

E-Business and Digital Economy: The Policy Challenge

Donald J. Johnston, secretary general, OECD

The supposed move toward a "New Economy" has generated a lot of hype, and the present economic slowdown has served as a timely reality check when it comes to some of the more exuberant behavior and policy statements that have emerged. If we look beyond the hype and to the fundamentals, however, the evidence suggests that something new is taking place. Investments in information and communications technologies, connectivity and the growth of electronic commerce have been the key elements of the expansion of E-business and the digital economy. These developments, along with policies to engage human capital, innovation and entrepreneurship, are creating the key platform for the New Economy.

The OECD's objectives since its foundation have been to help policy-makers tackle the economic, social and governance challenges of a globalised economy. It is therefore not surprising that meeting the policy challenges posed by E-business and the digital economy has been a front-burner issue for the OECD and its member countries since the early 1990s. I would like to take this opportunity to provide a perspective from the OECD of the policy framework that we suggest is necessary in order to seize the full potential of electronic commerce and the global New Economy.

The Internet and other new communications and information technologies offer significant opportunities for E-business and, thus, for higher growth and expanded international trade, for improved public governance, for global education opportunities, for tele-medicine, and for scientific advances in many areas. For example, the OECD has just completed a two-year study of the components of the New Economy, focusing on the issue of growth. This study asked the fundamental question of why some countries have grown more rapidly than others over the last decade. The sources of diverging growth patterns are not easy to pinpoint, but our analysis of the data suggests that information and communica-

tions technology (ICT) is making an important contribution to productivity and growth.

In 1987, as the Nobel laureate in economics, Robert Solow, so famously put it, "computers were everywhere except in the productivity statistics". By the end of the 1990s, however, evidence of IT-led productivity growth was emerging, and we

began to hear the argument that after years of investments in IT, the New Economy was, finally, just around the corner. Were connectivity, the Internet and E-business really the missing pieces of the puzzle?

The recent economic slowdown, of course, has laid to rest one of the main myths about the New Economy – the idea that the business cycle is dead. Despite the slowdown and the crash landing of dot.coms which accompanied it, however (a crash which was hyped almost as much as the dot.com boom which preceded it), the Internet is continuing to grow strongly. Internet connections, the number of secure servers (which are needed for E-commerce transactions), Internet traffic and the volume of electronic commerce have all grown unabated, even as the NASDAQ and other stock market indicators have fallen back from a peak in the spring of 2000.

Something new is certainly happening here. An investment surge in ICT and software is one thing, but the emerging digital economy – and the Internet in particular – has brought along other economic bene-

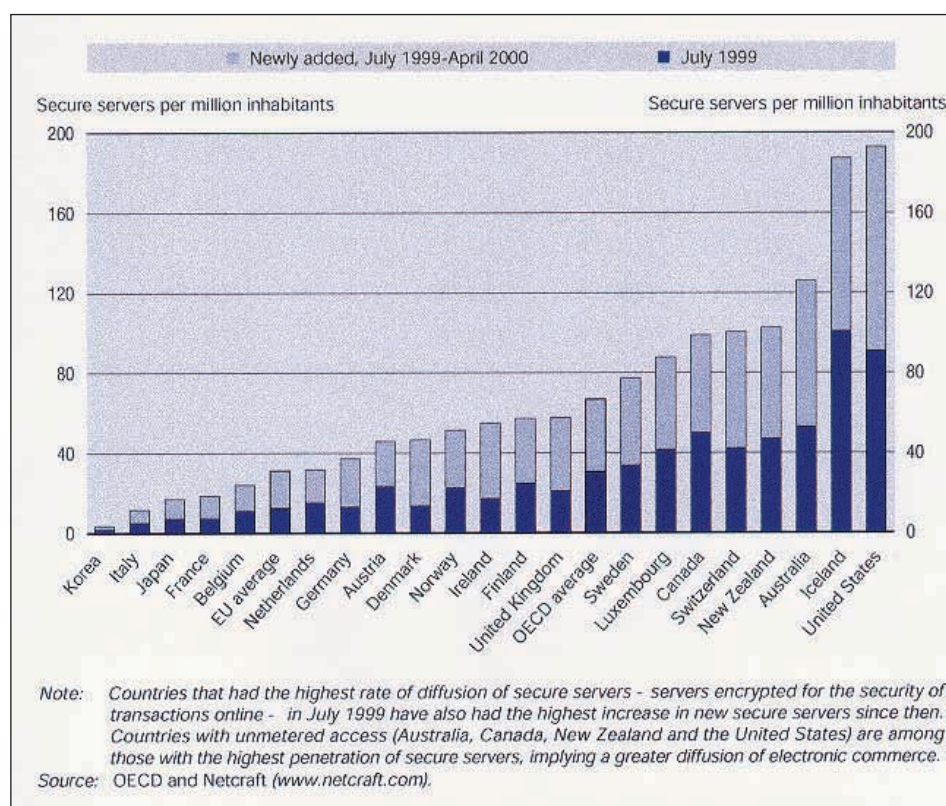


Figure 1. Electronic commerce has developed rapidly in some countries.

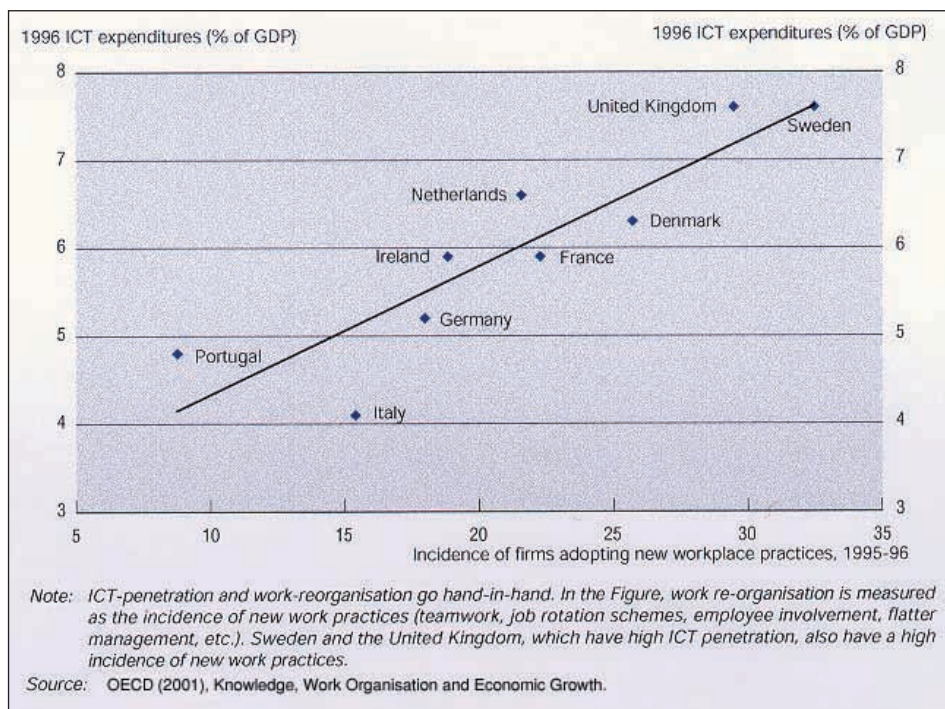


Figure 2. New work practices and ICT investment.

fits, too. These include networks among suppliers, E-marketplaces and greater consumer choice. Crucially, ICT seems to have boosted company productivity, right across the spectrum of industries. One of our key findings, however, is that this growth occurs only when the use of ICT developments is accompanied by organizational change.

If this experience has taught us anything, it has taught us the importance of "policy coherence". An integrated policy strategy must have at least five complementary elements:

- Get the fundamentals right. Today's economic environment depends as much as ever on sound macroeconomic and structural policies, well functioning markets, competition and openness to trade. It pinpoints government as one of the key players in the growth process, so as to ensure that benefits are widely shared.

- Facilitate the development of the E-economy by promoting the diffusion of ICT. This means building confidence and trust in the E-economy and providing greater access to essential communications networks and services through an acceleration and deepening of the process of

liberalization in this sector of the economy. Competition matters! There must also be a stable, predictable and non-discriminatory regulatory framework for taxation, trade, etc. The government, again, must be a model adopter of E-busi-

ness, and E-government must be a priority.

- The third essential element in an integrated policy strategy that is aimed at growth is that government policymakers must foster market-driven innovation by supporting fundamental research and by promoting links between industry and science.

- The fourth element that I would mention is the human factor. Policies aimed at deploying and developing human resources and skills at a higher level can promote growth. Strengthen education and training!

- Finally, I would like to note the need to stimulate entrepreneurship, company startups and growth by improving access to high risk finance. Venture capital involves more than just money, and the administrative overload on all companies (not just SMEs) must be reduced.

At the same time, however, the New Economy has brought with it a major challenge. How can we make sure that all countries, developed and less developed, make use of these new technologies and benefit from them? Within countries, how

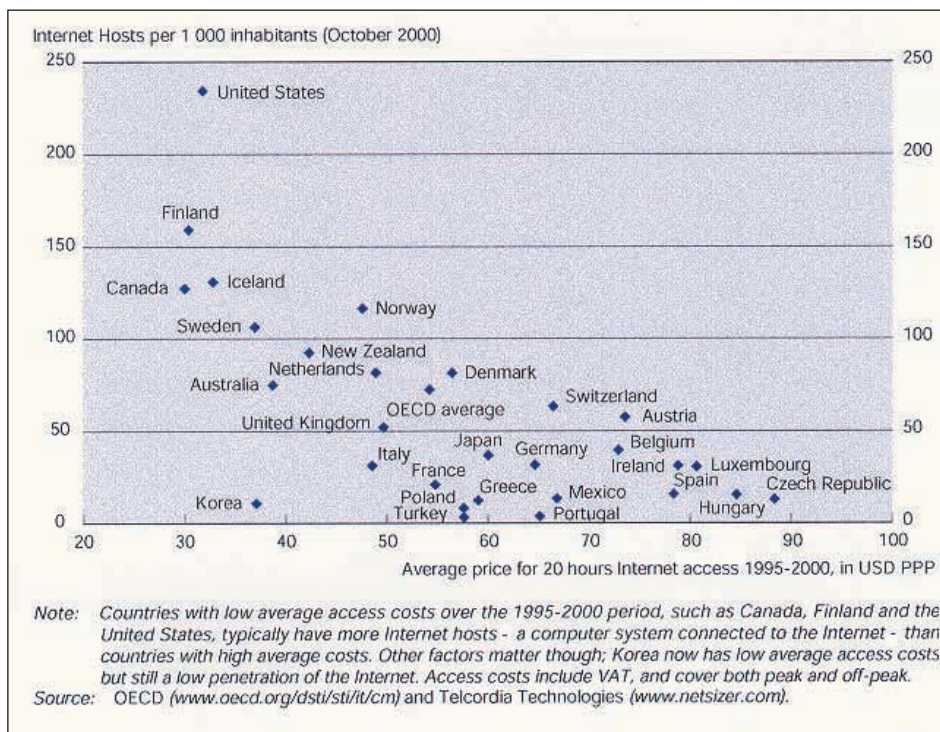


Figure 3. Countries with low access costs have a greater diffusion of the Internet.

can we enable and encourage each individual to take advantage of these opportunities?

The danger of a widening gap between countries which take advantage of ICT and those that do not is popularly known as the “digital divide”. The divide between the most developed countries and the countries in the emerging markets of the world is a real one, but the possibility to make use of these technologies to reduce and, eventually, to close the gap is also real. At the OECD, we are focusing on the task of turning these possibilities into probabilities.

It seems to me that emerging market economies such as those of the Baltic States have developed the basic physical infrastructure to participate in the global information economy. They have the necessary institutions, a thriving entrepreneurial environment, and well educated people.

Individual countries must take the decision to move forward in the context of legal, regulatory and education agendas. International cooperation and the sharing of experiences – something which is the daily operating method at the OECD and the objective and method of this conference – can help governments to avoid mistakes and to adopt best practice in areas such as promoting competition in telecommunications services so as to favor lower access costs for users. Many questions can be resolved only through international cooperation. Guidelines and standards to foster consumer confidence in international E-commerce is one example.

The OECD’s expertise in this area is well recognized, and our members want to share this experience and expertise as widely as possible. Because the OECD is a permanent, intergovernmental conference with advisory bodies from business and labor, and also because we cooperate actively with some 70 countries which are not members of the OECD, we can facilitate an open and informed dialogue among policy makers, scientists, businesspeople and other stakeholders, both across and beyond

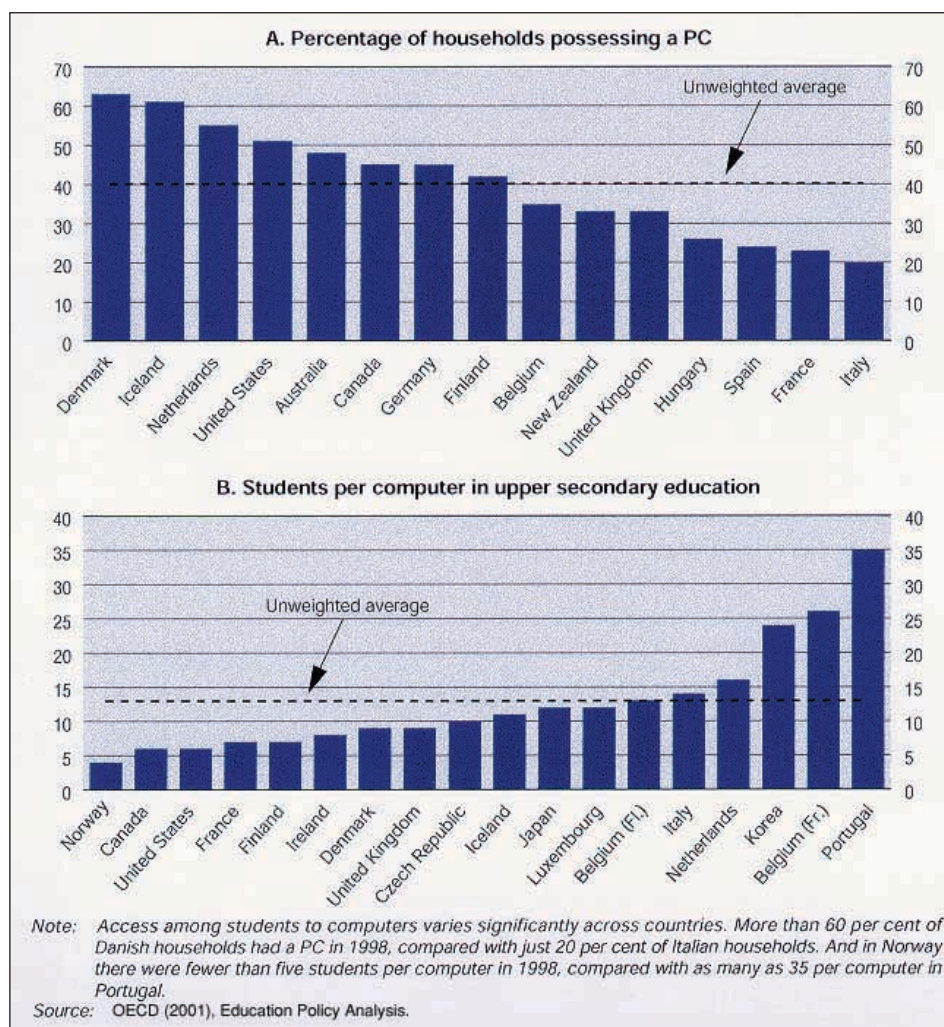


Figure 4. Home and school access to computers in OECD countries.

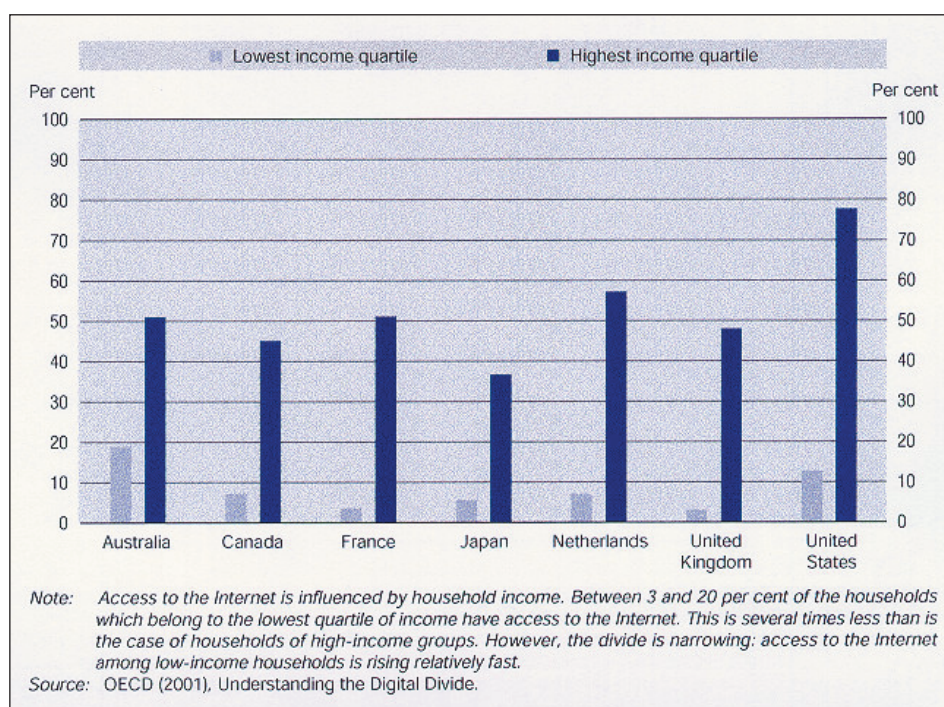


Figure 5. Internet home access among households by income level.

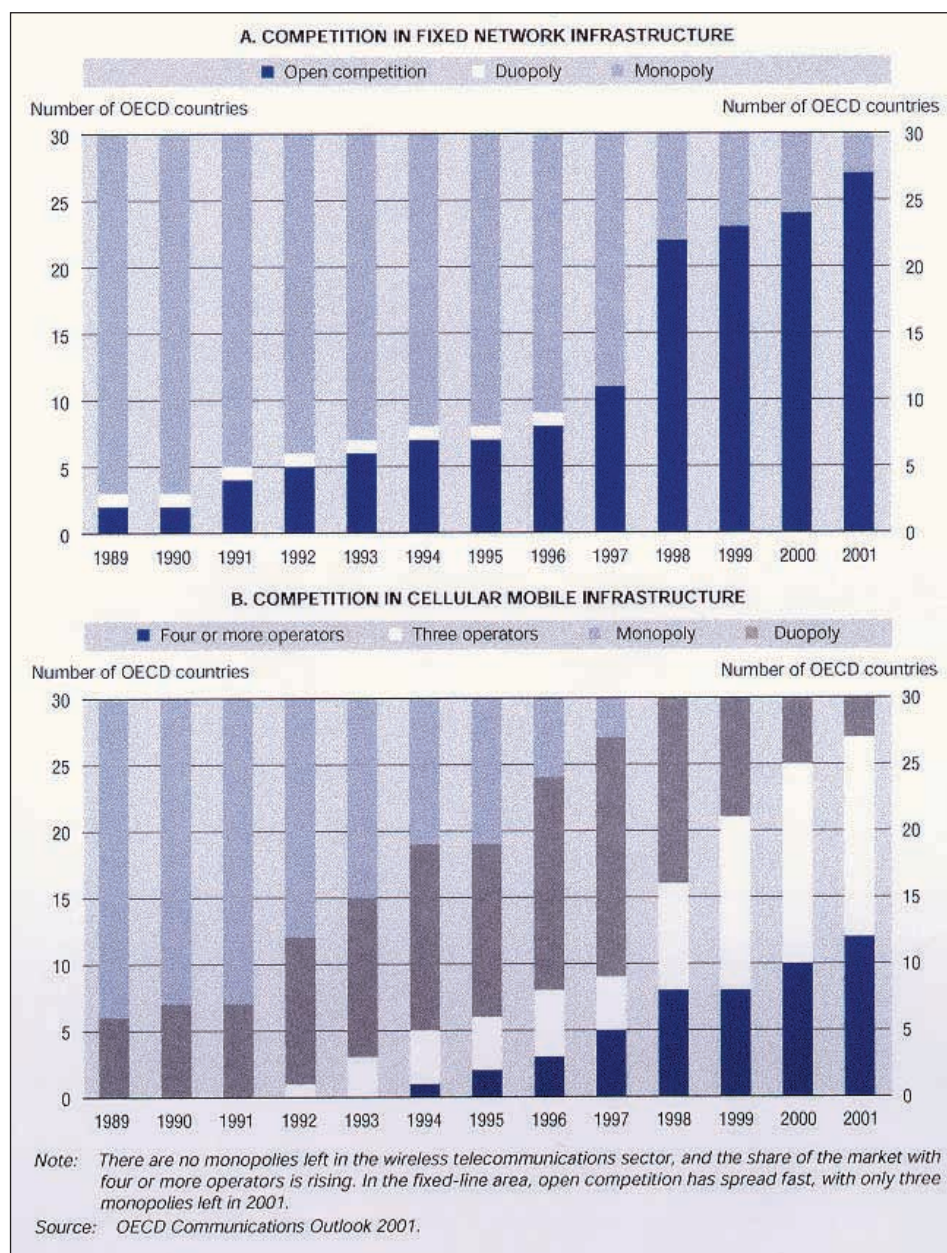


Figure 6. Competition in OECD telecommunications markets is increasing.

the OECD.

The OECD contributes to this region through the Global Forum on the Knowledge-Based Economy and through its Baltic Regional Program, both of which are activities of the OECD's Center for Cooperation with Non-Members. Through the Baltic Regional Program, the OECD supports the efforts of the Baltic States in the completion of their transition to market economies, promotes their stable integration into the global economy, and encourages the use of policy implementation models which the OECD has developed. This session,

and this entire conference, are an important part of this process. On behalf of the OECD, please allow me to reiterate my thanks to the organizers and their partners, and I am looking forward to a very successful conference. □

Introductory remarks to the plenary session, "Building a Favorable E-Business Environment in Europe in the Context of the Global New Economy", at the Baltic Sea Region E-business forum "Towards a Harmonized E-Business Environment in the Baltic Sea Region," September 26-28, 2001, in Riga.

Rapid Growth in the Popularity of E-Commerce in Lithuania

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Between March and May of this year, one of Lithuania's leading sociology and market research companies, "SIC Rinkos tyrimai", working with the globally known research company "Taylor Nelson Sofres", conducted an interactive overview of E-commerce development in the world.

42,000 people in 36 countries were interviewed in the context of the survey. TNS reported that the number of Internet users who purchased something on the Net increased by 50% last year. During the month that the survey was administered, 15% of Internet users in Western Europe and the United States did shopping on the Internet. In Lithuania, the number was 3%.

E-commerce is popular in all of Central and Eastern Europe, and growth in the E-commerce market has been particularly rapid in Eastern Europe and the Baltic region. At this time the number of people who directly or indirectly shopped on the Internet in Lithuania has reached a level of 6%.

The most popular products to be bought from the Internet are books (26% of users who shop on the Internet reported buying books) and music CDs (17%). Other popular products include clothing (13%), food products (8%) and travel services (9%).

The survey found that in Lithuania, the largest share of Internet users is made up of people who are younger than 20 (25% of all users). Those between 20 and 29 make up 11% of users, while those between 30 and 39 represent 8% of respondents. Existing trends suggest that E-commerce in Lithuania will continue to be aimed primarily toward younger consumers. □