

# Telecommunications Policy and Economic Development

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## Telecommunications infrastructure and economic growth: evidence from developing countries

*In this study, we investigate empirically the relationship between telephone penetration and economic growth, using data for developing countries. Using 3SLS, we estimate a system of equations that endogenizes economic growth and telecom penetration. We find that the traditional economic factors explain demand for mainline and mobile phones, even in developing countries. We find positive impacts of mobile and landline phones on national output, when we control for the effects of capital and labor. We discuss the associated policy implications related to improvement of telecom penetration in developing countries.*

*Keywords: telecommunications, economic growth, reverse causality, developing countries, telephones.*

### Introduction

Convergence between Information and Communications Technologies (ICT), in particular the Internet, and its related applications, has enabled low-cost diffusion of information technology products and many telecommunication services in developing economies. While the telecommunications sector continues to be deregulated world-wide, the co-existence of stark poverty and islands of technology innovation in many developing countries has received little attention in the literature. This paradox provides the motivation for our research regarding the more specific relationship between telecommunications and the state of economic growth in developing countries.

The literature on general ICT infrastructure and its impact on growth are steadily growing. A number of researchers have hypothesized that ICT (including telecommunication) infrastructure lowers both the fixed costs of acquiring information and the variable costs of participating in markets (Norton, 1992). They point out that as the ICT infrastructure improves, transaction costs reduce, and output increases for firms in various sectors of the economy (Röller & Waverman, 2001). Thus investment in ICT including telecommunications infrastructure and their derived services provide significant benefits to the economy. In the recently concluded First World Summit on Information

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its mind about the role of telecommunications for economic development. With the policy of Telecommunications Policy archive . Telecommunications adoption and economic growth in developing countries: Do levels of development. infrastructure is not only important for economic growth but also to connect competitive and deregulatory telecommunications policies swept the world.

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