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Telecoms' path to global progress

From Prof Graciela Chichilnisky.

Sir, Iraq is not Vietnam. Different times, different places and different geopolitics. Yet both whisper a warning about the difficulties of taming developing nations that defy our values and views of social progress: the cost may be too high.

There is another way. The economic success of the west is based on science and technology. We should prevail based on democracy and economic productivity. White-collar jobs involving transactions of information represent the best of the west. But these are moving rapidly to cheaper parts of the globe. Will the knowledge revolution level the playing field between industrial and developing nations?

Perhaps. Innovation and knowledge no longer require massive capital. A competitive advantage goes to nations poor in capital but rich in skilled labour: China, India and Russia.

International telecommunications circuits cost 1 per cent of their price six years ago. As telecoms prices drop, so does the cost of overseas tech labour.

International communications used to be dominated by a cartel of national monopolists that used it as a cash cow to subsidise domestic services. Their productivity and market share soared in the last upswing. Yet 86 per cent of all telecoms companies went bankrupt in the 2000-2001 downturn. Telecoms groups typically over-invest in an upswing to capture market share, dropping prices below what is sustainable in a downswing. Such economic volatility comes from economies of scale, where costs drop as production expands. Economies of scale characterise the telecoms sector.

Telecoms prices will continue dropping as the bankrupt carriers re-emerge with their debt wiped clean. At the same time, connectivity to broadband internet is growing by leaps and bounds, above 50 per cent in many countries. Since 85 per cent of international traffic is internet and data, if half of internet users switch to broadband within five years, by the end of the decade traffic will have grown 100-fold and prices will have risen. To smooth volatility, telecoms companies must lessen their reliance on massive capital investment and market share. This is possible: switching equipment costs are dropping. In the future, expensive submarine cable could be replaced by wireless technology; the spectrum could accommodate personalised frequencies for 10bn people.

The Iraq war may come and go without resolving our differences. We may need tolerance, diplomacy and international law. But telecoms is the essence of globalisation. A productive and predictable global economy may depend on a wireless world. Otherwise, the boom and bust cycle of telecoms could rock the world economy periodically, and undermine an international division of labour that leads to global economic progress.

A revamping of the Bretton Woods institutions may be needed to organise and standardise the global airwaves. Global organisation and co-operation may be the ultimate source of

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