

March 12, 2009

## BIAC Discussion Draft

# The Beneficial Role of ICTs in Supporting Global Economic Recovery

*BIAC has prepared the following note to raise a number of discussion points for the March 2009 OECD ICCP Committee Discussion on the Economic crisis.*

### Introduction

ICT innovation will be one of the most important elements in enabling a sustainable exit to the current economic crisis.

Investment in ICT and its applications across sectors, including important applications in public services and infrastructure such as health, education, transport, telecommunications, environment and energy, is an important part of many stimulus packages under consideration or in stages of initial implementation by national governments.

As the crisis continues to spread across the real economy from the financial sector, including to impact employment, ICT will play a key role in the structural adjustment that will necessarily take place across many industries and sectors of industry.

Given these circumstances, BIAC supports the message being put forward by OECD that while we must have effective short term policies to stabilise the economy, and in particular the financial system, we must ensure that recovery is based on sustainable growth. Continued innovation including in ICT will be an important factor in achieving this sustainability. In this respect, education and training must also be a priority for all stakeholders to adapt and develop the necessary skills to realise this sustainable approach.

For at least the past decade, the OECD's membership has given considerable attention to identifying the conditions that will sustain innovative, knowledge-rich societies, new forms of value creation, enhanced productivity and the capacities and skills to address global as well as local challenges. The OECD Innovation Strategy remains critical in this regard, and ICT is at the centre of many such initiatives.

These efforts, and the accompanying reforms to continue innovation in ICT and its applications across sectors ranging from key areas such as health, education, the environment, to supply chain management need to continue, going hand in hand with

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commitments to keep global flows of trade and investment open and to develop human resources. For example, the potential of next generation broadband networks will lie in the transformative functionalities that they enable. These functionalities will support a broad range of web-based applications delivering tremendous benefits to consumers, educational institutions, businesses, society and the economy.<sup>1</sup>

Generally in this challenging environment, governments must continue to ensure to keep markets open for trade investment and knowledge, and avoid protectionism; foster sound macro-economic policies; ensure policy coherence and a whole of government approach in reaching solutions to the crisis; ensure continued priority for education and training, and in support of innovation continue a strong focus on research and development.

Business emphasises the positive messages that came from the OECD Seoul Ministerial on the Future of the Internet Economy, and the following paper builds on the important messages delivered in Seoul as a constructive path forward to exit the current crisis. There must be continued focus to ensure strong leadership and co-operation between government and business, and dialogue among all stakeholders to ensure that innovation and entrepreneurship continue to bring new ideas to the fore and solutions to the challenging, economic, social and environmental issues that we continue to face, in a productive and meaningful way.

## **Continued focus on ICT and the Internet as a platform for growth and prosperity**

Today in the global economy information and communications technology (ICT) is the major driver, not just of improved quality of life, but also of economic growth.

Moreover, there are strong indications that ICT has the potential to continue driving growth for the foreseeable future. Yet, most policymakers do not adequately appreciate this fundamental reality. In fact, after the post-2000 economic dip many concluded incorrectly that the ICT economy was smoke and mirrors. The reality is that while the benefits of new technologies are often exaggerated at first, they often turn out to exceed initial expectations in the moderate-to-long term. This is exactly what has happened with the digital revolution.

The digital economy is more than fulfilling its original promise, with digital adoption rates exceeding even the most optimistic forecasts of the late 1990s. The integration of IT into virtually all aspects of the economy and society is creating a digitally-enabled economy that is responsible for generating the lion's share of economic growth and prosperity.<sup>2</sup>

Since its inception, the Internet has become a platform for interaction and collaboration - allowing people and organisations to communicate, exchange ideas and trade goods and services globally, in new, more efficient and exciting ways. It is now an established and

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<sup>1</sup> Ezell, Stephen; Atkinson, Robert; Castro, Daniel; Ou, George.; The need for speed: The importance of Next Generation Broadband Networks, ITIF March 2009

<sup>2</sup> Atkinson, Robert D.; McKay, Andrew S; Digital Prosperity: Understanding the economic benefits of the digital technology revolution ITIF March 2007

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essential part of the fabric of commerce and society, and a primary engine of sustainable economic growth and social benefit, fostered by unprecedented levels of innovation.

The ICT sector has directly contributed to an average of a half percentage point a year in increased productivity across the OECD, and over 40% over the last decade in the European Union.<sup>3</sup> Indeed, past experience has demonstrated that within a regulatory environment that assures a level playing field for competition ICT-driven innovation emerges as a key contributor to growth and employment through increasing efficiency and productivity in existing business models, and to supporting new business models which recognise the portability of information, workforce mobility and a distribution of resources. ICTs have also been a major and positive driver of globalisation, which in turn has multiplied the positive effects of innovation in management and operational processes, the distribution of wealth and opportunities for employment.

The massive contribution to increased productivity and growth by ICTs over the past twenty years can continue, and the innovation generated by the sector should be understood and harnessed so as to stimulate renewed consumer demand and wide-ranging efficiency gains. This success has been enabled in part by the constructive role that governments have played in allowing innovative business models to develop in the context of judicious regulatory restraint and strong support for investment and competition. Future growth will remain dependent on OECD governments adopting or reinforcing balanced yet ambitious and confident policies in relation to information and communication technologies.

This is restated clearly in the draft OECD Interim Report on the Innovation Strategy, which emphasizes the need to stimulate “the use of ICT networks and applications to ensure economic and social benefits ...accompanied by regulatory frameworks, which support open access and competition in the market.”<sup>4</sup>

BIAC identified in its Vision Paper for the 2008 OECD Ministerial on the Future of the Internet a vision of the future characterized in particular by the following.

It is this vision that we believe we must continue to pursue now as we work to get through the crisis and in the subsequent recovery:

- A virtuous circle of investment and innovation spurred by a growing number of service and content providers, application developers, device and hardware manufacturers;
- Innovation fuelled by creativity, enabled by technology and empowering creators and users;

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<sup>3</sup> Source: OECD. ‘Internet of the future: Europe must be a key player’, Speech by EU Commissioner for the Information Society Mme Reding, 2 February 2009 ([http://www.lisboncouncil.net/media/reding\\_future\\_of\\_the\\_internet.pdf](http://www.lisboncouncil.net/media/reding_future_of_the_internet.pdf)). In addition, for a perspective on ICT sector contribution to employment, consider that in the U.S., ICT sector job creation from April 2007 to April 2008 continued at the same 2.4% growth of the prior year, accounting for 49% of total job creation, whereas total employment growth decreased 90% during the same period. U.S. Bureau of Labor and Statistics.

<sup>4</sup> Page 15, SG/INNOV(2009)1.

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- Economic growth and social benefit driven by new business models, technologies and services, as well as by greater efficiency and productivity in existing business models and services;
  - Expanded access to and quality of education and skills development, including for ICTs - from early schooling through life-long learning, and resulting in increased employment opportunities and social welfare, both within and across borders;
  - Increased user choice of applications, products and services, provided through a wide variety of high capacity platforms that are more available, affordable, and user-friendly;
  - Better access to health care, particularly for those in remote areas or with fewer financial resources, through tele-medicine and related services, applications, and capabilities;
  - Increased participation by individuals in the Internet economy, not just as consumers but also as producers of information, content, services and applications within the context of evolving uses of the Internet;
  - Greater respect and empowerment for all stakeholders - building upon cultural, social and gender diversity and improved opportunities and mechanisms for greater collaboration and communication amongst stakeholder groups;
  - Increased trust and confidence in the Internet, its infrastructure, and the applications and services that protect all users, especially children and the elderly;
  - Sustainability and an eco-conscious society driven and supported by innovative ICT solutions.

## **Policy approaches to ensure continued development and application of ICT in the economic crisis: emphasis on sustainability**

The OECD community and the world at large face challenging economic times characterized especially by lagging demand, financing, and overall economic growth.

Due to both the causes but also the effects of this global crisis, the temptation exists to concentrate on solving short-term discomfort, even if it is to the detriment of longer term maximization of prosperity.

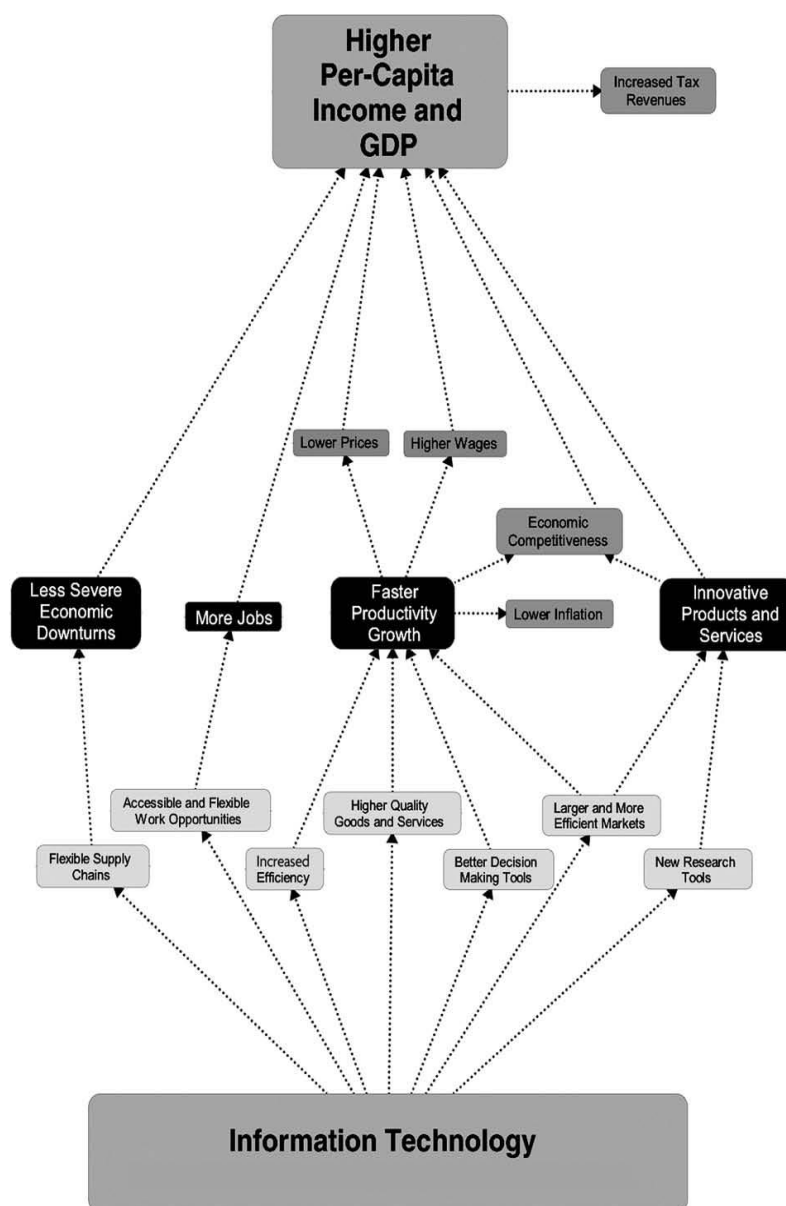
Calls to caution, to over-regulate industry sectors across the board, to temper with excessive prudence what is sometimes described as 'excessive entrepreneurship' (or risk taking), are heard almost daily both across OECD countries and beyond.

BIAC emphasises the importance and opportunity of focusing on how, both in the short and in the long term, with the right policies in place the ICT sector can contribute in a major, positive, and predictable way to global economic recovery.

We note that sustainability in ICT innovation must take into account the economic, social and environmental benefits and impacts that can be gained from investment. Cleaner energy, technologies that aim to reduce carbon emissions, that support the evolving “green approach” across all aspects of the economy including product manufacturing and provision of services, will rely heavily on ICT and its innovative capacities. In this regard, it is also important to provide a policy framework that also fosters the industry sectors that drive demand for ICT products and services.

Diagram 1 below illustrates the key levers that positively influence GDP and income growth derived directly from the use and innovation of Information Technology (hardware, software, applications and telecommunications) (Source: ‘Digital Prosperity’, page 4)

### THE PATH FROM INFORMATION TECHNOLOGY TO PROSPERITY



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It has been proven by OECD and others, and remains true in these times of global economic crisis, that the most successful economies are those that understand how best to harness converging processes, workflows, organisational models, advanced networks and technologies, amidst a competitive and supportive investment environment.

## Recommendations

Across its work programme going forward, BIAC encourages the OECD to continue its focus to clearly identify the main policy drivers for innovation and ICT driven growth.

In particular, the OECD should deepen understanding of, and promote, best policy practices that will contribute directly to regenerating demand, productivity and growth, in particular :

- Fostering an enabling environment for innovation, investment and infrastructure deployment, including support for demand-driven research and development, and tax and trade policies that encourage cross-border e-commerce
- Maintaining an enabling legal and regulatory environment to support the continued private sector investment necessary to enable the development of demand-driving new products, services and business models, as well as to ensure the scalability, capability, performance, reliability, backup capacity and security of the underlying infrastructure, whilst continuing to promote ICTs and the Internet as a positive tool for social and economic improvements
- Ensuring that any new measures or incentives have a positive impact on infrastructure investment, the innovative services and applications that are being provided to consumers and citizens, and the continued growth of the Internet as a fundamental technology underpinning economic prosperity
- Identifying the key levers that generate innovation and growth in the ICT value chain and how these can be better leveraged across the OECD to re-engineer economic growth and prosperity
- Developing 'better' regulation where regulation is deemed to be necessary – ensuring, that it serves to promote competition, innovation and user choice, as well as investment and consumer protection
- Identifying and promoting the elimination of remaining market and information access restrictions that are impeding investment in advanced infrastructure, particularly in emerging markets that are growing increasingly important to the global economy
- Reaching out to other relevant organizations such as APEC to diffuse and promote these best practices.

BIAC also emphasises the importance of continued multi-stakeholder dialogue across issues to ensure balanced, practical sustainable policy approaches.

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In consequence, BIAC would like to remind governments of many of the commitments they made at the OECD Ministerial last year<sup>5</sup>, which provide an important basis for continued work going forward to ensure a sustainable exit to the crisis utilising ICT as an important driver of economic recovery.

The BIAC community stands ready and willing in supporting government efforts to foster prosperity in these challenging times, through future-looking and enabling policies.

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### Selected Bibliography of Useful Publications and Research on the Topic

*ICT, Innovation and Economic Growth in Transition Economies: A multi-country Study of Poland, Russia, and the Baltic Countries*, InfoDev Report prepared by ECORYS Nederland, B.V. in collaboration with TNO and IDEA, 2007.

Dan Castro and Robert Atkinson, “*Ten Ideas for Policymakers to Drive Digital Progress*”, IEEE Internet Computing, Vol. 13, No. 2, March/April 2009

Robert Atkinson and Andrew McKay, *Digital Prosperity: Understanding the Economic Benefits of the Information Technology Revolution*, The Information Technology and Innovation Foundation, March 2007.

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<sup>5</sup> Seoul Ministerial Declaration on the Future of the Internet Economy, June 2008: <http://www.oecd.org/dataoecd/49/28/40839436.pdf>