

Globalization and Shared Prosperity: Opportunities and Challenges of the New Economy

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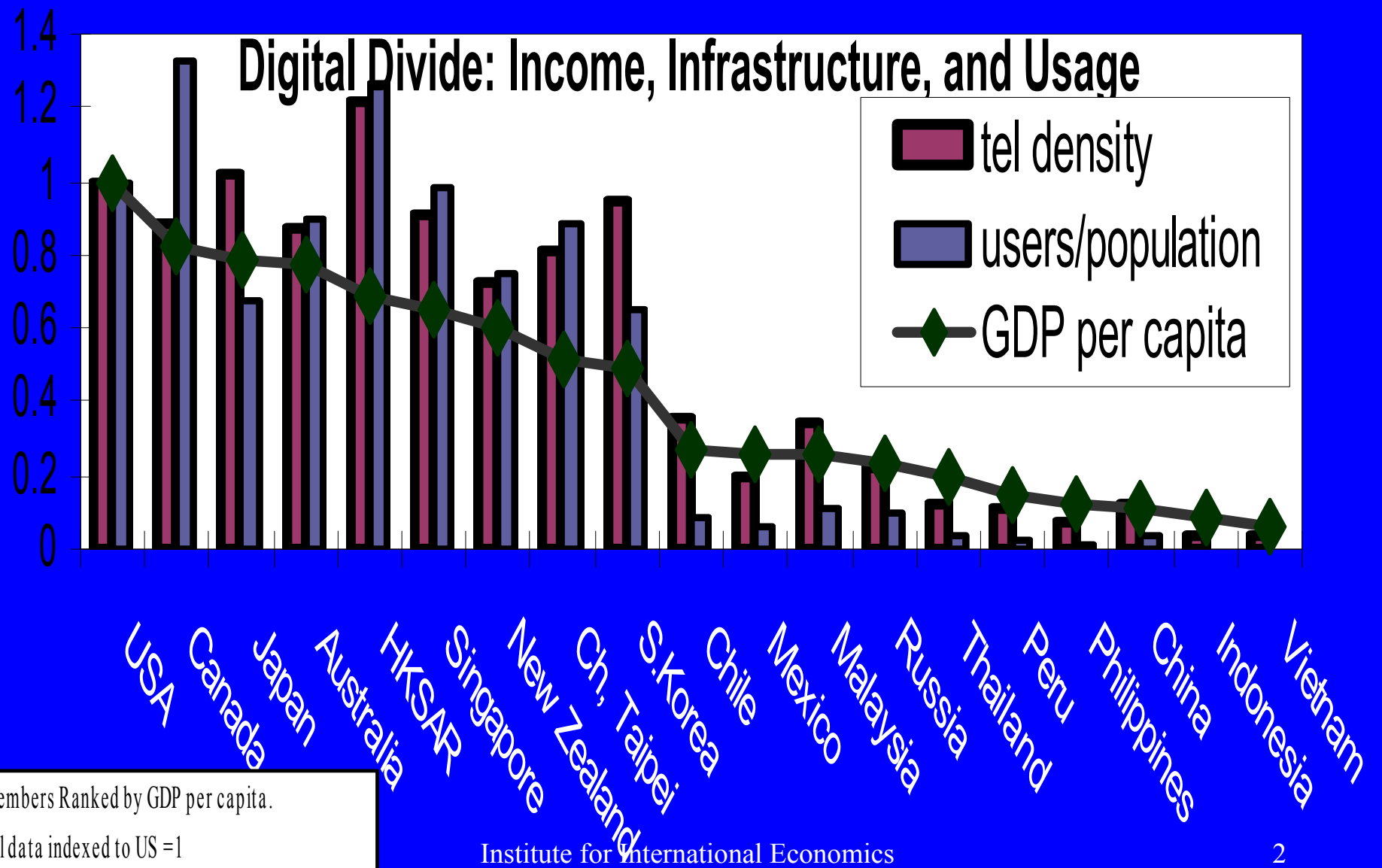
Dialogue on Globalization and Shared Prosperity

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**Please see the end of this presentation for additional notes on
each slide.**

Initial Conditions Vary Widely



Growth Potential of the New Economy

ICTs Alone

Structural Policies,
Networked ICTs,
Human Resources

Growth
of ICT
sector

Change in productivity
(potential growth of GDP)

Productivity growth
from ICT-assisted
transformation
throughout
economy

Productivity Growth: Sources and Evidence

Contribution of Information Technology to Productivity Growth

	Australia		United States	
	1991-1995	1996-1999	1991-1995	1996-1999
labor productivity growth	2.1	4.1	1.5	2.6
contribution from:				
Information technology	0.9	1.3	0.5	1
Other capital	0.4	0.6	0.1	0.4
multifactor productivity growth	0.8	2.2	0.5	1.2
(e.g. transformation)				

Source:

Gruen, Reserve Bank of Australia Bulletin, Feb 2001, table 1 page 68

**What's the big difference between the US and Australia?
The US produces IT and Australia imports it.**

Policy Conditions Facilitate Transformation

**Financial
Depth**

**External
Openness**

**Pro-Competitive
Market Rules**

**Fiscal
Efficiency**

Not new policy conditions, why a reassessment?

- 1. Technology is not a short-cut for policy reform**
- 2. Stronger synergies among policies raise cost of inaction**
- 3. Technology changes the appropriate tools of policy**

Policy Choices Shape the Environment

**Financial
Depth**

**External
Openness**

**Pro-Competitive
Market Rules**

**Fiscal
Efficiency**

Financial depth is key for investment, transformation, innovation

Global engagement, competition, and knowledge transfer, particularly in services spurs transformation and innovation.

Pro-competitive market rules encourage transformation in business, product and labor markets.

More efficient and changed activities of government free up resources for human development.

Entrepreneurship: Beyond Top-Down Policy Reform

- Build awareness at the local level
- Grow from existing community leaders & entrepreneurs
- Access and incubators within communities serve community interests and build on community strengths
- ***Preserve incentives to innovate***
- ***Avoid permanent cost projects***
- ***Promote diffusion out of parks***
- ***Focus on shaping the environment***

Implications for Trade Competitiveness

The taller the trade cones, the more the trade of an economy is concentrated in sectors that use information technologies intensively, making the policy environment that much more important to maintain trade competitiveness



APEC members ranked by overall policy conditions

- weighted import exposure
- weighted export exposure

To Conclude

- Transformation is the key to the New Economy
 - To enjoy the productivity benefits of ICTs
 - To avoid loss of trade competitiveness
- Structural policy reforms
 - Shape the environment where transformation takes place
 - Are tougher to do than technology policy
 - Require domestic commitment and leadership
 - Need complementary local entrepreneurship
- Consequences of differential progress?
 - A widening productivity gap within APEC
 - A challenge to the goal of shared prosperity

Gracias

Notes from "Globalization and Shared Prosperity: Opportunities and Challenges of the New Economy"

Slide One:

The observations to follow are detailed fully in the Report, "The New Economy and APEC", prepared by Catherine L. Mann and Daniel H. Rosen in conjunction with the Economic Committee of APEC, which was presented to and endorsed by APEC ministers and leaders at their Summit in Shanghai China October, 2001.

"The New Economy and APEC" is available for download on the IIE website (www.iie.com) as well as the APEC Secretariat website (www.apecsec.org.sg). A hard copy of this 200 page analytical report, along with 16 case studies of ICT use and transformation in APEC members is also available for purchase on the IIE website.

Further supporting the APEC analysis is the field work, analysis, and synthesis in the book, "Global Electronic Commerce: A Policy Primer" by Catherine L. Mann, Sue E. Eckert, and Sarah Cleeland Knight, published by IIE in 2000, and available on IIE's website.

Slide Two:

Initial conditions of prosperity and indicative measures of the New Economy vary widely among APEC members.

There is a striking division within APEC of rich and poor (measured by GDP per capita), as well as a striking division within APEC in indicative measures of the New Economy (teledensity and Internet users in the population).

Consequently, APEC members and APEC itself faces the challenge of shaping an environment in which the benefits of the New Economy can be supported within an economy and shared widely among APEC members.

In this presentation, I will be covering:

- What is the New Economy, and what is evidence of sources and benefits?
- What are the policy foundations that shape the environment in which the New Economy can take hold?
- What is the role for entrepreneurship?

- What are the consequences for trade competitiveness?
- What should APEC do to ensure shared prosperity through globalization and the New Economy?

Slide Three:

What is the New Economy and what are the sources of benefits?

Some economies think that the main source of benefits of the New Economy come from producing ICTs (information and communications technologies). Indeed, there are benefits to be had from investment, production, and export of ICTs, just as there is benefit to other productive activities!

However, the package of structural policies, networked ICTs, and human resources creates an environment where ICTs can be used more effectively to raise the productivity growth throughout the whole economy, rather than just raising the growth of the economy through the ICT sector alone. How does this happen?

First, be reminded that what ICTs matter for an economy depends on the state of economic development. In some economies, information and communications technologies that are most important might be cell phones, or faxes, not using the Internet via a personal computer; the “technologies” that enable transformation depend on the level of development.

Regardless of the type of ICT employed, the New Economy is correctly characterized by the effective use of networked ICTs in an environment of skilled human resources and with supportive structural policies to foster transformation of business, consumer, and government activities. This transformation of economic activities throughout the economy is at least as important as the activity in the ICT sector alone.

Of course, why do we care about productivity growth at all? Labor productivity growth is the foundation for gains in real wages. An economy with higher overall productivity growth can support faster GDP growth without generating inflation. All told, higher productivity growth means higher sustainable living standards.

Slide Four:

What evidence is there of the importance of transformation relative to simply investment in ICTs to generate productivity growth?

Frequently, the example comes from the United States, where doubling of labor productivity growth in the second half of the 1990s is attributed to “capital deepening” (e.g. investment) in ICT capital.

But notice that just as important as capital deepening is multifactor productivity growth. What is MFP? MFP represents transformation in the use of labor and capital and other resources in producing goods and services in any economy. MFP represents changes in the way business does business and in the activities of workers.

Many policymakers use the US example as evidence that they need to be an ICT producer. After all, ICTs are an important sector in the US economy.

But, Australia is a counter example. Australia is not a producer of ICTs. Instead, Australia imports ICTs and, through pursuing policy reforms, has shaped an environment where their businesses can use them effectively to raise productivity growth throughout the economy.

The Australian experience suggests that economies do not have to have a IT-production sector to enable the transformation of activities and the productivity growth of the New Economy. The Australian experience suggests that there is more than one alternative path for APEC economies to get the benefits of the New Economy.

Slide Five:

What policy conditions create an environment where businesses, consumers, and government can effectively use ICTs to change their activities and be more productive?

An economy needs to have financial depth, external openness, pro-competitive and flexible market regulations, and fiscal efficiency. There is nothing “new” about these policy issues! Why did we write a report, The New Economy and APEC, that that addresses them again?

First, setting out these areas for policymaker assessment and perhaps reform acknowledges that technology is not a short-cut around policy reforms. We all are familiar with stories where businesses do not invest in new technologies or use computers because telecommunication costs are too high to use them effectively, or because it is difficult to change work rules for labor to use technology effectively. How many cases are there where businesses might use technology, but they cannot get financing for the investment? How many examples do we know where lack of domestic and foreign competition means that businesses can get along without making new investments or producing better or less expensive or new products?

Second, in a world where effective use of technology matters, the entire policy package matters more. That is, stronger synergies among policies raise the cost of inaction. The costs to the economy of a limited financial system is greater when transformation is key. Progress on creating a competitive and flexible domestic environment is undercut if foreign competition is limited. Poor fiscal management undermines business investment and reduces resources available for human resource development.

Understanding these synergies is also important from a political perspective. Given the limits of political will, policy makers want to make sure that the economy gains when difficult decisions regarding reform are initiated.

Finally, new technology itself opens up new possibilities to policymakers to enable reforms. For example, new telecommunications technologies can enable better price and performance of this sector. Cross-border provision of key services may be promoted by new technologies. And, use of technology can significantly improve fiscal administration and free up resources for other government activities.

Slide Six:

Policy choices shape the environment for the New Economy.

Financial depth: Because the key element of the New Economy is investment and transformation of activities of business, consumers, and government, the performance of the financial system is particularly critical. The financial system must be able to sort-out what are good and poor opportunities, whether those be in micro-enterprise or multi-national. Financial depth is particularly important as some parts of the financial system need to support risky and innovative effort without putting the whole economy at risk.

External openness: The productivity gains of New Economy come from global engagement, especially in services. The price and performance of services sectors, not only finance, but also telecommunications and logistical services are key. Research shows that APEC members are likely to gain as much from services liberalization in a new Round as from liberalization of manufactures. These gains come from improving the activities within the economy as much as from exports.

Pro-competitive market rules: A positively competitive and flexible environment is not one where “anything goes”, but one where rules guide behavior and where incentives are clear to pursue new ideas, innovative efforts, and new approaches to meeting market demands. Flexibility and competition are important in both product and labor markets.

Fiscal efficiency: The Government should participate in the New Economy. Obvious areas include tax administration, customs, procurement. Effective use of ICTs can improve fiscal balance, leaving more resources for the other activities of government, such as safety nets, education, health, and so forth. Moreover, Government activities can be a litmus test for economy-wide effective use: If the government finds it cannot

engage in on-line procurement or information exchange because of poor infrastructure or worker skills, then probably business is having difficulty too.

Slide Seven:

Structural reform and policies to shape a policy environment conducive to transformation and effective use of information and technology are necessary but may not be sufficient for an economy to get the full benefits of the New Economy.

Fostering entrepreneurship is in contrast to the top-down policy reforms. Entrepreneurs are leaders--in what ever region, forum, or community they populate. Innovation, ideas of how to use effectively information and technology for the benefit of a local community will only come from that local community. Innovation and entrepreneurship cannot be forced down from top and in general, fly-by consultants also will not really know how the locals might best use the new technologies. Even in the most destitute areas, there are trusted, respected risk-taking visionaries.

Government and NGOs can still play an important role in fostering these entrepreneurs: Building awareness of the possibilities is key. Access and incubators within communities can foster these leaders and reflect community interests and build on community strengths. Pilot project with community input may give shape to local visions.

While the temptation is to be very directed, government assistance in this process needs to be light-handed in order to preserve local incentives and interests, to avoid permanent subsidy projects, and to ensure diffusion out of “technology parks” into the real world of the local economy. Government’s role principally is in shaping the environment, not determining how to best to do business in that environment.

Slide Eight:

The globalization of production and trade in goods and services is associated with increased use of information technologies and transformation of economic activities. Some industry sectors in the leading economies are using information technologies particularly intensively. Production partners who do not or cannot effectively use these technologies run the risk of losing their position in the global value chain. Therefore, one of the key challenges of the New Economy is maintaining trade competitiveness .

“The New Economy and APEC” provides a tool for policymakers to assess the extent to which the trade of their economy is concentrated in the goods or services that are the heaviest users of technology. If their trade is so concentrated, then shaping the proper policy environment through structural reforms is that much more important.

The project underway in the APEC CTI on assessing trade facilitation measures and designing pilot projects to meet the Shanghai Accord objective of a 5 percent reduction in trade costs is a concrete approach to effective use of technology in support of trade.

Slide Nine:

Transformation is structural adjustment. Without transformation of activities, the benefits of the New Economy will be hollow. Moreover, without transformation, trade competitiveness is risk.

Structural policy reforms are key to shape the environment where transformation can take place. These reforms, because they are comprehensive are more difficulty than a “technology policy”. These reforms go to the heart of the relationship between the policy and economic environment. Therefore, they require domestic commitment and leadership at the top. By the same token, since the transformation takes places at the individual firm or community, local vision is needed too.

The challenge facing APEC is to further the progress of structural reforms, through assessment and peer review, through shared experiences and path-finders offering a way.

Almost without question, there will be differential progress among the APEC membership. What are the consequences? There is great potential for a widening productivity gap within APEC. The New Economy presents a real challenge to the goal of shared prosperity within APEC. The New Economy offers such potential that it is up to the members and the institution to ensure that APEC sets out an approach so that all will gain from the New Economy.