Mobile phones could bring down the global economy

By Matthew Lynn  Jun 13, 2011

There is no shortage of stuff out there to make investors feel nervous. The euro could get blown apart if a long, hot summer of protest in Greece and Spain boils over into civil unrest. The Chinese economy might suddenly turn down, removing just about the only source of global growth. Inflation might suddenly rip out of control, provoking central banks into raising interest rates sharply.

But there is one other risk that most people probably haven’t thought about. What if mobile phones really do give you cancer? Mobile technology has the potential to be another tobacco – a huge and powerful industry that was just about destroyed by the unfortunate fact that it killed people. If this happens, hundreds of billions will be wiped off stockmarkets around the world.

Of course, there is still no proven link between mobiles and brain disease. The World Health Organisation (WHO) is not claiming that there is. Its International Agency for Research on Cancer gathered together 31 experts in Lyon last week to review the available evidence. It concluded that there was a ‘possible’ link between mobiles and a type of cancer called glioma. The WHO has five rankings of cancer risk, ranging from carcinogenic to probably not carcinogenic. The ‘possible’ ranking is right in the middle of the range. So it’s not saying there is a definite link. Yet it isn’t ruling one out either.

For anyone tracking the industry, that isn’t particularly helpful. Lots of studies have been done of potential links to cancer, and none have been very conclusive so far. Mobiles appear to have some health effects. Against that, there has been no big increase in the rates of brain cancer in the 20 years or so since mobiles became a ubiquitous part of everyday life. It’s hard to assess the data accurately because brain cancer is a relatively rare condition, so there are not very many people to study. But just because cancer rates haven’t taken off yet, it doesn’t mean they won’t. People were smoking heavily for a long time before the damage that tobacco does to your health became apparent. Asbestos was widely used in building for decades until the risks were discovered. Right now, all that anyone can say is that there is some form of risk, which the medical experts will need to keep an eye on. What we do know for certain is that, if a link were ever proved, or were simply to move up from possible to probable, then the economic implications would be huge.

That’s mainly because this is a massive industry. According to the International Telecommunication Union, there are now 5.3 billion mobile-phone subscriptions. That takes in 77% of the world’s population. More than a billion handsets are being sold every year. Vast quantities of capital have been poured into building mobile networks. The rise of smartphones means that people are doing more with and spending more money on their phones every year. The rise of tablet computers will only send those figures even higher.
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On just about every major bourse, the big mobile-phone players are among the indices’ leading companies. Vodafone – with a market value of £83bn – is a giant of the FTSE. France Telecom, which owns Orange, is one of the largest businesses on the CAC-40. The world’s largest mobile operator, China Mobile, is also one of the world’s biggest companies. Nokia may be struggling to re-invent itself, but it is still the world’s major handset manufacturer, and worth $25bn. Much of the South Korean stockmarket depends on the mobile divisions of Samsung and LG. New players, such as Taiwan’s HTC, have soaring share prices (indeed, it recently overtook Nokia in value). And, of course, Apple, which is now critically dependent on its iPhone, is now the third-biggest company in the world.

It doesn’t even stop there. Microsoft and Google have invested fortunes in creating mobile software divisions. Manufacturers of chips and other components help to sustain the commodities boom. Many retailers depend on the sales of mobile phones, as do the new generation of app writers. In short, mobile phones have fuelled much of the growth of the world economy in the past decade. A link between this technology and cancer would prove an economic as well as a medical catastrophe. So what can investors can do about it?

For starters, investors should be monitoring the medical data and keeping up with the latest developments. They should be demanding that the mobile companies do everything they can to research the risks – and mitigate them. There is no point in simply denying that such a risk exists, in the way that the tobacco industry did for decades. Investors should also be preparing an exit strategy. If a link is ever proved beyond a doubt, you don’t want to be holding the shares or bonds of any of the main players in the industry. You might want to avoid holding equities full stop – the knock-on effects for the rest of the markets would be so severe.

Meanwhile, don’t give up on some fairly old-fashioned technologies. Fixed-line operators, such as British Telecom, could be set for one of the greatest bounce backs of all time. The shares yield 4%, so tuck a few away. If we all decide to get rid of our mobiles and start using the landline again, these shares will soar.

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If such a link were to be proven, then obviously the impact on the mobile phone industry could be large. They'd have liability costs to deal with, and in the short term consumers might be scared off.

But in the longer term we're not going to stop using mobile phones. We'll just avoid holding them close to our heads (e.g. with handsfree kits).

The inverse square law is your friend - if you increase your distance from the phone by a factor of ten then you've