Lessons for Development from the 'New Economy'

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2000

What lessons for development can we learn from the 'new economy'? As some of the mists start to clear in industrialised countries, it may seem that lessons learned so far have been focused on the 'icing' and not on the 'cake'.

To explain, let's disentangle causes and effects. The new economy is seen principally as an American phenomenon. An effect of sustained growth with low inflation is caused by … what? Until recently, the answer would have been 'Amazon' and the like: new firms making use of new technology to develop new customer markets.

That's a lesson that seems to have been taken to heart in 'ICTs and Development' initiatives and debate. The current thrust in ICTs and development has been to help communities and small enterprises utilise the new technology.

Unfortunately, Amazon has probably done more harm than good in creating a high-profile but highly-misleading example of what the new economy is all about. With the benefit of a fraction more hindsight, we can see that it's something of an aberration: the icing rather than the cake. So what is the 'cake' of the new economy and what are the implications for development?

Three lessons have recently emerged:

i. 'Clicks and mortar' not start-ups

Every new trend of recent years is leapt on first by small enterprises and starts-ups. They have the antennae to pick up those trends earlier than large, established companies. They have greater flexibility and less inertia to apply those trends earlier. But after just a few years, it is the large, established companies that steer themselves round, pick up the trend and apply it in a way that has a major impact.

As with previous trends, so with the new ICTs wave launched by the true arrival of the Internet in the mid-1990s. Small firms led the way, but they are now being pushed aside by the 'clicks and mortar' of large, established firms gradually incorporating e-commerce and e-business models (Markus 2000).

Development debate and action needs to catch up, as the 'ICTs and globalisation' domain did long ago. However, this seems unlikely to happen, and not just because of a misreading of the new economy. Large firms are simply no longer on the side of the angels in development. Small enterprises and the poor are flavour of the month in ICT application as in all other aspects of development.

Never mind that large firms have been the engines of development for all industrialised and newly-industrialised countries. Never mind that most small firms fail and a majority of the rest never grow. Never mind that no country ever got rich by worrying about the poor. Such considerations are rational, while the focus on poverty is a moral and emotional crusade that none dare speak out against. Yet all this means that the current ICTs and development agenda misreads not only the recent history of the new economy but also the longer-term history of national development strategies.

ii. Not '2c'

Amazon is secondly misleading because it represents a business-to-customer (b2c) model. It is now clear that this, too, represents icing not cake. The vast majority of business-related ICTs activity is going on away from the limelight in the much less spectacular, more routine area of business-to-business (b2b) transactions. Estimates vary but b2b economic activity probably outstrips b2c by a factor of at least four today and, anecdotally at least, seems far less prone to failure (IDC 2000, Sharpe 2000). Predictions are that the b2b:b2c ratio will rise to anywhere from ten to several hundred in the next five years.

Here again, development debate and action is out of synch: the focus is on ICTs linking to citizens, especially poor citizens. Yet '2c' is even more problematic in the South than in the North, and there are thus even more good reasons for prioritising b2b initiatives.

This notion can also be extended into the government ('g') and NGO ('n') sectors in development. Agencies are pushing g2c initiatives at a time when access barriers are huge, failure rates are high, and raised costs are one of the few likely impacts. They should, instead, be focusing on g2g (e.g. creating basic MIS within government departments) and g2b (e.g. experimenting with public sector e-procurement). Likewise, the potential of g2n and n2b models should be explored far more than they currently are.

iii. Production not consumption

The final, and most fundamental misunderstanding of the new economy - again with Amazon as a principal distraction - is that it has arisen from the use of ICTs in business, government and other sectors. This is not so. The driving force has been a boom in the production of ICTs.

Of course the two go together - you can't have production without consumption - but the money is being made by the Microsofts, Ciscos and Suns of this world: "The return on investment in this area is almost entirely contained within the IT producing sector and, after accounting for cyclical factors, there is virtually no change in productivity in the other 88 per cent of the US economy." (Islam 2000:8).

For the US economy, at least there is a tight production-consumption link: most of the money, say, Ford invests in ICTs stays home by going to US ICT producing firms. For developing countries, this is not so: the money does not stay home because most of it, too, goes to US ICT producing firms. Developing countries should therefore be paying far more attention to development of local ICT production capacity.

ICT producer enterprises show rapid and direct creation of wealth and jobs from investments in ICTs. Although much misunderstood, the Indian software industry has at least woken other developing countries to the possibilities: it now employs around 100,000 people and will export some US$4bn-worth of software this year (10% of India's export earnings).

ICT consumption is far more problematic. At least 80% of ICT use projects in development fail in some way, leading to a massive wastage of investment. The link between ICT consumption and most types of development indicator is unclear. ICT consumption also introduces problems of negative social and cultural impacts.

Developing countries should be re-orienting themselves to at least create a more equal balance of debate, effort and investment between consumption and production. ICT production enterprises undoubtedly will form a keystone for wealth creation in the 21st century, and a keystone that developing countries should be focused on building. Yet it is hard for this re-orientation to come about because of the twin burdens of misreading new economy lessons and of poverty alleviation (despite their wealth creation potential, ICT producers are seen as too far removed from the lives of the poor to warrant donor agency attention).

Conclusion

There was an old world, of 'IT and Development', characterised by thought, by occasional conferences and publications, and by the disinterest of most donors, NGOs and government agencies. We can criticise that old world for being too much thought and not enough action.

Now there is a new world, of 'ICTs and Development', characterised by action, by initiatives springing up faster than spring flowers, and by the intense interest of most donor and NGO and some government agencies. We can criticise that new world for being too much action and not enough thought: racing so headlong to grab headlines and donor funds that it fails to understand the roots of wealth creation and, hence, the priorities for ICTs in development.

Unless the 'ICTs and Development' world can awaken to these deficiencies, its legacy will be a set of activities that at best supports an economic sideshow and, at worst, is running investments up an economic blind alley.

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Published in: *Information Technology in Developing Countries Newsletter*