative that would establish a new offshore information processing industry, and which would become a revenue source for the nation's economic development.

The Ministry of Public Utilities and Transport also rose to the occasion to address the new challenges that were posed by the global economy. The Ministry's cross-subsidization strategy resulted in a stringent regulatory program whereby all entries into Jamaica's telecommunications sector were categorically denied.⁵⁰ Its decision to obstruct competition reflect its view that the introduction of competition in value-added and long distance services would undercut the success of the cross-subsidization efforts and would be a liability to the regime.⁵¹ The closing of Jamaica's telecommunications sector was the Ministry's attempt to prevent the liberalization that was occurring in the

⁵⁰Spiller and Sampson, p. 78.

⁵¹Ibid. p. 76.

U.S., European, and Japanese telecommunications market in 1984. The Ministry as well did not want its initiative to revive Jamaica's domestic component through the proposed cross-subsidization measures to be undermined by the U.S. presidential decision to establish a separate satellite system policy.

Amidst these international dynamics, Jampro initiated the Jamaica Digiport project, expecting to gain from the more enhanced services and competitive pricing structures of the new international environment. Jampro proposed using the American Satellite Company to provide international satellite services for the Digiport. However, introducing a new actor to the international component at that historical juncture raised concerns from both the Ministry and Cable and Wireless as to the viability of cross-subsidization as a strategy for the revival of the fledgling domestic component. The Ministry's deliberation with Cable and Wireless resulted in the unification of both international and domestic components in order to subsidize the domestic segment with income from the international segment. Thus, Jampro's proposal to use a non-Intelsat satellite became an unwelcome gesture.

CHAPTER SIX

DOMESTIC POLITICS, THE INTERNATIONAL SATELLITE REGIME AND THE JAMAICA DIGIPOINT INTERNATIONAL

Introduction

The 1988 decision of the Jamaican government to establish the U.S.\$ 2 million Jamaica Digiport International facility heralded Jamaica's official entry into the information industry. This decision was the outcome of a series of negotiations that lasted five years, beginning with a plan that would include the use of competitive satellite systems and ending with the closing of the sector to competition. This chapter seeks an answer to the question of why Jamaica undertook this course of action and why it was able to bypass the new international practices of competition in the sector. It examines the decision-making process that surrounded the acquisition of satellite technology for the Digiport project in order to determine the factors that impinged on the choice and the closing of the sector to competition.

The Digiport project was expected to attract new foreign investment to Jamaica's offshore information processing industry while creating job opportunities. Located in the Montego Bay Free Zone area, the project targeted foreign firms which provided services in the area of airline and hotel reservations, credit authorization, and

other office procedures in the United States, Canada, and the United Kingdom.⁵² The Digiport facility was expected to provide long distance voice, international toll-free (800) calls, facsimile, video links, and high-speed data transmission services between Jamaica and the United States.

The final arrangement for the Digiport was based on a consortium of three telecommunications suppliers: American Telephone and Telegraph (AT&T) which owned 35% of the total shares, Cable and Wireless International which owned 35%, and Telecommunications of Jamaica (TOJ) which owned 30% of the shares. AT&T and C&W were responsible for providing international services, whereas TOJ provided support for the domestic telecommunications network. The consortium elected to remain within the Intelsat satellite system.

The final agreement on the teleport project was the result of years of negotiation and conflict between Jampro and the Ministry of Public Utilities and Transport. Jampro had partnered with Teleport International in this venture using the satellite technology and services of Nippon Telephone and Telegraph (NTT) and American Satellite Company. Lending its support to the Ministry's opposition was Telecommunications of Jamaica - which included Jamintel and Jamaica Telephone company, Industrial

⁵²The Montego Bay free port zone at that time was one of two facilities which consisted of space for factories and warehouses that received 100% tax exemption for all businesses, exemption from custom and import duties, exemption from foreign exchange control and no restrictions on the repatriation of profits and assets.

Commercial Development, - the largest indigenous company on the Jamaican Stock Exchange, the National Investment Bank of Jamaica (NIBJ), and the most powerful political family - the Matalons, who owned shares in TOJ and ICD, and included a family member who also headed the NIBJ. The anti-liberalization coalition also included international support from Comsat, which objected to Jamaica's use of a non-Intelsat satellite system.

At the heart of the conflict was the issue of whether Jamaica would remain within the Intelsat satellite system or would take advantage of the new climate of liberalization that had swept the telecommunications industry in the 1980's, particularly in the area of satellite technology. JNIP viewed the new economic climate as an opportunity to take advantage of competitive prices and improved technology in the telecommunications market. Jamintel's view, however, was that the new climate of liberalization was a threat to the stability and security of the business environment to which the carriers had grown accustomed.

As the Ministry embarked on its restructuring of the sector, the Jamaica Promotions (Jampro) initiated its plans to establish the Digiport project. Jampro had positioned itself to draw from the confluence of global and technological changes for its development agenda through the establishment of an offshore information processing industry where the Digiport, using the competitive American Satellite Company (ASC), would generate new sources of revenue from which the state would benefit. The

decision to use ASC, however, failed to materialize. This chapter chronicles the activities that led to ASC's defeat.

At one level the project signaled a new income stream for Jamaica's development. Yet at another, it represented a significant threat to existing revenue sources that promised to undermine the cross-subsidization agenda that was being negotiated between the Ministry and the sector's service providers. The Ministry acted to protect the sector's revenue by monopolizing Cable and Wireless' operations and rigidly guarding the sector from competition. Jampro's decision to use the American Satellite Corporation for the Digiport project, therefore, failed to materialize.

There are two ways that one might view Jampro's actions in its attempt to acquire the non-Intelsat satellite system. One might argue that Jampro attempted to widen the conflict to the international arena in order to secure the involvement and support of other transnational actors. Instead, Jamaica successfully managed to maintain its autonomy from United States transnational actors. This study will argue to the contrary. First, Jampro's actions in the international community were solely in keeping with the guidelines established by the FCC and by Intelsat. Second, Jamaica did not maintain its autonomy from United States transnational actors. Rather, it merely realigned with a different set of transnational actors whose interests were in line with the winning coalition.

Jamintel, on the other hand, used its position both internally and externally to affect outcomes. Internationally, as Jamaica's signatory to Intelsat, Jamintel created alliances to gain the support of other members within the Intelsat board of Governors. Domestically, TOJ, used the influence of its chairman, Mayer Matalon, to exercise substantial leverage to overturn the decision to acquire the more efficient, more competitive separate satellite system. By maintaining the Intelsat monopoly domestically, it was successful in protecting the company's declining income through the sector's strategy of cross-subsidization.

At the end of the Digiport negotiations Jampro's objectives for its operation had been significantly transformed with regard to ownership, control and selection of satellite technology for the operation. Domestic interests and coalition activities played a considerable role in the decision to close the sector, and thereby mitigating the effects of global telecommunications trends. Additionally, domestic coalition politics were significant in the defeat of liberalization in the satellite sector. This chapter analyzes the processes that led to this outcome, demonstrating the interaction between sector dynamics, domestic politics, and the international telecommunications regime.

The Teleport Initiative: the Planning Stage

In 1985 JNIP embarked on a strategy to attract United States corporations to its offshore information processing industry. JNIP was the agency charged with the responsibility of "promoting sustainable economic development in Jamaica by assisting

the private sector to create jobs and increase productivity, capital formation and foreign exchange earnings in targeted industries through the effective delivery of technical, promotional and facilitator services both locally and overseas.”⁵³ JNIP enlisted the services of Teleport International (TI), a United States corporation, to undertake a feasibility study to determine whether the establishment of a second Free Zone would enhance Jamaica’s information processing industry. The study concluded with a recommendation for the establishment of a second Free Zone as well as the establishment of teleport facilities. These facilities were to consist of two elements: a satellite earth station and a local area network (LAN) serving companies in the free zone area. The facilities were intended to reduce costs by buying satellite circuits on a wholesale rather than retail basis.

JNIP embraced the idea of a teleport for several reasons. First, the deregulation of the United States telecommunications industry created a number of new domestic telecommunications entities, such as the American Satellite Corporation (ASC), that served as either suppliers or brokers of services in the market of international satellite services and were independent of the Intelsat system. JNIP had hoped to attract such companies with the expectation of receiving cheaper and more enhanced satellite services that were expected to accelerate the development of this sector. Third, the project would incorporate a new and more favorable exchange rate adjustment policy

⁵³Taken from Jampro’s Mission Statement in the lobby of Jampro’s headquarters in Kingston, Jamaica, West Indies. Prior to 1985, Jampro had been operating under the name Jamaica National Investment Program (JNIP).

intended to attract service industries such as data entry and hotel, airline and car reservation firms. The teleport would then be marketed to serve the needs of United States corporations. Fourth, the teleport project would coincide with a grant from the United Nations Conference on Trade and Development (UNCTAD) that was intended to enhance the development of Jamaica's information sector.⁵⁴

In November of 1984 JNIP entered into discussions with Teleport International to attract labor-intensive United States companies to Jamaica to take advantage of the information service industries. The goal of the teleport initiative was to provide "innovative communications services of the highest quality and lowest price" and "to create the technological climate for an information services corporation to shift labor and communications intensive operations offshore to a lower wage/higher productivity location."⁵⁵ Teleport International's plan was to increase employment within the Jamaican labor force, while bringing facilities and telecommunications technology to Jamaica that would serve the telemarketing, reservation centers (hotel, airlines), remote secretarial services, and data entry companies.⁵⁶ Foreign companies would establish their offices in the Jamaica Free Zone where they would use the teleport facilities to conduct their businesses between Jamaica and their home countries. The teleport would ensure reliable, high speed, and high quality communications for voice, data and video.

⁵⁴Interview with McLarty and Gooden. See also "Jamaica Digiport International: Creating jobs earning Foreign Exchange in The Daily Gleaner, July 24th 1989.

⁵⁵Memo from Jampro to the Prime Minister, Oct 11, 1985 p.9 (Jamaica).

⁵⁶Interview with Mr. Winston Gooden on July 20th 1993

Teleport International proposed to accomplish this by providing Jamaica with private two-way lines or one-way switched or unswitched voice, data, and video services between points within the Free Zone and points outside of Jamaica. Under the leadership of Teleport International, Jamaica would develop closer economic and technological ties to the information industry of the United States.⁵⁷

Teleport International argued that the use of a U.S. private non-Intelsat satellite system would be more cost effective than that provided through Jamaica International Telecommunications Company (Jamintel) and the Intelsat system.⁵⁸ First, Teleport International asserted that non-Intelsat providers tended to be 25-30% cheaper than Intelsat for data lines and 15-20% cheaper for voice lines. Second, the non-Intelsat companies under consideration were technologically superior to Intelsat, and provided greater speed. Third, U.S. satellite companies had access to and expertise in marketing data entry, telemarketing, publishing, reservations, and other professional services within the U.S. domestic market, making them more desirable than Jamintel.⁵⁹ Fourth, the initiative would produce an absolute increase in communications flow between the

⁵⁷Ibid.

⁵⁸Interview with Gooden on July 20, 1993. Also see Memo from Teleport International to JNIP dated May 1984.

⁵⁹Memo from Teleport International.

U.S. and the Caribbean, making it consistent with the U.S. - Caribbean Basin Initiative policy of closer involvement, and would lead to more technological transfers.⁶⁰

As a result of Teleport International's analysis, JNIP determined that the American Satellite Corporation, a non-Intelsat U.S. satellite company, was selected to provide private communications services between the United States and the Caribbean. JNIP anticipated that this arrangement would produce an approximately 90% reduction in costs below the current Intelsat rate.⁶¹ The anticipated savings was also expected to make Jamaica more attractive to foreign companies that are both labor intensive and communications intensive (that is, data entry and reservation firms), and who would transfer production from the U.S. and other countries to Jamaica in order to benefit from the cheaper labor force and the relatively lower telecommunication costs.⁶²

The question of whether the American Satellite Corporation would divert business from Intelsat was a decision of whether or not to proceed with Teleport International's plans. Because the teleport initiative was conceived as an entirely new category of services, Teleport International argued that it would not attract existing business from Intelsat and would not harm the existing Intelsat arrangements. Teleport International further asserted that bringing new enterprises into the existing system

⁶⁰Memo from Teleport International.

⁶¹See letter from Teleport International to JNIP dated August 21, 1985, as well as the application to the Ministry for a license dated October 2, 1985, (JA)

⁶² Memo from Teleport International.

would lead to more traffic over the public switched network, which would only benefit Intelsat and its Jamaican signatory.⁶³

On November 2nd, 1984, when JNIP announced the teleport project, it immediately proceeded to establish a consortium of service providers that would undergird the teleport initiative.⁶⁴ Interested parties included Nippon Telephone and Telegraph (NTT), Ceito (a Japanese trading company), the American Satellite Corporation, and the Bank of Tokyo. NTT sought to make the teleport project the company's first international project since the breakup of the NTT monopoly, and in keeping with the company's decision to find "good business ventures throughout the world."⁶⁵ In December of 1984, NTT met with JNIP and Jamaica's Prime Minister Edward Seaga to discuss the teleport and to view the location. The Prime Minister expressed his firm commitment to the Teleport International project.⁶⁶ His support was followed by instructions to the Ministry of Public Utility and Transport in January of 1985 to ensure that Jamintel would refrain from any developments that would in any way conflict with, or undermine, the teleport project. This project, the prime minister declared, "forms the basis on which a whole range of data processing industries, as well

⁶³Interview with Gooden, August 1993.

⁶⁴Ibid.

⁶⁵Quoted from correspondence between NTT and JNIP in December 1984, (JA)

⁶⁶Ibid.

as book publication and offshore businesses are expected to be established in Montego Bay in an area reserved for the purpose."⁶⁷

The Federal Communications Commission (FCC) and the Teleport Initiative

The ability to operate the Digiport using a private satellite system was predicated upon the successful maneuvering of three processes - two of which were external and one internal. These were:

1. A license from the U.S. Federal Communications Commission, because a U.S. satellite company would be providing services between the United States and Jamaica
2. Approval from Intelsat to operate non-Intelsat satellite services
3. A special license pursuant to the Radio and Telegraph Control Act, from the Jamaican Ministry of Public Utility and Transport (MPUT).

Jamaica's use of the American Satellite Corporation first required a license from the United States' Federal Communications Commission (FCC) to ensure non-interference with the Intelsat system.⁶⁸ Under the FCC's Buckley Letter, applicants wishing to be connected with the international public switch therefore had to file under section 214 of the United States Communications Act of 1934 and Part 63.01 of the

⁶⁷Letter to Jamintel from Prime Minister Seaga dated January 28, 1985, (JA).

⁶⁸Federal Communications Commission, Separate Systems Notice, 100 FCC 2d at 294, 314; Separate Systems Order, 101 FCC 2d at 1090; Separate System First Reconsidered paragraph 5.

Communications rules. These FCC provisions ensured that the activities of the United States' separate satellite systems were in keeping with United States treaty obligations with Intelsat, which prevented connection to the international public switch network by domestic separate satellite systems. Teleport International therefore requested permission from the FCC to construct satellite facilities and for the American Satellite Corporation to operate, transmit and receive satellite services for the provision of non-switched private telecommunications lines that would be connected to the international public switched system for business communications between the United States and Jamaica.⁶⁹ The Jamaican government initiated the procedure with an inquiry addressed to the United States Ambassador to Jamaica about the process. In response to Jampro's inquiry, the United States ambassador explained in a letter that:⁷⁰

U.S. policy and practice in authorizing international satellite communication services is that any U.S. international satellite system separate from Intelsat for international public satellite telecommunications between the U.S. and another country is restricted to communications not interconnected with the public-switched (telephone, telegram or telex) systems in either country. Service is therefore restricted to 'private, intra-corporate communications links'. Basic public telephone, telex and telegraph are off limits. This policy was designed

⁶⁹Letter from Jampro to the Prime Minister's office dated June 5th 1986, (JA).

⁷⁰By 1985, when this letter was written, JNIP's name had been changed to Jampro or Jamaica Promotions.

to protect Intelsat from traffic and revenue diversion in its major service, international telephone.⁷¹

The American Satellite Corporation was required to conform to the terms of the Buckley Letter and would be granted a conditional license by the FCC to construct and operate a satellite earth station or other transponder facilities. While the FCC's policy prohibited domestic satellite companies from connecting with the international public switched network, the FCC nevertheless allowed one exception to be made under the Buckley Letter, which states that:

certainly exceptional circumstances may exist where it would be in the interest of the United States to use domestic satellites for public international telecommunications within nearby countries. One such case would be where the global system could not provide the service required. Another case would be where the service planned would be clearly uneconomical or impractical using the Intelsat system.⁷²

⁷¹Letter from US Embassy in Jamaica, Dec 9th 1985 to Mrs Corrine McLarty, Head of Jampro, (JA). The letter was in response to Mrs. McLarty's inquiry concerning the Buckley Letter, which states the conditions under which the U.S.'s FCC would approve domestic satellite systems for use and its relevance to Jamaica's request for satellite service.

⁷²James L. Buckley, Undersecretary of State, to the FCC, July 23rd, 1981. FCC document

On October 9, 1986, the FCC approved the provision of services between the United States and Jamaica by the American Satellite Corporation. The FCC approval signaled that the American Satellite Corporation had met all of the following three criteria: 1) the proposed service was consistent with all current FCC policies; 2) Intelsat could not provide the proposed service, therefore the project would not cause economic or technical harm; and 3) the proposed system was in fact a separate satellite system, that is the provision of international service based on a satellite system that was either new or significantly modified from the Intelsat system.⁷³

Intelsat and the Teleport Initiative

The second phase of the licensing process that had to be undertaken by Jampro was the appeal to Intelsat. Because of United States' treaty obligations, the FCC required that Teleport International's request adhere to Intelsat's Article XIV(d) on Technical and Economic Coordination.⁷⁴ Article XIV(d) specifically prohibited Intelsat member states from engaging in any activity that would result in either technological or economic interference with the Intelsat satellite systems. In June 1986, the government of Jamaica, led by Jampro, petitioned the Intelsat Board of Governors for a license to establish teleport facilities between U.S. and Jamaica using a two-way transponder provided by the

⁷³INTELSAT, "Events in the United States Relating to Separate International Satellite Systems", BG-72-44E B/6/87, Pg 5. The document may be found at the FCC office in Washington, D.C., United States of America.

⁷⁴Letter from Jampro to the Prime Minister's office October 9th 1986, (JA). See also the FCC's File # I-T-C-85-187, "American Satellite Corporation", as well as FCC File # I-T-C-85-188. The FCC documents may be obtained from the FCC office in Washington, D.C., U.S.A.

American Satellite Corporation based on a satellite system that was either new or significantly modified from the Intelsat system. Jampro had high expectations for the approval of the teleport project based on the fact that the project was similar to existing transponder services between the U.S. and Canada and the U.S. and Mexico.

The approval process consisted of three phases. First, the Director General reviews the application and submits a recommendation to the Board of Governors. Second, the Board of Governors, with the assistance of the Technical Committee, reviews the request and submits its recommendations to the Assembly of Parties. Third, the Assembly of Parties makes a final review and issues its recommendations.

Intelsat's Board of Governors consists of states such as the U.S., which has a direct and permanent voice. Jamaica, however, was represented by the signatory, Compañía del Telefono de la Republica Dominicana (CODETEL), which also represented a coalition of five other nations of the region — the Bahamas, Barbados, Haiti, Dominican Republic, and Trinidad. In order to place the teleport project on the agenda of Intelsat's Board of Governors' meeting, Jampro had to achieve either a consensus among the other five states or a majority vote of the Board. Intelsat had historically operated on the basis of a consensus rather than a majority. Jampro, therefore, needed to lobby the five other nations represented by CODETEL, as well as other direct Board members to persuade them of the critical economic importance of the teleport

project to Jamaica.⁷⁵ Therefore, in order to gain the assent of members of its group, Jampro needed to establish the similarities between the teleport project and the transponder projects of Mexico and Canada which had been approved by the United States.⁷⁶

Efforts to place the teleport project on the agenda of the Intelsat Board of Governors' meeting in June of 1986 in Rio de Janeiro failed. Trinidad, Dominican Republic, Bahamas, and Barbados vigorously opposed the effort, but the foremost opposition came from Jamaica's signatory, Jamintel. Thus, Jampro was unable to obtain the needed majority within the Caribbean group in order to place the matter directly before the Board. "It became apparent that Jamintel had successfully lobbied these members who were then all strongly opposed to the teleport project."⁷⁷ Jampro immediately began to lobby other Intelsat countries extensively in an attempt to increase the level of support for the teleport project. Jampro held subsequent discussions with Australia, Canada, France and the Cameroon — board members who showed lukewarm support. Britain and its signatory, Cable and Wireless, the Nordic group (Denmark, Sweden, Finland and Norway) and Germany, in contrast, were very strongly opposed to the project.⁷⁸ Opponents of the project believed that it would result in a loss of revenue to

⁷⁵Ibid.

⁷⁶Ibid.

⁷⁷Ibid.

⁷⁸Ibid.

Intelsat.⁷⁹ Nevertheless, despite the lack of resounding support for the use of non-Intelsat satellites, Jampro's mission was not a loss. It was successful in gaining Intelsat's authorization for the use of the American Satellite Company.

Bureaucratic Politics and the Ministry of Public Utilities and Transport (MPUT)

The third process, which had to be navigated in order to liberalize Jamaica's satellite service, was the acquisition of domestic licenses to operate. Teleport International was required to obtain a special license from the Ministry of Public Utilities and Transport pursuant to the Radio and Telegraph Control Act. This license would determine 1) the duration of the license; 2) the exclusive nature of the license; and 3) the length of notice that was required by the government for termination of the license agreement. A request for a 27-year exclusive contract without prior notice of termination was made on October 2, 1985. This request was rejected by the Ministry, which instead recommended a seventeen-year contract - ten years of which would be exclusive, and with a two-year notice of termination.

The Ministry stipulated that after the ten-year exclusive period, the state would have the option of assigning or disposing of the contract, thereby allowing other applicants to offer similar services. Since the license was for international connections, the Ministry also objected to the provision of services from one point to another within the country. The license would only allow services from one point in the nation directed

⁷⁹Ibid.

at another point outside the country.

The Ministry expressed continued support for the use of Jamintel over a new carrier by ensuring its continued monopoly over the domestic market.⁸⁰ As early as August 1985, the Ministry began articulating Jamintel's concerns regarding the scope of the proposed license, arguing that the new license would pose a potential threat to the domestic telecommunications entities (Cable & Wireless, Jamintel and Telephone Company of Jamaica (TOJ)). It began to voice strong opposition to the project, for several reasons.⁸¹ To begin with, the Ministry harbored doubts from the outset about obtaining external approvals through the cumbersome process from both the U.S. Federal Communications Commission and Intelsat. Secondly, it argued that the project would be in competition with Jamintel.⁸² And thirdly, the Ministry viewed with great skepticism several claims made by Teleport International.

One claim made by Teleport International during the negotiation process was that the American Satellite Corporation would be exempt from article 14(d) of the Intelsat agreement, which required approval from Intelsat's Assembly of Parties prior to the establishment, acquisition or utilization of any satellite facilities. This claim later proved

⁸⁰A letter from the Ministry to Jampro dated August 28, 1985, (JA). See also the application for a license from Teleport International to the Ministry dated October 2, 1985, (JA).

⁸¹The Ministry raised opposition to Jampro in a letter dated August 28, 1985, (JA).

⁸²Ibid.

to be false. The second of Teleport International's claims - that it could immediately begin services as soon as the physical facilities were in place as a result of a previous agreement with the U.S. Department of State and the FCC, also proved false.⁸³ The Ministry's concerns proved to be valid when the teleport project experienced a series of delays due to Teleport International's inability to secure the needed authorization from both Intelsat and the FCC as it had hoped. "We have been proven correct," the Ministry declared. "They cannot achieve anything before the next Assembly of Parties scheduled for 1987."⁸⁴

The Ministry's strongest objection to the project was based on its concern that the teleport project constituted a dramatic change from the status quo of the Intelsat monopoly system which allowed 21 U.S. domestic satellites to provide TV, audio, and data services to Caribbean countries on a receive-only basis. The Ministry had agreed to the receive-only condition in 1985 and reaffirmed the agreement the very week that the teleport project was being reviewed. The Ministry viewed the teleport project as representing a policy shift and a violation of Jamaica's international obligations to Intelsat.

The Ministry expressed a third area of opposition to the teleport project. This opposition was on the grounds that Intelsat had at that period created similar services in

⁸³A letter to Jampro from the Ministry's permanent secretary dated January 16, 1986, (JA).

⁸⁴A letter to Jampro from the Ministry dated January 16, 1985, (JA).

the formation of the International Business Services (IBS). IBS was available immediately and provided teleport services, without the lengthy approval process needed for use of non-Intelsat systems.. Opinions differed as to the comparative costs between IBS and domestic satellites. Teleport International argued that its proposed domestic satellites were more cost effective than IBS. Nevertheless, the Ministry asserted that discussions were underway between Jamintel and COMSAT, on a possible collaboration in a teleport project.

COMSAT had no objections to the idea of partnership with other national signatories in the establishment of a teleport. The Ministry also felt that a partnership with COMSAT would be an attractive proposition because COMSAT possessed in-house marketing capabilities and because it had the capabilities to undertake such a venture as the Digiport project. The Ministry noted that they should be presented with other available options, such as the "vastly improved" services being offered by the Intelsat system and not just the American Satellite Company, as Teleport International was proposing.⁸⁵

The Ministry expressed additional concerns about the rapid increase in the number of domestic satellite corporations, stating that they had sprung up as a result of deregulation, noting that in a few years, very few domestic satellite companies would

⁸⁵Memo to the Prime Minister from the Ministry dated October 11, 1985, p. 9, (JA).

remain.⁸⁶ It strongly recommended that Jamaica go with the services of AT&T, RCA, or COMSAT, which were associated with Intelsat and which had more experience in providing telecommunications services. Moreover, they owned and operated their own satellites, and in the case of COMSAT, had planned to build a teleport similar to that proposed by Teleport International.⁸⁷

Domestic Responses to the Jamaica Digiport Project

Telecommunications of Jamaica (TOJ) also had several concerns about the teleport project and concurred with the Ministry's objection. Jamintel was not allowed to operate within the jurisdiction of the teleport under Teleport International's initiative as a result of the company's belief that Jamintel did not possess the marketing capacity or the technological superiority to successfully market the newly-formed information processing industry.⁸⁸ Teleport International also believed that Jamintel was also not in a position to provide the type of services that were being contemplated by the project.⁸⁹

Jampro argued that Teleport International's marketing package for the project was vastly superior to those of Jamintel and that the proposed teleport would not compete with Jamintel. Jampro assured Jamintel that neither entity would experience loss of

⁸⁶Ibid.

⁸⁷Ibid.

⁸⁸A letter from Jampro to both Jamintel and JTC dated April 18th 1986, (JA).

⁸⁹Ibid.

income as a result of the teleport project because of its location in the protected duty-free zone.⁹⁰ In addition, no loss in income would result, Jampro argued, since Jamintel and JATELCO/JTC were not in the business of providing dedicated leased lines.⁹¹ Jampro also argued that since neither entity provided dedicated leased line services, the national interest would be better served using by the existing arrangement since the Jamaican Government would have equity in the project.⁹²

Hardly persuaded by Jampro's claims, in 1985 Jamintel embarked on negotiations with AT&T to address the shortcomings that Jampro had identified.⁹³ Jamintel argued that the selection of AT&T as its service provider would ensure that it would shortly be capable of offering private line data services using U.S. domestic systems at considerably lower prices than those stated in its original proposal, which was based on the use of the Intelsat system at prices that would be subject to the approval of the FCC.⁹⁴ Jamintel selected AT&T because its satellite network was quite extensive and its earth terminals in the United States were located close to major cities.⁹⁵

⁹⁰Ibid.

⁹¹Ibid.

⁹²Ibid.

⁹³A letter to Jamintel from AT&T asserting AT&T's support of Jamintel's marketing needs, November 26, 1985, (JA).

⁹⁴A letter from Jamintel to Jampro dated December 3, 1985, (JA).

⁹⁵Ibid.

Jampro, however, was not swayed by Jamintel's vision for the future. Instead Jampro argued that in 1986 AT&T had embarked on its own study of the feasibility of establishing teleport facilities in Jamaica and concluded that although a teleport was economically and technologically feasible, AT&T did not wish to establish operations in Jamaica.⁹⁶ Jampro noted that its own research also revealed that IBM had expressed unwillingness to enter territory where AT&T feared to tread and that Sprint and MCI wanted to wait to view the results of Jamaica's experience before contemplating involvement.⁹⁷ Jampro was, therefore, convinced that Jamintel would never be able to fulfill its lofty goals for establishing a teleport in Jamaica.

In April of 1986, approximately two months after Jampro and Teleport International had reached an agreement, the Cabinet met to deliberate on granting a four-year period of exclusive rights for the provision of services. Under the terms of the contract, Jamintel would be restricted from providing services using Intelsat, leaving the American Satellite Corporation free to provide cheaper services. The American Satellite Corporation would also be allowed to compete with Jamintel with respect to local or long

⁹⁶Jampro's "Teleport Terms of Reference," November 2, 1984, (JA). See also letter to Jamintel, April 18, 1986, (JA).

⁹⁷Ibid.

distance public switched services. At the end of the four-year period, Jamintel would be free to provide satellite services.⁹⁸

The provisions of the license under deliberation by the Cabinet raised several concerns. In a letter to Jamintel and the Ministry, Cable and Wireless articulated their concerns about the impact of the introduction of another external telecommunications entity on the viability of both Jamintel and JATELCO.⁹⁹ Cable and Wireless stated that

...It is our understanding that the initial proposal by Teleport International would introduce special services which are NOT now being undertaken by Jamintel, but what we have before us is the provision of normal external telecommunications services between Jamaica and any point outside Jamaica unless Jamintel is unwilling to provide such service or is unable to offer in place of such services an adequate telecommunications service.”¹⁰⁰

Cable and Wireless’ assertion that the services that were being orchestrated by Teleport International were nothing more than “normal external telecommunications services,” was an assertion that the American Satellite Company was in fact encroaching

⁹⁸A letter of amendment to the license agreement from the Jamaica Attorney General’s office dated August 21, 1986, (JA).

⁹⁹Letter to Jamintel and the Ministry from Cable and Wireless dated April 5, 1986, (JA).

¹⁰⁰A letter to Jamintel and the Ministry from the chairman of the board of Directors of Cable and Wireless, April 5, 1986, (JA).

on and a violation of the monopoly rights of Jamintel to provide “normal external telecommunications services” within Jamaica.

Jamintel argued that the use of the American Satellite Corporation would cause a diversion of income from the hotel and commercial sectors from Jamintel and JATELCO, and would ultimately jeopardize the foreign exchange flows that would otherwise accrue to the government.¹⁰¹ Jamintel also had several concerns that the contract would permit the American Satellite Corporation to operate, not only within the Free Zone, but to points within Jamaica that were within a five-mile radius of the Free Zone, and therefore, within the public external telecommunications service over which Jamintel had a monopoly.¹⁰²

Cable and Wireless disagreed with claims that the American Satellite Corporation would be providing special services that were beyond the realm of Jamintel’s normal activities. Cable and Wireless argued vehemently that granting a license to Teleport International for the operation of the American Satellite Company was in fact creating external telecommunications services that were in direct competition with Jamintel. Cable and Wireless also noted that granting of a license for the teleport project would represent a shift in government policy toward Cable and Wireless and a violation of the monopoly agreement.

¹⁰¹Ibid.

¹⁰²A letter to the Prime Minister from Mr. Mayer Matalon, Chairman of the Jamaica Telephone company, on April 15, 1986, (JA).

Such Licenses contravene the Government of Jamaica's agreement with Cable and Wireless signed November 1970, which stated that Jamintel would be the sole licensee in the field of overseas telecommunications in Jamaica and Clause 17¹⁰³, which indicates that if Jamintel is willing and able to provide for all Jamaica's Free Zone telecommunications requirements, a license cannot be granted elsewhere.

Teleport International's license would seem to be the setting up of separate telecommunications facilities to serve new industries attracted to Montego Bay and would be the introduction of competition for international and domestic telecommunications services in Jamaica. Moreover, the new competition would be licensed to operate on a highly privileged basis, without the international and public service responsibility imposed on Jamintel, without the obligation to share revenue with JATELCO and with all the fiscal advantages of operating with a Free Zone area. This new policy would severely impair Jamintel's viability and the interest of shareholders. Cable and Wireless therefore fully opposes the proposition to Jamintel's Board of Directors.¹⁰⁴

¹⁰³Clause 17 of the 1968 agreement between the Government of Jamaica and Cable and Wireless. This clause was later assigned to Jamintel.

¹⁰⁴A letter to Jamintel and the Ministry from the chairman of the board of Directors of Cable and Wireless, April 5, 1986, (JA)..

In May of 1986, there were discussions within the Cabinet as to whether Jamintel, acting by itself or within any other relationship, would be able to compete against the teleport project at the end of the four years. Jamintel was also concerned about “the erosion of the license agreed upon” between Cable and Wireless and the Jamaican government.¹⁰⁵ This concern was the basis of a letter to the prime minister in which Jamintel stated that “the company (Jamintel) now has in place an external telecommunications system which can meet all the objectives and purposes of the proposed license to Teleport International and the needs of the Free Zone. The Company would also undertake the enhancement of such services where necessary to support the development of the free port.”¹⁰⁶

In September 1986, Jamintel and JATELCO increased the level of opposition against the teleport project. The companies presented their arguments to the prime minister and to Jampro. They argued that if the teleport were to provide telecommunications services to all the companies in the Free Zone as well as to those companies involved in information services outside the Free Zone, then a substantial portion of their revenue would be lost as a result of companies that would migrate to Free Zone areas to benefit from the cheaper services. Both companies argued that the consequence of the teleport project would be a large number of firms switching from the

¹⁰⁵A letter from Jamintel to Prime Minister Edward Seaga dated April 5, 1986, (JA).

¹⁰⁶Ibid.

public network of Jamintel and Jatelco to private lines of the American Satellite Corporation the teleport.¹⁰⁷

Jamintel initiated discussions with COMSAT and AT&T to create a joint venture between both companies and Jamintel to provide services comparable to American Satellite Corporation. Jamintel argued that because of its extensive operations in the United States, its ownership of earth satellites, and its telemarketing operations, AT&T's capabilities were superior to those of the American Satellite Corporation. Shortly thereafter, Jamintel released its "Proposal for the Provision of Enhanced Telecommunications Services for Jamaica's Free Zone." In this report Jamintel declared itself as possessing the technical capability and the international contacts to provide and market telecommunications services to meet the objective of the Jamaican government to attract United States investors to Jamaica's offshore information processing industry.¹⁰⁸ It declared that it was able to deliver a wide range of services and to attract businesses from both local and overseas markets. Jamintel remained committed to its stance that its technical and marketing capabilities were indeed superior to the arrangements made by Teleport International.

¹⁰⁷A letter from Mr. Mayer Matalon to the Prime Minister dated April 15, 1986 (JA).

¹⁰⁸A letter to Jamintel and JTC from JNIP dated April 18, 1986, (JA). See also JNIP document "Teleport Terms of Reference," November 2, 1984, (JA). For the pro-Jamintel position, see Jamintel's "Proposal for the Provision of Enhanced Telecommunications Services for Jamaica's Free Zone," (JA).

The Final Stage of the Teleport Project

Added to the number of dissenting voices in opposition to the use of the American Satellite Corporation was the Industrial Commercial Development (ICD), a private holding company that was the largest non-financial company listed on the Jamaican Stock Exchange and which owned 21% of shares in the newly privatized sector. ICD possessed the largest domestic shareholding in Telecommunications of Jamaica, the parent company of Jamintel. ICD's chairman was Eli Matalon, a brother of Mayer Matalon who headed Telecommunications of Jamaica. As chairman of the Jamaica Telephone Company, Mayer Matalon had strongly urged the Ministry to deny licenses to the American Satellite Company on the grounds that it was a violation of contract agreements with Cable and Wireless and a detraction of revenue from Jamintel. Eli Matalon, also a partner in the telecommunications sector as a head of ICD, also pressed for the dissolution of the old partnership and encouraged Prime Minister Seaga to commence with the new arrangement headed by Jamintel.¹⁰⁹

Before the Jamaican Parliament met to discuss and vote on the issue of licensing the teleport project, many changes had transpired that significantly transformed the project from the original conception of its authors. The first of a series of changes was the creation of the National Investment Bank of Jamaica (NIBJ) headed by Mayer Matalon. The Prime Minister had appointed the Bank to negotiate and oversee the government's

¹⁰⁹Carol S. Holzgerg, Minority and Power in a Black Society: The Jewish Community in Jamaica (Lanham, MD: The North-South Publishing Co, 1987), pp. 207-208.

20% share in the teleport project.¹¹⁰ Matalon, in his capacity as the sector's chief negotiator was determined to preserve the viability of the newly restructured sector by protecting it from competition. Matalon therefore strongly supported the use of Intelsat satellites rather than a separate satellite system.¹¹¹

In several letters to the Prime Minister, Matalon urged a partnership of Jamintel with AT&T and Cable and Wireless instead of the Teleport International arrangement. Matalon argued that AT&T possessed the marketing skills that Jamaica needed and that their skills were superior to those of the American Satellite Corporation.¹¹² As a result of these recommendations, in 1989 the Prime Minister and his cabinet authorized the abandonment of the Teleport International consortium using the American Satellite Corporation, and instead, gave way to the creation of the new consortium which consisted of Jamintel, the American Telephone and Telegraph Corporation (AT&T), and Cable and Wireless (C&W). Intelsat replaced the American Satellite Corporation as the provider of satellite services.

The winning coalition of the Ministry, Jamintel and Cable and Wireless, was amenable to the new arrangement and was willing to issue an exclusive license to the new consortium instead of the previous one. Under the new consortium, the teleport project

¹¹⁰A letter dated May 28, 1986 from NIBJ to Jampro, (JA).

¹¹¹See the letter to the Jamaican Prime Minister dated April 15, 1986, written by Mr. Mayer Matalon, then the Chairman of the Jamaica Telephone Company.

¹¹²Letter to the Jamaican Prime Minister dated April 15, 1986.

was renamed the Jamaica Digiport International. Jamintel managed to achieve victory at the domestic level, and this victory prevented Jamaica from putting into effect the separate satellite systems rule, while instead reinforcing the monopoly system. Jamintel's success was despite Jampro's appeal to the international rule pertaining to the operation of separate satellite system.

Conclusion

The Jamaica Digiport was established as a means of providing new sources of revenue for the state, and as a way of taking advantage of changes in the telecommunications sector. These changes included the shift in ownership from national telecommunication monopolies to a more competitive global environment. Changes were also evident in the international satellite regime, which had also moved toward a more competitive satellite market. The American Satellite Corporation and other newly established separate satellite systems were a reflection of these global changes. Nevertheless, despite these global changes, which were evident in Intelsat and the FCC's approval of the American Satellite Corporation's involvement in providing satellite services to Jamaica, the Jamaican government officially moved to reject the use of a non-Intelsat satellite in the provision of service for the Digiport project.

The Digiport project became the battlefield in which those in favor of opening up the sector to foreign competition battled with those opposed. On the one hand was Jampro in partnership with the foreign Teleport International, and on the other stood the

Ministry and Jamaica's telecommunications suppliers, between whom was Cable and Wireless. The coalition effectively influenced the position of the prime minister, which resulted in his changing his December 1984 position from that in which he instructed the Ministry not to obstruct the American Satellite Company arrangement to his 1986 position, when Cable and Wireless and the Intelsat system replaced the American Satellite Company.

The restructuring which accompanied the cross-subsidization policy solidified the monopoly control of Cable and Wireless over the sector and coincided with Jampro's attempt to liberalize the sector with the introduction of the American Satellite Corporation. Jampro's decision became a threat to the restructuring efforts, which were designed to impede liberalization from taking root locally. Domestic interests played a greater role in the state's decision to close the sector, thereby mitigating the effects of global telecommunications trends. The anti-liberalization coalition played a decisive role in the defeat of the Digiport's use of competitive satellite systems.

Two questions emerged from the analysis of Jamaica's satellite acquisition for the Digiport project: why did Jamaica take the course it did in closing the sector to competition, and why was it able to do so in the light of existing international regulations permitting and approving Jamaica's use of competitive satellite systems? First, Jamaica took the course it did because the interest of the winning coalition was one that benefited from maintaining the Intelsat monopoly. The winning coalition consisted of the

Ministry, Cable and Wireless, Telecommunications of Jamaica, ICD, the Matalon brothers, and COMSAT, and it was opposed to competition.

Jamaica's decision to close the sector to competition was based on its perceptions of the needs of the domestic component, the viability of which rested heavily on the success of the cross-subsidization between international and local communications. The cross-subsidization policy was proposed and implemented by the Ministry to protect the sector's income and to address the negative effects that international competition might have on the sector's income. Its success required the preservation of the former monopoly status quo. Second, Jamaica was unable to appeal to the regime regarding the decision not to liberalize the sector because the majority winning coalition consisted of Intelsat signatories, which served as decision makers within the regime. An appeal to Intelsat would be an appeal to these signatories, creating the possibility for further conflict between Jampro and its signatories.

CHAPTER SEVEN

CONCLUSION

Introduction

The establishment of the Jamaica Digiport International in 1988 using the satellite technology and marketing capabilities of Cable and Wireless, AT&T and the Intelsat system was the result of five years of negotiations. This decision spelt victory for one of two contending factions. On the one hand was Jampro in alliance with Teleport International and the American Satellite Company which attempted to liberalize the sector's use of satellite technology with the operation of the American Satellite Company, while on the other hand, the Ministry of Public Utility and Transport, in conjunction with Telecommunications of Jamaica, ICD, NIBJ and the international support of Comsat, elected to close the sector to competition.

The winning coalition in the Digiport negotiations desired the continuation of the Intelsat monopoly which the sector had enjoyed since 1963. This Intelsat monopoly operation using both Cable and Wireless and Telecommunications of Jamaica. In 1988 the Ministry extended these monopoly privileges beyond the area of satellite services to the entire telecommunications sector. Its actions were part of a restructuring plan that was

designed to prevent the operation of competitive satellite systems in the domestic component. The goal of the restructuring plan was to facilitate the new cross-subsidization policy to protect the domestic component.

This satellite acquisition process which resulted in the closing of the sector to competition raised two salient questions which this dissertation addressed. First, what explains Jamaica's failure to liberalize the sector's use of satellite technology as demonstrated in its 1988 decision to prevent competition? Second, how was it possible to undertake this measure amidst the powerful forces of global market liberalization trends in the telecommunications sector as well as in international regime principles and practices? It seeks to understand why the winning coalition was able to have such a strong influence in the face of power global trends.

This dissertation concludes that there were two overriding sectoral characteristics which allowed Jamaica the ability to withstand these two powerful global forces - the liberalization of the sector and the impact of the sector's telecommunications multinationals on domestic politics. The first factor that led to the coalition's success was the structure and processes within which the regulation of the global sector occurred. The Intelsat system functioned by setting guidelines for the operation of the global satellite. Among the guidelines was the separate satellite systems policy whereby national systems were permitted the use of separate systems which do not undermine Intelsat's operations.

Paradoxically, the decision to allow the use of separate satellite systems was authorized by Intelsat's signatories whose interest it was to have the sector remain closed to competition. In Jamaica, the signatory had an interest in the market's remaining closed and would benefit from such a closing. As a result, Intelsat's signatories failed to act to open the market in accordance with Intelsat's policies. Coalition politics within the country had a greater effect on Jamaica's failure to liberalize the use of satellite services than global trends and regime practices. These domestic interests in the sector served as the second set of factors that led to the closing of Jamaica's sector to competitive satellite technology.

International Telecommunications Satellite Regime

One answer to the question of why the winning coalition was able to be as effective as it was in the face of global trends and regime policies can best be understood in the context of the Intelsat satellite regime which had been in place since 1963. The purpose of the organization was to cooperatively provide uninterrupted global satellite services to all interested nations. Since its inception, the national signatories played a central decision-making role in Intelsat and all decisions to allow competition in the global satellite market had to meet with their approval. The signatories were empowered to make decisions concerning domestic satellite operations independent of domestic decision-making processes. This structure empowered signatories to selectively restrict competition from non-Intelsat suppliers.

Until 1985, Intelsat was the monopoly supplier and sole regulator of the international satellite market. As a result of new telecommunications firms' wishing to enter the satellite sector, both the United States and Intelsat established separate satellite systems policies to facilitate the operation of these independent suppliers. However, this ruling that favored the entry of new firms was not enough to erode Intelsat's domination of the global satellite market monopoly. The ability of separate satellite systems to effectively operate locally was undermined by the signatories. Intelsat's continued dominance can therefore be best explained by the actions of signatories domestically and at the level of the international institution.

While the Intelsat system expressed a commitment to opening the system to competition, the signatories' interests were clearly enhanced by the preservation of the Intelsat monopoly. As the primary decision-makers as well as the organization's principal investors in the Intelsat system, the signatories, through the Meeting of Signatories and the Meeting of Parties, are empowered to protect the organization's investments.

Intelsat's structure and the role played by signatories within the system therefore functioned to protect the status quo of the single global system and to bar the entry of other firms whose activities did not enhance Intelsat's investment goals. Intelsat's leadership therefore served as gatekeeper - monitoring the entry of non-Intelsat satellite firms within the global market. As a result, the monopoly status quo remained intact because of limitations placed by Intelsat's signatories on the operation of competitive

firms because the liberalization of Jamaica's domestic satellite services was inconsistent with signatories and their interests.

The Jamaica Telecommunications Sector

The second factor that conditioned the success of the winning coalition was their material interests. These interests served as the impetus for their action. In 1984, when Jampro attempted to liberalize the sector to a non-Intelsat satellite system, it was based on two factors. First was the trend toward liberalization of the global telecommunications services. The period had witnessed the breakup of the AT&T monopoly in the US with similar actions in Great Britain and Japan and with it the entry of new firms into the sector. The second reason for the decision was the set of conditionalities prescribed by the IMF Structural Adjustment Program of 1982-1987.¹¹³ The IMF had required that Jamaica liberalize its telecommunications sector as a precondition for receiving future. Jamaica was subsequently able to get authorization to liberalize satellite services at two levels, that of the FCC and Intelsat's Director General in 1986. Nevertheless, despite these approvals, domestic approval was not forthcoming, resulting in the closing of the sector to competition.

Proponents of the decision to close the sector were concerned that a competitive international environment where separate systems were allowed to operate posed a threat to the income of Jamaica's domestic component. While the sector had begun to

¹¹³McCormick, p. 146.

experience rapid growth in international telecommunications services, that growth was matched only by the rapid decline in revenue from domestic telecommunications services (Fig. 5-1). The declining income in the domestic sector created a dilemma for which a solution was sought. A cross-subsidization policy was designed to address this dilemma by subsidizing the domestic component with income from that of the international. But first, a major restructuring of the sector was planned that would unite both components under a single ownership and closing the sector to competition. The interests of the winning coalition had indeed prevailed.

Contribution to the Literature

Cortell and Davis argue that international regimes play an important role in resolving domestic conflict particularly where there is close societal involvement in decision-making. During such a conflict, regimes are important, they argue, because coalition members may strategically use regime norms to enhance the probability of their success in solving domestic disputes. This strategy has a greater propensity for success when the decision-making institution is decentralized and there is a close societal/state relation. Actors who are able to appeal to international regime norms are more likely to be legitimized, resulting in the successful implementation of its policy. This appeal to international norms is “a legal right by which to elicit the government’s implementation of the rule’s prescription.”¹¹⁴

¹¹⁴Cortell and Davis, p. 457.

The international telecommunications satellite sector, however, is an exception to this phenomenon. The international regime principles were at odds with the interests of the winning coalition, many of whom were signatories of Intelsat. As a result, Jampro's appeal to the very regime principles which were approved by Intelsat itself through the licensing process, were not honored and Jampro's requests were denied. Jampro's request to liberalize the sector was denied rather than legitimized.

Risse-Kappen also argues that international regimes are significant in affecting domestic outcomes. Their significance is based on three characteristics: the relative strength of states, the nature of state-society interaction and the nature of the policy network. Within the context of these characteristics, the extent to which the sector is regulated at the international level, he argues, determines the effectiveness of these structures. He concludes that international institutions are expected to reduce coalition-building requirements for transnational coalitions, especially those who advocate norm-compliance.¹¹⁵ The telecommunications satellite sector also serves as an exception to this case. Here, although highly regulated, those advocating compliance to Intelsat's policy to allow liberalization were ineffective in opening Jamaica's sector to competition. Instead, the winners in this conflict effectively engaged in their own coalition-building to oppose the opening of the sector to competition. Competition was effectively supplanted, producing the outcome that was inconsistent with the decision of the Intelsat regime that would liberalize the sector. The international regime policy which led to the consideration

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Risse-Kappe, p. 30.

of a competitive satellite system for the Digiport proposal constituted a conflict of interests for the Intelsat signatories and this conflict was resolved by implementing a decision which opposed regime policies. Jampro's appeal to Intelsat's rules and agreements had failed to produce the desired outcome.

Future Research

The year 1994 signaled two major milestones in the transformation of the international telecommunications sector. The first was the elimination of the Intelsat regime as the international institution charged with the responsibility of global governance in the international satellite sector. The second was the creation of the World Trade Organization (WTO) charged with the dual responsibilities of liberalizing the global telecommunications sector and negotiating telecommunications agreements. In April of that year, ministers from thirty-three nations signed the 1994 Marrakesh Treaty for the establishment of the WTO.

WTO held the responsibility for administering all agreements that were established within the framework of the Uruguay Round. In the area of telecommunications, its goals were the establishment of a multilateral trade network that would increase the level of investment in telecommunications equipment and services and progressively liberalize the telecommunications markets, opening up monopoly markets to competition. The signing of the General Agreement on Trade in Services had far reaching implications since, for the first time, it placed trade in telecommunications

services within the realm of the multilateral trading system.¹¹⁶ When the negotiations had ended, sixty-nine (69) nations, forty of which were developing states, also agreed to introduce domestic regulatory regimes consistent with the new WTO rules. Among them were Jamaica, Barbados, and Trinidad and Tobago, three nations which have had longstanding monopoly telecommunications sectors that have been completely dominated by Cable and Wireless.

Several rounds of negotiations have resulted in the agreements to enhance trade in telecommunications goods and services. The Negotiating Group on Basic Telecommunications (NGBT), which is open to all states and the European Community, lasted from April 1994 to April 1996 and resulted in 48 states committing to open national telecommunications markets to competition. The Group on Basic Telecommunications (GBT), also open to all states and consisting of fifty five states and the European Community, lasted from July 1996 to February 1997. It addressed satellite service issues and resulted in the signing of the Basic Telecommunications Agreement (BTA) in February 1997 and the Information Technology Agreement in April of the same year.

The creation of the new WTO regime in 1994 represented a new international telecommunications regime, replacing the former Intelsat regime. Under the new accord signed in 1997, the global sector would be governed by the rules of the WTO process.

¹¹⁶[Http://www.wto.org/english/tratop_e/servete_e/te104_e.htm](http://www.wto.org/english/tratop_e/servete_e/te104_e.htm).

The norms of free trade would govern trade in basic telecommunications services as well as in higher level value-added telecommunications services such as satellite, internet and different types of data services. Parties to the WTO agreement were committed to open up their telecommunications service markets to direct foreign investment and to the removal of barriers within the domestic telecommunications sector, including the removal of barriers to access of public telecom networks under nondiscriminatory terms. Truly successful negotiations would be reflected by the opening for the first time of many domestic markets of Intelsat's signatories that had remained closed during the period covered by this dissertation.

The change in the international satellite regime from Intelsat to the WTO provides a framework for the comparative analysis of the effects of institutional factors on domestic outcomes. Several key questions would compare the impact of the WTO on domestic decisions to maintain an open or closed domestic sector and whether or not there are differential effects on domestic outcomes. Other questions might include what is the relationship between the WTO regime and the former domestic signatories. How has domestic political outcomes been affected by this regime change, particularly as it relates to the opening and closing of domestic telecommunications sectors? Has the new WTO structure been more successful in addressing liberalization of domestic sectors? If so, what is the relationship between former signatories, the state and the new corporations seeking access to domestic markets under the new WTO system?

Conclusion

The analysis of the Jamaica Digiport negotiations raised two key questions: why Jamaica opted to maintain a closed telecommunications monopoly, preventing the use of the American Satellite Corporation and how was it able to do so at that historical juncture of increasing liberalization trends. The trend toward liberalization was evident in the major industrialized nations, primarily the United States, Europe and Japan, even though Intelsat very cautiously embraced the idea of liberalization. Despite limitations on the new firms, Intelsat granted its authorization to liberalize Jamaica's telecommunications sector.

Despite these trends, Jamaica failed to liberalize its telecommunications sector. This dissertation demonstrated that Jamaica's failure to do so can best be explained by sectoral interests and characteristics - the most significant of which were a) the role of Intelsat's signatories in both domestic and international decision-making of the sector; b) the close relationship between state bureaucracies and signatories that operate in the sector; and c) the interests of these signatories which was to maintain the monopoly sector so as to implement the cross-subsidization of domestic operations with income from the international operations.

The liberalization of the telecommunications sector served as a trigger for the chain of events that followed. These events included changes in Intelsat rules and norms, and the closing of Jamaica's telecommunications sector to competition. While Intelsat's

signatories approved the use of separate satellite systems, Jamaica's signatory had the ability to block its enforcement, thereby ensuring that liberalization would fail. The question posed for future research is: could liberalization in Jamaica only occur if there were a transformation in the Intelsat regime in which there were a change in the existing structure of governance or would a new international telecommunications satellite regime that was structured differently be more effective in producing different domestic options?

APPENDIX II: GLOSSARY

common carrier	A business organization that provides regulated telephone, telegraph, telex, and data communications to the general public and is regulated by an appropriate regulating agency, e.g. AT&T in the US, British Telecom in the United Kingdom
COMSAT	Communications Satellite Corporation, the United States' signatory to INTELSAT, is a private corporation that provides technical and operational support services for the transglobal satellite system. COMSAT previously served as manager of INTELSAT.
earth station	The portion of a satellite system that is located on the earth surface. An earth station receives signals from and transmits to a satellite in space.
FCC	The federal Communications Commission is a board of five commissioners appointed by the president of the United States under the communications Act of 1934. It is responsible for regulating all interstate and foreign communications originating in the United States by means of radio, television, wire, cable and satellite.
fiber optics	Transmission technology in which information is transmitted over a very thin optical beam.

geosynchronous satellite	A satellite positioned about 36,000 km above the equator. The satellite's equatorial orbit is synchronous with the earth therefore the satellite appears to be stationary. It is used for long distance communication. It is also referred to as geostationary satellite.
Intelsat	The International Telecommunications Satellite Organization is an international inter-governmental organization responsible for the design, development, construction, and operation of the space segment of the global communications satellite system. It own and operates a global system of geosynchronous satellites that provides international telecommunications services all over the world.
ITU	The International Telecommunications Union, an international intergovernmental organization that coordinates and regulates international services in telephone and telegraph services.
local area network (LAN)	A network that connects various telecommunications devices within a limited geographical area.
PTT	Post, Telephone and Telegraph are government agencies that provides the services for mail, telephone, and telegraph in most countries of the

world except those in North America.

public switched telephone network	A network established and operated by any common carrier that provides circuit switching between public users.
public utilities commission	The state regulatory board that is responsible for communications regulation and other public utilities regulation.
satellite	A man-made vehicle placed in orbit around the earth to receive information from one point on earth and re-transmitted to another point on earth, thus providing a long distance communication link.
satellite communications	A communication technique in which a geosynchronous satellite is used to relay information from one earth station to another.
telecommunications	The process that allows the transfer of information (audio, video, data) in the form of electromagnetic signals from a transmitter to one or more receivers.
teleconferencing	A conference in which participants from a remote location communicate to each other with the help of telecommunications lines.
teleport	A telecommunications facility that consists of high speed satellites, a private telephone network and the capacity to transport data at high speed.

transponder	A radio or radar transmitter/receiver activated for transmission by reception of a predetermined signal. Communications satellites contain several transponders to increase the number of transmission channels.
video conferencing	A type of teleconferencing in which geographically separated groups communicate with each other over telecommunication links with the help of audio and video technology.
Westar	The name of a communication satellite owned by Western Union.

APPENDIX III : Private Satellite Systems Providing Services by Region, 1996						
Asia	Middle East	North America, Central America, Caribbean	South America	Europe	Australia	Africa
PanAmSat	PanAmSat	PanAmSat	PanAmSat	PanAmSat	PanAmSat	PanAmSat
Columbia* ¹¹⁷	Asiasat	Columbia*	Hughes*	Columbia*	Asiasat	Thaicom
Apstar		Orion*		Orion*	Optus	
Asiasat		Telstar/ATT*		Asiasat		
Palapa		Anik		Astra		
JCSAT		Alascom		Thaicom		
Superbird		Hughes-Galaxy*				
BS-Yuri		GE Americom*				
Thaicom		Echostar				
		Westar*				
Source: United States General Accounting Office: Telecommunications: Competition Issues in International Satellite Communications, p. 40.						

¹¹⁷Asterisks indicate United States separate satellite systems

APPENDIX V: INTELSAT Board of Governors

MEMBER	VOTING SHARE	
AFRICA GROUP I	Angola, Ethiopia, Ghana, Kenya, Malawi, Mauritius, Rwanda, Tanzania, Uganda, Zambia	1.12
AFRICA GROUP II	Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Cote d'Ivoire, Gabon, Guinea, Mali, Niger, Senegal, Tongo, Zaire	1.29
ARAB GROUP I	Libia, Mauritania, Sudan, Syria, Tunisia, United Arab Emirates	1.46
ARAB GROUP II	Algeria, Egypt, Lebanon, Saudi Arabia, Yemen	2.24
ARAB GROUP III	Iraq, Jordan, Kuwait, Oman, Qatar	1.61
ARGENTINA/CHILE/PARAGUAY		1.16
ASEAN GROUP I	Indonesia, Singapore	1.8
ASEAN GROUP II	Malaysia, Philippines, Thailand	1.79
ASIA PACIFIC GROUP		0.98
AUSTRIA/GREECE/SWITZERLAND/LIECHTENSTEIN		1.93
BELGIUM/NETHERLANDS/LUXEMBOURG		1.84
BRAZIL/PORTUGAL/URUGUAY		1.76
CANADA		2.68
CARIBBEAN GROUP	Bahamas, Barbados, Dominican Republic	0.82
CENTRAL AMERICA GROUP	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama	0.3
CHINA		1.56
COLOMBIA/ECUADOR/BOLIVIA		1.52
FRANCE/MONACO		1.52
GERMANY, FEDERAL REPUBLIC		3.49
INDIA		0.99
IRAN/KOREA/PAKISTAN/TURKEY		3.46
ITALY/VATICAN CITY		2.14
JAPAN		4.91
NORDIC GROUP	Denmark, Finland, Iceland, Norway, Sweden	1.92

SPAIN	1.84
UNITED KINGDOM/IRELAND	13.84
UNITED STATES	26.91
VENEZUELA/PERU	1.24

Source: INTELSAT, Board os B-81-E, July 1989

APPENDIX VI: Non-INTELSAT Separate Systems That Received Permission to Operate

ARABSAT	India (TV services)
ASIASAT	Hong Kong, Bangladesh, Thailand
ASIASAT-C	China
ASTRA	Australia, Austria, Belgium, Denmark, Finland, Sweden, Norway, France, Monaco, F.R.G., Iceland, Netherlands, Switzerland, Yugoslavia
AUSSAT	Australia, New Zealand
DFS Sat System	F.R.G. to France, Luxembourg and Netherlands (one way), Sweden, Switzerland (TV Reception from Germany)
EUTELSAT	Monaco, UK
HISPASAT	Bolivia, El Salvador, Nicaragua, Peru, Venezuela, Honduras
Intersputnik	Algeria, Belgium, Canada, Finland, Iraq, Israel, Italy, Nicaragua, UK, US, Vietnam, Germany, US, USSR + non-INTELSAT nations
PAPAPA B2	ASEAN, Australia, Indonesia (TV and audio use), Thailand, Sri Lanka, Portugal, UK to Indonesia
PANAMSAT	Argentina, Austria, Bahamas, Belgium, Belgium & Sweden, Bolivia, Brazil, Chile, Columbia (Latin Beam), Denmark, Ecuador, France, Guatemala, Haiti (LB & NB), Honduras (domestic serv.), Italy, Jamiaca, Mexico, Monaco, Netherlands, Netherland Antilles, Panama, Paraguay, Peru (domestic serv.), Portugal, Spain, Switzerland, Thailand, Trinidad & Tobago, UK (domestic serv.), Uruguay, Venezuela, Yugoslavia, US & Costa Rica; US & Dominican Rep.; US & Eastern Europe; UK & Europe; UK & Germany; US & Luxembourg; US & UK, US & F.R.G. between US and Non-INTELSAT member nations in Latin America and the Caribbean; between Dominican Republic, Costa Rica, US and non-INTELSAT Eastern European nations.
SATCOM	Denmark, US, Mexico
SATCOM II-R	Greenland
SBTS A1 & A2	Uruguay
SPACENET II	US & Mexico

APPENDIX VI: Non-INTELSAT Separate Systems That Received Permission to Operate

STATIONAR- Australia

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SUPERBIRD Japan

TELECOM 1 China, France, Germany

TELE-X Finland

USSR DOM

SAT

US DOM SAT

WESTAR V US

APPENDIX VII: Number of Main Lines (Thousands)

Year	Number of Main Lines (Thousands)
1971	35
1972	36.5
1973	38.2
1974	42.3
1975	47.8
1976	50
1977	52
1978	54
1979	54
1980	54
1981	55
1982	59.2
1983	62.4
1984	67
1985	69.8
1987 ¹¹⁸	76.7
1988	85.2
1989	90
1990	106
1991	132
1992	168
1993	209

Source: Alvin G. Wint. Pioneering Telephone Privatization p. 53.

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In 1987, the fiscal year-end for both companies was changed from December to March. The period represented by these data is the fifteen-month period from January 1986 to March 1987.

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