

Mobile phone: a drama in three acts

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Last week, the mobile-phone provider, AIS, announced profits had fallen by a third. Its parent, Shin Corp, booked a loss for the first time since the 1997 financial crisis. The Shin chairman, a giant of the Thai business world, got the boot. You could sense the ending of an era.

For fifteen years, selling mobile phones created more wealth for Thai entrepreneurs than any other business. Then in four months, the two firms which had made most of this wealth sold out to foreign companies. What a drama.

Act 1: The Set-up. In 1990, the two telephone agencies under the Ministry of Communications granted concessions to two private companies to install mobile phone systems. TOT's client was the AIS company of an unknown, debt-ridden computer salesman, Thaksin Shinawatra. CAT granted the contract to Boonchai Benjarongkul's UCOM (later TAC, later DTAC), a 30-year-old company with a long track record in the communications business.

TOT and CAT were fierce rivals. To give their concessionaire a market advantage, TOT imposed a connection charge on all mobiles calling into a landline phone, but exempted AIS. This little kink gave AIS a guaranteed higher margin, and more funds to blast away competition with saturation marketing. For the next fifteen years, AIS did everything necessary to preserve this unfair advantage.

Phones were in huge demand because the economy was booming, while getting a landline required a long wait and a big bribe. The cosy duopolists could charge what they liked. The pair made 58 million baht in 1989, and 6 billion in 1994. Both floated on the stockmarket while it was soaring skyward on the boom. The Shinawatra and Benjarongkul families made fortunes which, an admirer commented, would usually have taken two to three generations. Because of AIS' built-in advantage, by far the bigger fortune fell to Thaksin. From a negative net-worth around 1990, the combined Shinawatra companies were valued at US\$ 2.4 billion five years later.

The mobile phone business was essentially an import business with after-sales service. There was no intrinsic reason it should create vast wealth. The causes lay in the boom and, especially, in the artificial duopoly which let the two companies gouge consumers like a snake-oil salesman with the only bottle in town.

Act 2: The Defence. In the mid 1990s, all seemed set to change. Big profits created big envy. Six other companies wangled a concession and prepared to launch rival services. Consumer groups, economists, and technocrats campaigned for market liberalization and proper regulation. A framework was written into the 1997 constitution. Foreign companies prepared to enter the market.

The duopoly was saved by the 1997 crisis. Two of the rival projects collapsed in the carnage. Two launched but went nowhere. Two were gobbled up by the existing concessionaires. The Shinawatra companies were miraculously unscathed by the crisis, and AIS leapt further ahead of its rival.

Thaksin rose to power in the confusion. Somehow regulation and liberalization never happened. For seven years, attempts to form the National Telecommunication Commission were sabotaged. TOT

and CAT were slated for privatization and ceased to have any weight as regulators. Their actual privatization was constantly delayed so they failed to become competitors either. Attempts to unwind the concession structure were stonewalled.

But there was one small but important change. Foreign companies took the opportunity to enter the market while crisis-hit local firms were desperate for financial help. Singtel took a stake in AIS but remained a sleeping partner. Telenor first tried to buy into AIS, but then took the second-best option of DTAC. Orange linked up with CP TelecomAsia to launch a new service.

In April 2002, the two foreign-partnered firms went after AIS. They started a price-cutting war, and refused to pay the discriminatory interconnection charge. The response was majestic. From his position as premier, Thaksin personally lambasted the firms for breaking the rules. TOT stood firmly beside the man who had once been their client and was now their boss, telling the rivals: if you don't pay the charge, your customers won't be able to call a landline phone, and you will die. The two challengers waved the white flag of abject surrender. Months later, Orange lost its stomach for such an unequal contest, and backed away from its Thai venture.

AIS met the price war by spending over a billion baht a year on marketing, and grabbed most of the market expansion that came from lower prices. Between 2001 and 2003, its profits multiplied five times.

Act 3: The Sell-out. In 2004, things changed again. Market growth slowed, margins narrowed, and people worried about saturation. The new 3G technology became available, but would require a huge investment (around 100 billion baht) and might not give payback for many years. A National Telecommunications Commission was finally formed, and began planning to liberalize, regulate, and ensure fair competition.

In the space of five months over 2005-6, both the hugely profitable duopolies were sold.

On a world scale, the mobile phone business had gone from infant to mature status within two decades. With margins falling, firms needed scale to afford the investments in technology. Singtel and Telenor both came from small countries, and knew they had to go global to survive. The Thai firms stalled at that hurdle.

Over its 15 years under Shin management, AIS generated 97 billion baht of net profit (74 billion under Thaksin's premiership). Economists have tried to calculate how much of its value was due to political influence. A TDRI study estimated about a third. Maybe the figure is nearer forty percent. That is how much the market value of Shin Corp has dropped since the day of the sale. The loss is around US\$ 1.7 billion.

That suggests however much Thaksin might have invested in politics - in buying bureaucrats, communications ministers, MPs, political parties, voters, or judges - it looks like it was worth it. As long as the family can hold onto it. That's the sequel.

Note: One graphic is not reproduce here. See the original website for it (indicated below).

P.S.

* From <http://www.geocities.com/changnoi2/mobile.htm>