

MEASURING THE NEW ECONOMY: TRADE AND INVESTMENT DIMENSIONS

SUMMARY

This paper considers the role of the new economy in the development of international trade and investment flows. In succession it analyses the impact of the new economy on the nature and quantity of goods and services traded, and on the volume of foreign direct investment. It also considers the range of new economy actors on the international trade and investment stage, with particular emphasis on the digital divide and market integration. Last, it demonstrates how e-commerce may affect the way in which goods and services are traded.

The paper seeks to define the “new economy”. As a concept, it is frequently confused with the “Internet economy” or “e-economy”. The new economy is not confined to e-commerce and Internet applications, though these developments do merit special attention. The definition of the new economy is far wider, and its effects in terms of growth, trade and investment need to be gauged across all the sectors making use of the new information and communications technologies (ICTs). Conversely, not everything that is new belongs to the new economy, and some leading sectors in international trade cannot be included in the definition. The paper accordingly deals essentially with trade in information and communications technologies, while seeking to identify their externalities on trade in other sectors.

The ICT sector is the one that has expanded most in trade terms over the last decade. By value, international ICT trade increased by 126% for the OECD area; at the same time, overall trade expanded by only 56%. This means that the ICT share in trade in goods and services has increased. The direct effects of the new economy on trade and investment are hence substantial. But it is not ICT trade as such which is the main driving force in the global expansion of trade, but the dissemination of ICTs throughout the economy. Through ICTs, the traditional economy is becoming more widely and more effectively open to trade.

In order to gauge the positive externalities, in trade terms, of the dissemination of ICTs, the paper compares the increase in ICT spending by selected OECD countries with their overall trading performance. Countries with the highest ICT expenditure frequently obtained the best trading results. But a number of countries with very low ICT expenditure have increased their trade still more rapidly. Factors other than the dissemination of ICTs are hence more decisive for the expansion of trade, such as the elimination of tariff and technical barriers to trade, or overall economic growth.

At the same time, the paper demonstrates a relationship between the openness of the economy and the level of ICT spending. This means either that ICT spending encourages openness to trade, or that the most open economies invest most in the new technologies.

With regard to the players in international ICT trade -- producers and consumers -- the paper shows significant disparities, from country to country and from business to business. Among the consumers, access to the new technologies depends in particular on the size of the business and its sector of activity. Among producers, while the liberalisation of ICT markets has fostered the emergence of more competitors and brought prices down, the heightened competition has recently led to substantial concentration.

At country level, the paper analyses the origin and destination of trade and investment flows linked to the new economy. It demonstrates that the emerging economies are achieving better results in international ICT trade than in other sectors. Put differently, while the digital divide is heightening the exclusion of some countries from trade, the new economy is contributing overall to greater world economic integration and less exclusion through ICT trade and related direct investment. The OECD area shows a significant deficit with the rest of the world in ICT trade.

The paper finally addresses e-commerce. Data here are still sparse and unreliable, no doubt because e-commerce is just in its infancy. At this stage, accordingly, it is hard to draw any trade policy conclusions from the early empirical findings. But it does appear that not all forms of e-commerce are profitable, and that not all sectors are benefiting equally from the business opportunities created by Internet.

