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PLENARY MEETING

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DIAMONDS, TELEPHONES AND BASMATI RICE

PARTNERSHIP, PROFITS AND PITFALLS

The level playing field

Translating into reality the global checks and balances put in place around telecom liberalization is complex because they must reach down to the local level of a basic, fixed service. It is essential to spell out clearly profits and pitfalls if there are to be genuine partnerships between "developed" and "developing" partners.

A level playing field seems to mean different things to different people, from English to Caribbean cricket and Tromsø to Chelsea football pitches. So it may be wise to examine areas and examples both inside and outside telecommunications. There is copious reference to India, not least because that has been the author's main area of research. India is also important because it is at the crossroads of becoming a significant producer of proprietary, indigenously developed and built telecoms material, from solar powered phone boxes to satellites. It is having trouble breaking widely into the international telecoms market, compared to the ease of entry for established foreign players in the Indian market after liberalization.

Brain drains and cherrypicking

Governments have to balance what they cede in telecoms and what they gain from other sectors of the economy as a whole. India may have access for its textiles to the European and American markets. But Europe and the United States have access to India's far more lucrative telecoms market. Where are Indian telecom products? - usually as unlabelled, outsourced software. In a true partnership there has to be less poker playing and more transparency.

Key, intangible, backroom skills must have a global value ascribed to them, not just as cheap labour. Talented people should be able to work anywhere. But where is the balance in the brain drain or global companies cherrypicking the best nascent, software and hardware development talent? It is changing as some developing country companies assert their global brand names, rather than being microserfs to outsourcing.

Software copyright and hardware patent protection by developing countries is very costly and needs a good legal infrastructure. People often invent and sold out - foolishly.

300 million people, without access to a phone today, represent an enormous 21st century revenue base and should be valued as such. Developing countries' low costs and educated workforces give them an opportunity to control, rather than just be the outsourced points, for the new call centre service market and Internet traffic - if their governments allow their own marketers to seize the opportunity.

Consideration should be given to ensuring that anonymous outsourced software work starts to be labelled with the supplier's brand. Too few people know the London Underground runs on Indian software, or their airline ticketing reconciliation is computed in a developing country.

India has had to go to the United States courts because the Green Card system was used to impede Indian software consultants getting direct access, and more profitable access, to United States customers. Securing an intangible asset like software capability is difficult. For others the asset can be as hard as diamonds. But the principle is the same. After nearly a century of the diamonds being "owned" by others, in 1990 Namibia got its own government and control of its vast diamond assets. Namibia had the lever in its own hands. In 1994 it forged an equal 50:50 partnership with the former exploiter of the asset, De Beers. Through NAMDEB, De Beers plays a key role, but not a dominating one.

The protection problem has, of course, been recognized. Action is needed to solve it. A venture with a United States company to tap Georgian success in beating multi-resistant staphylococci, failed in part, through patent exploitation differences. India has moved to try to protect the neem tree (global patent protected marketing estimated at \$US 2 billion a year) against foreign global patents via synthesized molecules. It has successfully moved the United States courts on the issue of turmeric powder being patented as a wound-healing agent, an application known for thousands of years in India. It is now faced with an application in the United States to take out patents on basmati rice.

Developing countries are generally weak in patent and copyright protection and vital market intelligence because it is so expensive in foreign exchange and legal costs. It is essential to monitor, for example, globally emerging alliances in telematics hardware and software and the expanding geo and leo satellite era. They also have poor access to enough "grey" or "white" comparative information about foreign products in telecoms.

The business plan

Joint venture disaster often occurs precisely because the obvious was ignored. Successful partnerships and mutual profit, depends on both parties identifying their own risks in their collaboration. Steps have to be taken to build mechanisms to avoid dangers.

The "dream merger" of British Telecom and MCI collapsed, despite all their resources and might. The consultants to the consultants' consultant, Arthur Andersen and Andersen Consulting, cannot get a merger right. How much more difficult to ensure the success of joint ventures between a robust "western" institution and a developing country partner, private or public?

The developing partner is teaming up with the former poacher who sought to get into the henhouse at night to capture new markets. The two are going into business as predators. The lamb wants to become a lion. David wants to become a junior partner with Goliath. The giant has to become benevolent (normally quite difficult) and the tiny giantkiller wants to flex its muscles.

Mr. Fixits and their roles as referees

There is a key, catalytic role to be played, particularly by organizations such as the International Telecommunication Union (ITU), the World Intellectual Property Organization, UNCTAD, ILO etc., as facilitators and referees. How do they make sure their consensually agreed guidelines are taken on board by the trade and multilateral funding bodies and the private sector? Partners must revise the legacy of empire and avoid knee-jerk reactions such as "developing" means bad quality and that "West is best". Partnerships are not just for east and west. South-south alliances may be easier to forge and more profitable to penetrate "third" markets. Everyone is talking partnerships but it may be useful to remember UNCTAD started promoting regional, south-south alliances more than a decade ago.

Basic principles - megamerger warning

There are some principles which should form the foundation for any venture. The consumer remains at the base and the pinnacle - any service or product one person makes is "for" some other person's use.

Mr. Don Cruikshank, United Kingdom telecom regulator and Director-General of Oftel, retires this March. He has warned (Financial Times, page 9, 11 February 1998) that "megamerger" between telecom operators, computer and entertainment and information providers will need new regulations. Consumers were not properly protected under existing legislation, he said. Mr. Cruikshank believes open government and transparent policy making are essential.

The power and resources of a privatized, internationally operating telephone company or telecoms manufacturer can match and exceed those of many governments. Beyond the sale of networks lies the bigger, long-term prize. The exploitation of data collected on consumers across international boundaries for synergies with communication, info services, links for combined power delivery and data, and food and banking services by supermarket transnationals. The developing countries are leapfrogging into electronic societies. They should be cautious - network and database rights should not be bartered for short-term gain but guarded for national use, particularly for their rural citizens.

Post-colonial reconciliation

The promotion of partnerships may be viewed as a kind of post-colonial reconciliation. The centralized developing country's international linkage with the World Bank and IMF are still there. The problem is more ease and equality in expanded partnerships with the private sector.

The myriad, old, commercial ties were often extensions of empire. French and Italians are now making inroads into India against the British. The Indians are scoring contracts in Francophone Africa against the French. The Tigers are bypassing their former United States investors. Giants of the former socialist economies, like Skoda, are winning contracts in "capitalist" countries. However, the enterprises and public utilities of empire are often now global multinationals, still dominating markets where developing countries sell or buy.

There has been some criticism of the target-setting for developing countries and partnership arrangements in the latest Annual Report of the Organization for Economic Cooperation's Development Assistance Committee (OECD - DAC, 11 February 1998). Some analysts suggested the targets are somewhat too "donor-driven" (Seminar on 1997 DAC report with DAC Chairman James Michel, February 1998, Overseas Development Institute, London, Aidan Cox, ODI Fellow).

However, there is a consensus; they can only work if detailed down to the level of the ultimate consumer. The "developing" partner needs to ensure they do not end up as a junior in a relationship which eventually leads to their assimilation into the global player's portfolio.

In telecoms this is critical. In the past, bought or licensed assembly of telecoms equipment was usually from foreign exchange - demanding, rich, industrial countries. The technologies could be too weak to meet needs and technology transfer was limited. Today, developing country governments may "control" their telecom infrastructure but they often still lack the financial or politico-technological clout to get the best out of the market.

Nepal, Bangladesh, Albania and Viet Nam have all expressed a desire to buy cheaper, state-of-the-art digital equipment from countries such as India. But the financing credits needed are usually not available from the Indian manufacturing companies. The "Western" company which can offer major loans (direct or indirect) and/or credit ends up as the supplier. Although the final package will be far more expensive in the long term.

Finance - marriage brokers and marketmakers

The main profit from the packaging and floating of mergers, state selloffs and financial instruments such as Global Depository Receipts (GDRs), has accrued to private "western" financial institutions (including Japan). Commissions on United Kingdom handled mergers and takeovers in 1996 were worth more than one billion sterling. (Pacific Telecommunications Council India Annual Meeting February 1996, New Delhi, Peter D. O'Neill.)

Some of these financial services were in telecoms for developing countries, including former Soviet republics and countries in Eastern Europe. Preliminary analysis indicates that some proposed exercises were "pulled" or postponed over the last three years because of market conditions "talking them down" when competing "western" flotations clashed. There could also be a useful analysis of those telecoms contracts which were reviewed for legal, competition and political reasons.

Tiger economies have increasingly put up investment for telecoms, power and construction projects. This seems to be shifting back to the "West", at least temporarily, because of the currency crisis. Unilever, with a cashpile of around seven billion sterling, is reported to be looking to buy companies in the cheapened south-east Asian arena.

There have been international agency efforts to try to change the balance of foreign funding in basic telecoms infrastructure in developing countries. But this has had no continuous major success so far. Developing countries' governments may in part be at fault. They have not wholeheartedly seized the long-term opportunities, which telecoms offer to remake their economies, by investing more in their own telecoms industries from national resources.

There are excellent and far cheaper products (up to 50% cheaper than the "West") from the Far East and countries such as India. More sourcing between developing countries can be worthwhile. The latter's industries often find that their "brands" are not even considered in the international tender stakes except for open bids in their home markets.

Double good but often refused

Telecommunications Consultants India Ltd. (TCIL) has faced this problem. TCIL was set by the government in the 1970s. Now one of India's premier export organizations, with a telecom project order book of hundreds of millions, it was TCIL which won the contract to restore the Kuwait telecoms network after the Gulf War. It has forged a number of hardware and software alliances with European and North American telecoms enterprises. According to former Chairman and Managing Director Y.L. Agarwal, "We did not just have to be good to beat the opposition, we had to be double good!" TCIL has had to battle to break into markets and often finds that it has lost out to a "competitor" because it could not raise part credit financing to help a customer finance a contract.

The limited freedom of action allowed to government enterprises in many developing countries, including for TCIL, has been a constraint which in the long term has meant missed opportunities. Mr. Agarwal is now with Himachal Futuristic Communications of India Ltd., a company which bagged a large number of fixed service and mobile contracts in India against major foreign opposition. HFCL has spearheaded technical joint ventures in North America but particularly in the Far East and Middle East. But it produces most of its high quality, low-cost equipment in India, in poor rural hill areas. (Unpublished interviews with Y.L. Agarwal, former Chairman and Managing Director, TCIL.)

Similar difficulties are also probably valid for India's parallel supercomputer developers at the Centre for the Development of Advanced Computing (CDAC). CDAC has one of the largest and most skilled parallel computing teams in the world. Its pioneering work is not matched by the penetration it deserves of the world parallel supercomputer market. It has been successful in the domestic, Soviet and Russian space arena however. The same is true of the Centre for Development of Telematics. It has installed more than five million digital lines in India since starting research from scratch only ten years ago. They range from state-of-the-art, digital 126-line rural to 100 000 line switches. It is one of only six indigenous producers in the world of such large switches.

The attraction of rural areas plus social dislocation

One needs to watch that foreign partners do not push for social changes (in jobs etc.) which they would not be allowed to do at home.

The rural areas of the world are the poorest served in telecoms but they are also the vast, untapped market of the 21st century. Many "western" telecoms companies focus on urban scenarios, being accustomed to serving "dormitory" town rural areas of low population density and low phone use. That perspective may be flawed for developing countries. The developing country rural user has to pay the highest charge prices and needs the long distance phone call more than the citydweller. Addressing this imbalance should be core to any partnership developments, just as environmental issues are now made core to any industrial project.

Peter D O'Neill is Founder Editor of THIRD WORLD: EEC Features TV Radio and Research Agency in London. It covers the interface between developing countries and the European Union. His higher education included studies in Durham, Bradford, Paris, Moscow and New Delhi. He became a Reuter Correspondent (London, Brussels and New Delhi) after graduation in 1971, until setting up THIRD WORLD: EEC in 1980. He was a pioneer of electronic information on PRESTEL.
