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Editorial

"The Digital Divide"

In its recently released *Information Economy Report 2005*, the secretariat of the United Nations Conference on Trade and Development underscored the importance of private competition and rule of law in overcoming what has been dubbed "the digital divide" separating developed from developing countries. The Report contends that vigorous efforts are currently underway in the developing world to catch up with their more developed partners in the dissemination and use of information and communication technology in various e-business applications. However, despite encouraging signs in this direction, the Report cautions that the "gaps are still far too wide and the catching-up far too uneven for the promise of a truly global information society … to materialize without the sustained engagement of national governments, the business sector and civil society, and the tangible solidarity of the international community" (xv). What is innovative about this Report in relation to other U.N. documents is the degree to which the business sector and the voluntary associations of civil society are weighted in comparison to the regulatory apparatus of government and viewed as significant catalysts in their own right to raise real standards of living and to promote world economic development.

Just how "connected" is the world to the Internet? According to the Report, data indicates that in 2003 the number of Internet users worldwide slowed down to 15.1 percent, from the more than 26 percent in the previous two years. "While some regions showed robust growth in the number of Internet users in 2003, such as Africa (56 percent) and South-East Europe and the Commonwealth of Independent States (74 percent), overall the gap between developed and developing countries remains wide: only 1.1 percent of Africans had access to the Internet in 2003, compared with 55.7 percent of North Americans" (xv). But merely being "connected" is not enough. In order to benefit fully from the Internet, researchers found "users need not just connections, but fast, good-quality ones…. for some e-business applications broadband has become indispensable" (xv). While some countries have shown accelerated growth rates—such as China, which went from close to zero to twenty-three million broadband subscribers in just three years—there are vast variations worldwide in broadband access (xv). (Of course, even within China itself, a country containing approximately one-fifth of the world's population, twenty-three million broadband subscribers only represent the tip of the iceberg of future e-business possibilities.) The fundamental drawback, however, is that in many developing countries data about broadband access, not to mention broadband access itself, is not even available.

Another complicating factor in the spread of the information economy concerns low Internet penetration rates even in areas where the number of Internet users continues to grow. "While the number of computers is increasing substantially in developing countries, particularly in some of the emerging markets, computer penetration remains very low, for example, in China with 2.7 percent, Brazil with 7.5 percent, and India with 0.7 percent" (xvii). In developed countries and in a few Asian developing countries, broadband, which plays a key role for enterprises to take full advantage of information and communication technologies, is spreading quickly, whereas most developing countries continue to have very low access rates.

If the Internet is actually the stimulus to world economic development that its defenders claim, then what tangible obstacles hinder developing countries from connecting to it? According to critics, it is the private commercial arrangements between Internet service providers and the major international Internet backbone providers that are responsible for the perceived lack of equity and the excessively high cost of access in the developing world. The Report states that there have been calls for regulatory intervention to remedy this situation, yet, surprisingly, the authors reject that proposal in favor of free enterprise. "The Report argues that the divergence between the model for financial settlements that was traditionally used among telephony networks and the arrangements in place for the Internet does not necessarily imply the existence of anti-competitive practices. It further argues that the cost of Internet access in developing countries is more heavily influenced by lack of competition in domestic Internet and telecommunications markets, and by small market sizes and lack of economies of scale, than by the terms for connectivity to global backbone providers or network service providers" (xviii–xix). Given the lack of infrastructure, small market size, and limited access to international backbone networks in developing countries, it is probably unrealistic to expect that private competition by itself will be enough to bring down the cost of Internet interconnection to levels that enable a significant improvement in affordability. International cooperation (via the structures of civil society) can assist in this respect by "accompanying and supporting the commercial development of Internet connectivity in these countries" (xix).

Aside from the high costs associated with Internet connectivity, the Report also pointed to the nonexistence (in most cases) of legal instruments to ensure just, secure, and orderly e-transactions as a serious impediment that must be addressed if the information economy is to spread throughout the developing world. Researchers found that in most developing countries, financial service providers are not yet in a position to use modern credit-risk management techniques to provide capital to enterprises on competitive terms. "One of the main reasons for this situation is the fragility and insufficient level of skills in the financial sector and, in particular, the lack of elaborate credit-reporting systems. The inability of creditors to assess borrowers' risk owing to a lack of credit information, namely information on the financial state and payment record of the borrowers, is one of the main impediments to introducing a modern credit-based economy in those countries" (xx). To overcome such information asymmetries, developing countries need to formulate "effective registration and bankruptcy laws, as well as public and court registers, acceptable standards for reporting and disclosure by private sector operators, international accounting standards and standards for auditors, and adequate public data dissemination and publishing requirements. Only in this way would institutions such as public credit registries, created mainly by banking regulators, and credit bureaus, put in place primarily by the private sector, be able to operate and to provide adequate and up-to-date electronic credit information" (xx).

By accenting the importance of private competition and rule of law as concrete paths within a broader strategy involving national governments, NGOs, and international agencies to overcome the digital divide, I am hopeful that world economic development, which is another name for peace (cf. *CA* 52), might become an ever greater reality in the future.

—Stephen J. Grabill, Ph.D.