

## Information and communications technology in the Pacific islands—marginalisation by monopolisation

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The Pacific island countries frequently complain that their geographical isolation from the major markets of the world is a major reason for their poor economic growth and poverty reduction performance. However, the very low-cost telecommunications now available throughout most of the world offers the Pacific countries the opportunity to overcome this geographical isolation in various ways and, as a result, to increase peoples' welfare much faster. Unfortunately, governments in the Pacific are locking their countries away from the benefits available from low-cost telecommunications through monopolisation of their telecommunications sectors.

They are thereby marginalising themselves, when they often complain that they are marginalised by globalisation. It is unlikely that the Pacific countries will ever be able to recover the ground that they will lose from this marginalisation.

Of all the costs incurred by businesses, the costs of telecommunications have fallen most over recent years, as the result of the rapid technological developments in the information and communications technology (ICT) industries. This rapid decline in communications costs has had two major

impacts on industrial activity throughout the world. First, it has led to the 'fragmentation' of firms—a process whereby firms have been able to 'unbundle' their activities into several discrete components and to locate these around the world in countries where they can be carried out most economically.

This fragmentation of firms has led to a substantial increase in the number of so-called 'multinational' firms, because many more firms are now finding it profitable to carry on their production in several countries. This fragmentation of industry has been made possible by the great reduction in telecommunications costs. It does so because it has become very cheap to keep in touch with the various activities of the firm from a central location.

This global fragmentation of firms will likely be seen in the future as one of the great revolutions of the industrial age. In fact, it is a large part of what goes under the heading of 'globalisation'. Those countries that do not take part in it will lose the benefits of the income growth that would have been available for their citizens.

The second major impact on economic activity from low-cost telecommunications costs is that it allows countries to break out

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of their geographical isolation by undertaking activities in which their geographical isolation becomes a positive factor rather than a negative factor. For example, so-called 'back-office' applications or call-centre operations can be carried out at times when businesses in other time zones are closed down.

Further, within a country, really cheap telecommunications offer people in areas remote from the urban centres the opportunity to carry out activities that generate incomes and thereby reduce the rapid rural-urban drift presently taking place in so many countries. There are also the lost opportunities to use low-cost, modern telecommunications facilities for enhancing the education of children in remote areas. Again, such enhanced distance learning can help to improve income-earning opportunities for people living in remote areas and reduce the drift to the urban centres.

Unfortunately, several Pacific island countries have locked themselves out from these tremendous opportunities for economic growth and poverty reduction by adopting monopolistic arrangements that effectively guarantee high telecommunication prices. Increasingly, these monopolistic arrangements are joint ventures between governments and private sector partners. Moreover, the governments have been induced to sign exclusivity agreements with the private sector partner that lock these arrangements in place for many years.

Thus, the Pacific island governments are ensuring their own country's marginalisation. One is led to confront the depressing question of whether, having forgone the opportunity to be part of the ongoing global fragmentation of industry and the development of ICT service-based industries, will it ever be possible to catch up? It is hard to see that it will be possible for countries that do not take part in these processes now to break into them at a later stage. For example, people in the non-

adopting countries will miss out on the opportunity to develop the skills that others are learning. Hence, the non-adopting countries are likely to become even less attractive than others as locations for multinational firm activities.

There are very high profits generated by the monopolistic telecommunications providers. This is because, like all monopolies, they charge the highest prices they can for the poorest quality service that they think they can get away with. Thus, monopolistic firms have little incentive to innovate and adopt new technology that will lower prices for consumers.

Sharing in the profits of telecommunications providers as they do, the Pacific governments appear to have lost sight of the higher income growth and larger government revenues forgone by participating in this monopolistic behaviour. As in so many areas, it is difficult to demonstrate the costs of missed opportunities. However, one can point to what has been happening in other countries where advantage is being taken of these opportunities offered by low-cost telecommunications, through the development of many new income-generating activities. There seems to be no good reason why the Pacific countries cannot benefit as others are doing.

Is it too late to get out of these monopolistic arrangements and allow Pacific countries to take full advantage of the opportunities opened up by low-cost telecommunications? While the firms that have already entered into these monopolistic arrangements with governments should be compensated in some form for the agreements being broken, it seems that the benefits to be gained over the long term from breaking the exclusivity agreements will greatly outweigh the short-term costs of compensation.

What about the argument that Pacific countries are too small to have more than one telecommunications provider? While it may be

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necessary to have only one provider of the 'natural monopoly' component of the telecommunications infrastructure (for example, the fixed wires), the uses of this infrastructure for the delivery of services such as telephone and internet can be opened up to competition. This 'small country' argument has lost most of its force with the rapid technological developments in the telecommunications industry in recent years (such as the advent of wireless communications) that allow several private firms to compete, even in small markets.

While there should be only one provider of the 'natural monopoly' infrastructure (such as the fixed lines), governments should not be the owner or part-owner of these facilities. Otherwise, government has a very substantial conflict of interest—as an owner sharing in the profits and as the regulator of the price of access to the infrastructure. Such an arrangement can only contribute to keeping the costs of telecommunications high. Let's make our geographical isolation work for us instead of against us!