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Hyperscaler Coopetition, Sovereign Clouds are Keys to Telcos' Growth

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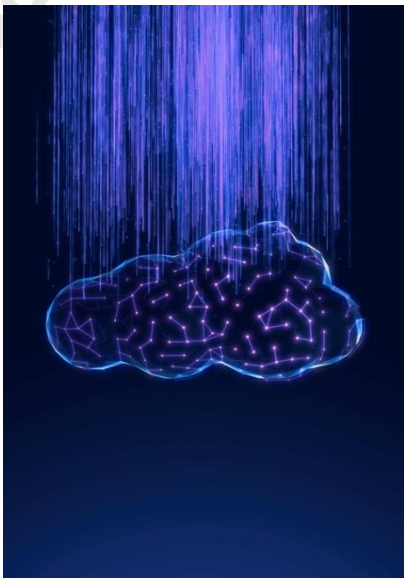

Telecommunications companies have for years been fighting the tides that could turn their core data-transmission services into commodities. Many are now finding success across agribusiness, health care, retail, manufacturing, tourism, banking, energy, utilities, logistics, and beyond.

These acts of diversification may look, well, diverse. But this isn't AT&T buying Time Warner played out across different industries. Rather, today's quest for higher margins generally tracks with what looks to be an emerging, foundational business model for successful telcos of the future. They're embedding IT and communications solutions and services more deeply into the systems serving those end customers. That industry- and business-specific tailoring bakes in deeper customer relationships and higher switching costs.

These solutions and services – IoT, mobile edge computing, private 5G, AI co-development and more – involve data transmission but extend well beyond it. That's pushing telcos into realms lorded over by global hyperscalers such as AWS, Microsoft Azure, and Google Cloud.

Telcos may not be mom-and-pop shops, but the parents of hyperscalers dwarf them. Growing these new businesses without facing off against such giants leaves telcos two main options. The first is to partner with hyperscalers in mutually beneficial "coopetition." The second is to exploit telcos' history and market presence in their local and regional domains to capture sovereign cloud and other business that global hyperscalers might otherwise disproportionately win. Let's start with coopetition.

Hyperscalers as partners

Telcos and hyperscalers have been partnering for years now, but that's mainly been through telcos carrying massive amounts of streaming and social media traffic – typically on the cheap, courtesy of net-neutrality rules. But several factors are changing that. With an increasing focus on expanding cloud services to the edge to support mobile, we're seeing better balance in hyperscaler-telco relationships. Telcos bring their expertise in network deployment and

managed services; hyperscalers contribute their vast infrastructure, AI tools, and innovation speed. Here are some examples of joint initiatives and emerging business models.

Shared infrastructure investment

Major telecoms and hyperscalers have co-funded projects like subsea cables, data centers, and AI facilities. For example, Meta was an anchor investor along with several telcos in the recently completed Equinix 2Africa cable system. In India, Google and Airtel are investing about $15 billion to build a gigawatt AI data center and subsea cable hub in Visakhapatnam on the Bay of Bengal, citing national digital strategy and AI scaling needs. These co-investments reduce each party's risk while more tightly integrating networks and cloud infrastructure.

Cloud-native 5G core networks

Telcos are increasingly moving core network functions onto public clouds. In the United States, AT&T moved its virtualized 5G core network onto Microsoft Azure, aiming to become "public-cloud first" for non-network workloads. Microsoft, in turn, reworked AT&T's 5G core network software into Azure Operator Nexus for sale to operators around the world. In Europe, Telefónica Germany migrated its existing 5G core entirely to AWS, citing AWS's data security and sovereignty capabilities. These moves allow operators to update network software faster and scale capacity elastically without new hardware. AWS has also worked with NTT Docomo in Japan and Dish in the United States to build scalable 5G networks on AWS, benefiting the telcos through lower capex and faster innovation thanks to a cloud-native core.

Mobile edge computing (MEC)

Hyperscalers have launched mobile-edge offerings including AWS Wavelength, Azure Edge Zones, and Google Distributed Cloud Edge that plug into carriers' 5G networks. Both T-Mobile and Verizon are collaborating with Google to combine enterprise 5G edge solutions with Google Cloud, enabling enterprises to run workloads like robotics and AR-VR on Google's platform at local sites with ms latency. Verizon also offers AWS Wavelength zones and AWS Outposts for private edge clouds. In the UK, BT is moving much of its data to public cloud and partnering with AWS on IoT solutions and 5G edge services. These initiatives boil down to telcos leveraging hyperscaler cloud platform to enable low-latency services at network edges to help telcos' customers speed innovation in retail, manufacutring, gaming, and more.

Private 5G networks

Industrial and enterprise customers are deploying private 4G/5G, often in partnership with hyperscalers. The Integrated Private Wireless on AWS program has leading carriers including Deutsche Telekom, Orange, Telefónica Tech, KDDI and T-Mobile manage secure, cloud-integrated private wireless offerings. The services let enterprises easily subscribe to a telco-provided private network with local radio cells that are integrated with AWS compute and AI-ML (Machine Learning) services on-premises or in nearby data centers. The telcos design and operate the wireless networks; AWS provides cloud orchestration, storage and AI tools. The combination helps customers in manufacturing, transportation and mobility, and energy boost efficiency and speed up innovation.

AI-ML service codevelopment

AI services are a key focus of telco-hyperscaler collaboration. Telcos boast large datasets and vertical market reach; hyperscalers have the algorithms and compute. SK Telecom is

partnering with AWS to establish an "AI Zone" data center in Uslan, South Korea, to help South Korean organizations develop AI applications locally. Spain's Telefónica is working with Google Cloud on AI and GenAI initiatives – among other endeavors, training large models on telco data and building an AI stack for communication services and developer platforms. In general, telcos see hyperscalers' AI-ML capabilities as a way to add intelligence to networks and services such as predictive maintenance, customer analytics, cybersecurity.

Many telcos now have R&D labs or AI hubs with cloud partners, and these tend to be long-term deals. Among other examples, see Vodafone's $1.5 billion deal with Microsoft and subsequent $1 billion deal with Google, both billed as 10-year strategic partnerships.

Sovereign clouds as competitive bastions

Working with hyperscalers to deliver high-value IT and computing services to all sorts of businesses is opening up real growth opportunities for telcos. The second major diversification domain for telcos involves helping organizations adopt sovereign clouds – that is, cloud technologies that provide full control of data, infrastructure, and compliance in line with local laws and regulations.

The combination of governmental data-protection regimes such as GDPR and geopolitical realignments driven by emerging nationalistic tendencies have the potential to stoke growth in governmental and corporate sovereign clouds.

A hyperscaler with data centers in dozens of countries – and which is subject to the dictates of the U.S. Cloud Act, which lets U.S. law enforcement demand customer data regardless of where it's stored – faces regulatory and market skepticism on the sovereign-cloud front. Telcos can leverage their status as trusted homegrown providers. That's valid whether they team with hyperscalers or develop their own branded sovereign cloud businesses with domestic IT partners.

Regulatory and technological forces will shape how deeply telcos and hyperscalers intertwine. Regulatory pressure looks likely to mount. Data protection, privacy, and national security laws may force operators and cloud providers to localize key functions. We may see mandates that telecom core networks or certain data stay within national borders under local control.

A given telco may well pursue combinations of hyperscaler coopetition and telco-led sovereign cloud development. Take the example of Telus. The Canadian operator signed a 10-year Google Cloud deal in 2021. Then in September 2025, it opened with several non-hyperscaler partners the country's first fully sovereign AI data center in Quebec, "unlocking advanced AI capabilities for Canadian businesses, researchers and innovators while storing data within our national borders, in a data centre under Canadian control," as Telus officials put it.

Whether sovereign clouds coalesce into globally competitive platforms or remain fragmented by region remains an open question. Even as new forces pushing data and computing balkanization gain steam, initiatives such as Gaia-X and ED-EDIC in Europe, not to mention good old economies of scale and Metcalfe's law, will continue to serve as counterweights.

Other important factors will also shape sovereign clouds. Hyperscalers and other global partners can help efficiently and cost-effectively build and operate sovereign clouds. That helps ensure consistency across borders, thereby fostering, rather than hampering, innovation. True data sovereignty is not about technological isolation, but rather the ability for public authorities to verify where data is processed, who operates critical systems, which legal framework applies, and who is accountable at every level, as SAP CEO Christian Klein recently described it.

Either way, telcos are in a great position to take the lead on sovereign clouds and harness them as growth engines.

New telecom business models in telecom don't require radical departures from what drove past successes. Ubiquitous mobile computing, AI, explosively growth in data volumes, and customer expectations of split-second access are further solidifying telcos' strategic importance throughout the global economy. Telcos are finding partnerships with hyperscalers to be a great way to move from commodity data transfer into high-value IT and specialized communication services. At the same time, heightened political attention to data and computing sovereignty are stoking interest in sovereign clouds, and telcos everywhere are well positioned to capitalize.