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Introduction: Charting a New Development Trajectory?

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1.1 Introduction

The last three decades have witnessed a sea change in the character and functioning of the world economy. Both quantitatively and qualitatively the OECD and a handful of newly industrialising economies have been transformed by global flows of trade, foreign direct investment (FDI), technology and technical talent. Within national economies the ensuing structural change is nothing short of remarkable, with the speeding up of the relative decline of the industrial sector, the rise of the services economy, and the growing ubiquitousness of information and communications technologies (ICT) such as computers, software, satellite communications, e-mail and the Internet in the wider society. This twin sectoral development and structural change, combining ICT and services, is labelled the ‘new economy’ and considered integral to a ‘knowledge-based, information society’. There is increasing recognition that knowledge-based economic activities are key to international competitiveness and productivity growth, and that industrialisation, particularly manufacturing, is no longer viewed as the principal driver of economic growth. This poses a fundamental question: what are the implications of the new economy for developing countries?

This volume takes a broad look at the new economy both theoretically and empirically to understand the development possibilities and the attendant challenges associated with ICT. As services comprise a significant sector in the new economy, the book begins with some conceptual issues pertaining to the measurement and performance of services. Andersen and Corley (Chapter 2) argue that the ‘productivity paradox’ associated with ICT exists not because of a lack of productivity growth but rather due to flaws associated with the measurement of total factor
productivity (TFP). As services are intertwined with new technologies such as telecommunications and the Internet, they are not only difficult to measure but they require new global rules of engagement because of their network characteristics. Consequently, whether developing countries can work effectively with the changing global regime, how they might utilise the open access to knowledge and information, and how they can adopt best practices (such as telemedicine, distance learning and e-government) are significant questions for development (Cogburn: Chapter 3).

Developing countries are structurally disadvantaged in seeking the best from the global regime of ICT infrastructure, which, *inter alia*, is related to their lack of key ingredients such as human capital, physical infrastructure, and lack of venture capital to exploit ICT (Kenny: Chapter 4; Chudnovsky and López: Chapter 7). But that does not mean the doors are completely shut. Poor countries such as the Philippines, which have unwittingly created human capital, are better placed to interact with the global economy, adapt imported ideas and know-how and localize them (Saloma-Akpedonu: Chapter 10).

The empirical studies in the volume show that the impact and potential of ICT for development are at best mixed and there is considerable variation within and among countries. Small domestic markets limit the adoption of ICT and thus productivity growth. This can be seen in the case of several transition economies of Central and Eastern Europe (Piatkowski: Chapter 5) and Argentina, which has made limited progress in leveraging the domestic market for software service exports (Chudnovsky and López: Chapter 7). Similarly, the Arab region is characterised by a high degree of uneven adoption and diffusion of ICT due to income differences and low levels of human capital development (Nour: Chapter 8).

The transition economies also display wide variation in ICT diffusion, mainly due to weak economic and institutional environments. This suggests that the old (non-ICT) economy and the traditional development concerns are equally important to secure the benefits of the new economy (Piatkowski: Chapter 5). Previously emphasised development needs, such as infrastructure investments and domestic market stimulation, are still relevant. However, the selective adoption of ICT in the developing world introduces a new set of contradictions. For example, while ICT in the form of automation suggests not only increasing competitiveness of small and medium-size enterprises (SMEs) due to productivity growth (Bhavani: Chapter 9), it also results in labour displacement, especially of the unskilled (Nour: Chapter 8). At the same