German Foreign Office Sixth Forum on Global Issues
"Globalisation and Communication"

"The Digital Economy and the Digital Divide"

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Good morning…. I am very pleased to be able to make the introductory remarks for this Forum. The topic this today is both timely and important.

I would like to help launch this forum by first discussing what OECD thinks about the policies required so that electronic commerce will make its full contribution to what we call the "New Economy". Second, I would like to address the problem of the so-called digital divide, particularly between the developed countries and the emerging and developing world. Finally, I will emphasise the need for intensified international co-operation.

The Digital Economy

Communications is a driving force of the new economy. New information and communications technologies and their applications, such as electronic commerce, will be one of the bases for a resurgent global economy.

The terrorist attacks of September 11 and the continuing terrorist threat have shaken the confidence of governments, businesses and citizens alike. But even before the outrages of September 11, the world economy had begun to slow and commentators and policy makers were beginning to rethink their enthusiasm for the "New Economy".

The long expansion in many countries during the 1990s generated a lot of hype about the New Economy. But we can look beyond the hype to the fundamentals. The evidence suggests that something new has indeed been taking place.

Investment in information and communications technologies (ICTs), connectivity and the growth of electronic commerce have been key elements of the expansion of e-business and the "digital economy". These developments, along with policies to enhance human capital, innovation and entrepreneurship make up the key platform for the New Economy.

Part of the OECD's work is to promote trade and investment and to identify policies that will help economies be ready to take advantage of new opportunities and adjust to the change. Earlier this year OECD delivered the results of a two-year study on growth and the new economy. This work helps governments meet challenges posed by e-business and the digital economy.

As Nobel laureate economist Robert Solow so famously put it back in 1987 "computers were everywhere except in the productivity statistics". But by the end of the 1990s evidence of IT-led productivity growth was emerging. Many economists began to argue that after years of investment in IT, a New Economy was finally around the corner. Were connectivity, the Internet

and “e-business” the missing pieces of the puzzle? The OECD study on the components of the New Economy suggests that in some countries IT has indeed played a significant role.

Connecting though the net

Despite the current economic slowdown, and the accompanying hard landing for “dot-com”s, the Internet continues to grow strongly. Internet subscriptions, the number of host computers and, significantly, the number of secure servers (which are needed for electronic commerce transactions) have grown unabated -- even though the Nasdaq and other indicators of technology stocks have fallen back from their peak in the Spring of 2000.

A recent study from Dr. Lawrence Roberts, a respected Internet expert, tells us that Internet traffic continues to expand, growing by a factor of 4 in the first part of this year.

> The growth in the volume of business-to-consumer electronic commerce has flattened out in some countries, in line with a general weakening of consumer confidence. But, while some of the many pure “dot-coms” have suffered – or disappeared altogether, others -- more familiar firms and established brand names, are still expanding their Internet operations very effectively.
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> On the business to business side, activity is still growing as firms seek internal efficiencies and improvements in the management of relations with suppliers and customers.
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> Governments all over the world are still vigorously pursuing “e-strategies” to improve administration, build government-citizen connections and deliver better services faster, simpler and cheaper. The OECD is launching a project on e-government to identify best practices.

Results for productivity

Most significant, the OECD has confirmed that the use of Information Technology can boost productivity right across the spectrum of industries. However, one of our key findings is that these improvements depend on combining new uses of ICT with organisational change and effective utilisation of labour.

The right policy set

The OECD is recommending to Member governments an integrated policy strategy with five components in order to take best advantage of the IT component of the new economy:

First: 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. Government is one of the key players, especially to ensure that the benefits are widely shared.

Second: Facilitate the development of the e-economy by promoting diffusion of Information and Communications Technologies. This means providing access for users to the essential communication networks and services, including by accelerating and deepening the liberalisation process. Competition matters! It means establishing a stable and predictable non-discriminatory regulatory framework for taxation and trade. It means working with business to build consumer

confidence and trust in the e-economy. Government must provide a good example, by doing e-business and by becoming e-government.

The third element of an integrated strategy to enhance the contribution of ICT to growth is to foster market-driven innovation through support to fundamental research and to promote industry-science links.

The fourth element I would mention is the human factor. E-commerce is a quintessential expression of the knowledge economy. Policies to better deploy and develop human resources and skills are needed to promote growth. Strengthen education and training!

Fifth and finally, I would note the need to stimulate entrepreneurship, firm creation and growth by improving access to high-risk finance. And of equal importance, reduce the administrative overload on all firms (not just the SMEs).

Digital divide

At the same time, the New Economy poses a major challenge: how to make sure that all countries -- developed and less developed alike – use these new technologies and benefit from them.

The WTO Ministerial at Doha a few days ago reminded us of the need to maintain our efforts to expand international trade and to ensure that the benefits of globalisation are shared by all. In this effort, information and communications technologies – and the digital economy and information society built upon them – provide us with a unique opportunity.

Development divide

The danger of a widening difference between countries taking advantage of ICT and others that are not is popularly called the "digital divide". The digital divide between most developed countries and the emerging market countries is real. In fact, it is part of a wider, more general development divide. But the possibility to use ICT to reduce and eventually close the development gap is also real.

In this world of plenty, 1.2 billion people survive on less than one US dollar per day and a further 1.6 billion on less than two dollars. Some 840 million people are severely malnourished and nearly a billion adults are illiterate.

For many years we have struggled with approaches to the alleviation of poverty. Frankly, I find it discouraging that as early as 1969 the UN Commission on International Development, chaired by Lester B. Pearson, produced a report entitled "Partners in Development" which outlined a comprehensive strategy for international development. The framework is as valid today as it was in 1969. But, in my opinion, it has only been implemented in a fragmentary way. Among its recommendations, the Commission concluded that a major effort is needed to revitalise education and increase the capacity to absorb, adapt and develop scientific and technical knowledge in developing countries.

Our challenge is to find ways to ensure that ICT can be used to achieve the development objectives we have been pursuing for over half a century with limited success. How can developing countries best participate in the digital opportunities that lie ahead?

The use of technology requires much more than simple availability. My message today is that bridging the digital divide requires good governance, technology and learning or, if you like, competent well trained people.

The digital divide quantified

The digital divide is real. Look at Internet usage. 95% of Internet hosts and secure servers used for electronic commerce are located within the OECD area. Over 60% of the adult population of Norway use the Internet, while less than 3% do so in countries such as Indonesia and Ukraine. The United States figure is a little under 60%. Germany comes in at between 35 and 40 per cent as do the U.K. and France, with Italy a little lower at 30 per cent. (Surprisingly, some non-OECD countries are well ahead of the " European big four", such as Singapore Hong Kong, Israel and Taiwan.)

In terms of access to telecommunication services, the gap between rich and poor countries is striking. OECD countries, which account for less than 20% of the world's population, have two-thirds of all access channels and 77% of all mobile subscribers.

The G8 Dot.force

Clearly the G-8 saw ICT as an important tool in pursuing development. -- a source of increased wealth for developed and developing countries alike. This issue was addressed at the Okinawa Summit in 2000 and resulted in the DOT.Force – the Digital Opportunities Task Force -- to which the OECD contributed. The conclusions were presented to G-8 leaders at the Genoa Summit a few months ago.

There were nine Action Points in the DOT.Force Report presented to the Genoa Summit, among them:

- Improve connectivity, increase access and lower costs;
- Enhance human capacity development, knowledge creation and sharing;
- Establish and support universal participation in addressing new international policy and technical issues raised by the Internet and ICT;
- Establish and support dedicated initiatives for the ICT inclusion of Least Developed Countries.

How is this to be done in developing countries where there is no infrastructure, or only very limited infrastructure? How will it be built? Infrastructure needs in developing countries - not only in ICT - are huge: estimates run into trillions of dollars over the next few decades. Public money alone will not be in a position to match these needs.

In my view, the starting point must be "good governance", or, as Jim Wolfensohn puts it in his Comprehensive Development Framework (CD7), "good, clean governance". It is truly the fundamental infrastructure that all developing countries need if they are to obtain the private investment necessary for extensive use of ICT. This means more than the elimination of corruption. Application of the rule of law, market liberalisation, fair competition, an appropriate regulatory framework, a well functioning financial sector, and so on, are all part of that good governance infrastructure.

In the developed countries, slow take-up of the Internet by firms as well as individual citizens is usually due to the high cost of telecommunication services due to the lack of effective competition – I mean market liberalisation.

The OECD has stressed the importance of market liberalisation in telecommunications for over fifteen years. At first, there were difficulties to convince the Member governments to let go of their state-run monopolies. Members were concerned that competition would lead to the loss of universal service and deprive people in rural districts. Jobs would be lost. Operators would not be able to generate the revenues they needed to invest in infrastructure. Or, there would be duplication of competing infrastructure. It was a "natural monopoly".

However, none of these terrible things happened. In the OECD, opening telecommunication markets to competition has led to more investment, new services, lower prices and higher penetration in the economy and society and higher usage. In short, massive improvement of the infrastructure for the digital economy and information society and – by some measures significant closing of the digital divide between sectors of society within countries.

Competition has resulted in more and cheaper access to the Internet, but, of course, in the developed world much of the basic infrastructure was already in place. But what of the developing world? Can good governance and competition work for them?

Let me give you the example of Sri Lanka. In 1995, Sri Lanka, a low-income country, had one of the lowest access line penetrations in the world, with just one telephone line for every 100 in habitants. The long-running civil ethnic strife was sapping the economy and prospects were hardly promising. However, in 1996 the Government of Sri Lanka took the bold decision to liberalise the provision of fixed and mobile infrastructure. The country reached a figure of more than 6 telephone lines per 100 inhabitants within 4 years. New entrants not only bring much needed capital and skills but also stimulate the incumbent to expand service and increase efficiency. A critical element in this success was the governance provided by a strong and independent regulator.

Governance is key to establishing availability, accessibility and affordability. But a last prerequisite to closing the digital divide between countries and within countries is capability. Capability -- or education -- is a primary area of public responsibility. But I will leave this immense and important topic for a different speech.

If developing country governments can educate their people, build good clean governance, apply the rule of law, and liberalise telecommunication markets, private investment will come. The digital divide will start to close.

International co-operation

Individual countries must take the decisions to move forward the legal, regulatory and education agendas. But international co-operation and sharing experience – the daily operating method at OECD, and the objective and method of this conference --can help all our governments avoid mistakes and adopt "best practices".

In addition, many issues concerning ICT are by nature international. E-commerce itself is inherently international. Building a framework for the use of ICT can only be done through international co-operation, for example, by setting guidelines or standards to foster consumer confidence in international e-commerce.

The OECD's expertise in this area is well recognised and our Members want to share this experience and expertise as widely as possible. Because OECD is a permanent intergovernmental conference with advisory bodies from business and labour, OECD can and does facilitate an open and informed dialogue among policy makers, scientists, business, and other stakeholders, across and beyond the OECD. In the area of " e-issues" alone, we co-operate actively with over twenty international and regional bodies as well as some 70 countries outside OECD membership.

"Outreach" by the OECD in this area, and the whole issue of global inclusiveness for the digital economy is now a high priority for the OECD. We co-operated with the DOT.Force, and stand ready to play our part in other valuable international initiatives such as the upcoming World Summit on the Information Society in 2003.

The challenge, of course, is not only to reflect fully on how to build a fully inclusive and prosperous information society for the future, but also to match words with action. This Forum is an important part of this process.

Let me, on behalf of the OECD, reiterate my thanks to our hosts and wish you a very successful and stimulating Forum.