

GLOBAL INFORMATION SOCIETY AND ITS IMPACT ON THE ECONOMY OF SOUTH-EAST EUROPE

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Presentation by Richard Temsch

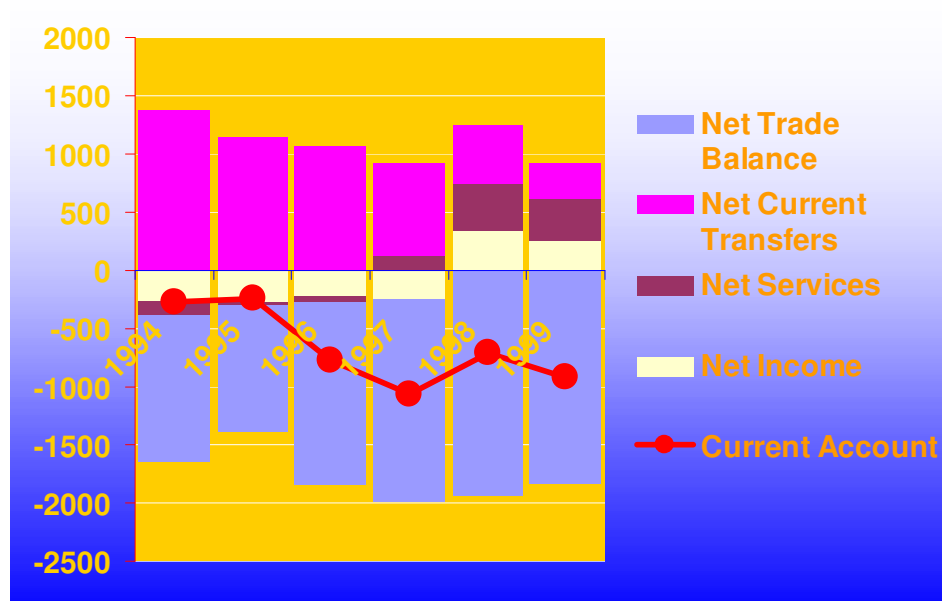
Globalization has been defined in many different ways, but most definitions include freedom of movement for

- People
- Goods & Services
- Money
- Information

The following two examples show the impact of globalisation on Bosnia's economy:

1. Although Bosnia's trade deficit has been very high over the years since the end of the war, its current account deficit has been much lower. The three main reasons are

- Donor money
- Transfers from Bosnians abroad
- Money spent by foreigners in Bosnia



The contribution of the expatriate community is significant. Some 15,000 resident foreigners spend in Sarajevo alone \$350 million per year.

2. In the end of 2001 Bosnians had to convert Deutsche Marks into Euros or KM (DM were exchanged for Bosnian KM at a 1:1 rate). Most Bosnians deposited their DM in bank accounts, where they were automatically converted. The mostly foreign banks enjoyed a

business upswing. The central bank's foreign currency reserves doubled to KM 2.66 billion!

Globalization is not a new phenomenon. Progress in transportation, when the first railroad networks and steam ships were built, along with dismantling of trade barriers, led to a first wave of globalization in 1870 – 1914. During that period

- **60 million people migrated from Europe to America**
- **Similar numbers moved from China and India to SE-Asia**
- **Total labor flow exceeded 10% of the world's population**
- **World exports doubled to 8% of world income**
- **FDI to Africa, Asia, South America more than trebled**
- **Per capita income rose at an unprecedented rate**

History proved that globalization is not an irreversible process. Excessive population growth and unemployment entailed rising nationalism and economic protectionism. The results were World War One, the Great Depression and World War Two. The economic consequences were dramatic:

- **Trade as share of income after WWII was back at 1870 level**
- **80 years of progress in transportation were wiped out**
- **Per capita income growth was down by 1/3**
- **Global inequality was growing**
- **Poverty was escalating**

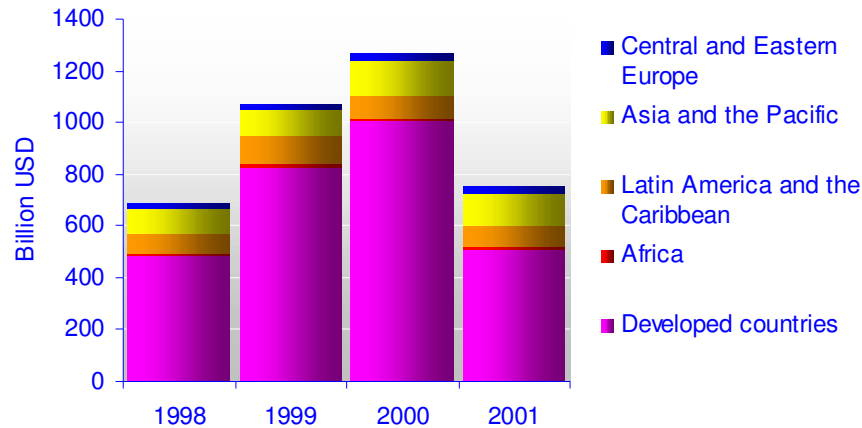
The most recent wave of globalization started in the 1990-ies. It was promoted by

- **New technologies (computers, satellites)**
- **Advanced transportation (jumbo jets, container ships)**
- **IT and telecommunication (Internet, cell phones, electronic financial networks)**
- **Innovative logistics**
- **Removed trade barriers (EU, NAFTA)**
- **Improved investment climate (transition countries in Asia, Eastern Europe)**

According to a recent World Bank report, the beneficiaries were the more globalized developing countries, which grew at a 5% per year rate in average, and the industrialized world, with an annual growth rate of about 2% over several years. The losers were the less globalized developing countries. In particular in some African countries the economy even shrunk. The economic growth in the first two groups of countries is reflected in a growth of income. As compared to the 1980-ies, average income grew in the 1990-ies in the more globalized developing countries by 30% and in the industrialized countries by 20%. In the less globalized countries income also grew, but only at a much lesser rate of 10 – 15%.

The UNCTAD World Investment Report 2001 shows that by far most inward FDI (over \$1 trillion or more than three quarters in the year 2000) has been placed in industrialized countries. Cross-border mergers and acquisitions (M&As) remain the main stimulus behind FDI, and these are still concentrated in the developed countries. In the same year \$240 billion were invested in developing countries. Only 2% (\$27 billion) were directed to Central and Eastern Europe and 0.3% to the 49 Least Developed Countries (LDC).

Global Inward FDI 1998 - 2000



Looking at inward and outward FDI of the United States is even more striking. In the year 2000 about $\frac{3}{4}$ of inward FDI came from the European Union and Switzerland, by far surpassing Canadian and Japanese investments in the US. In fact, almost 50% came from three countries only: UK, France and the Netherlands. On the other hand, over 50% of US outward FDI went into European Union countries, with the UK and the Netherlands leading.

TNCs have been criticized for operating sweatshops in the third world and cooperating with dictators and juntas in exploiting the poor countries, in particular in the 1950 – 1970-ies. Nevertheless, it is a fact that TNCs have contributed to industrial development by providing advantages, which nobody else could offer at the same scale:

- **Innovation**
- **Technology Transfer**
- **Higher Standards**
- **Capital**
- **Skills**
- **Managerial Know-How**
- **Access to Markets**
- **Information and Communication Infrastructure**
- **Participation in Global Production Systems**
- **Integration in Regional or Global Distribution Networks**

When it comes to attracting FDI, the competition between countries is fierce. Governments offer all kinds of incentives to foreign companies, who would open a manufacturing plant in their countries: low taxes, free trade zones, subsidies, free repatriation of profits, etc. However, experience shows that more important than fiscal benefits and cheap labor are political stability and democracy, rule of law, a developed infrastructure, an educated workforce, business culture, and geographical location. It is precisely for these factors that the rich democracies attract most investment, foreign and domestic. The success of some transition economies can also be attributed to good showings in these indicators.

Consequently, the Stability Pact Organization stresses in its Investment Compact for South-East Europe the following priorities:

- **FDI policies**
- **Fiscal policy and taxes**
- **Developed infrastructure**
- **Privatization**
- **SME support**
- **Anti-corruption policies**
- **Corporate governance**
- **Competition law and policy**
- **Accounting regimes and practices**
- **Financial sector reform**

Indeed, political stability and rule of law are the prerequisite for all other measures. According to the World Bank Report 2001, quoting Dollar and Zoido-Lobaton, a one standard deviation increase on an index of the rule of law (roughly the difference between Kenya and Uganda) is associated with 4 percentage points of GDP more in trade and 1 percentage point more FDI . It is also associated with lower emigration.

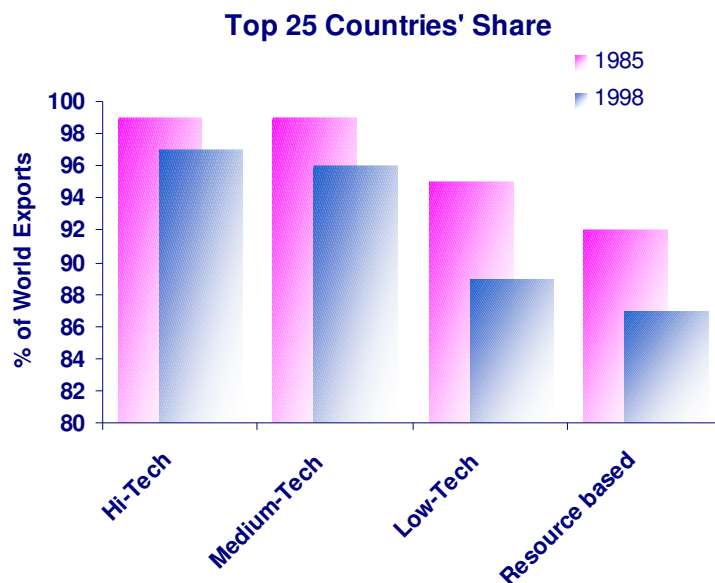
UNCTAD uses a Transnationality Index (TNI) as a measure of transnationalization of countries. The index is defined as the average of

- **FDI inflows as percentage of gross fixed capital formation**
- **FDI inward stock as percentage of GDP**
- **Value added of foreign affiliates as percentage of GDP**
- **Employment of foreign affiliates as percentage of total employment**

TNI rating for the CEE countries:

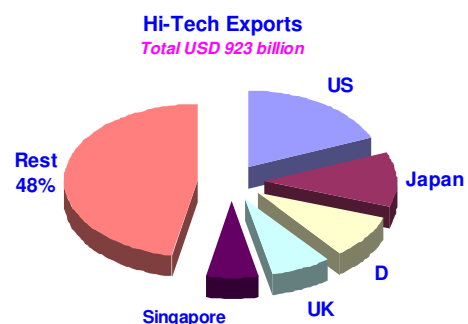
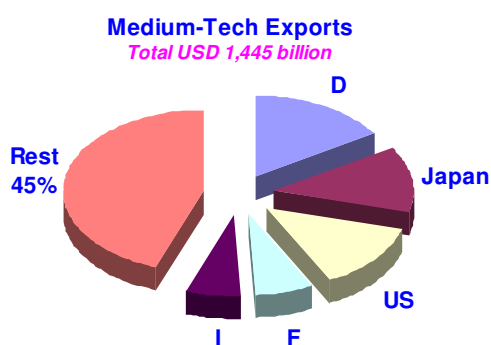
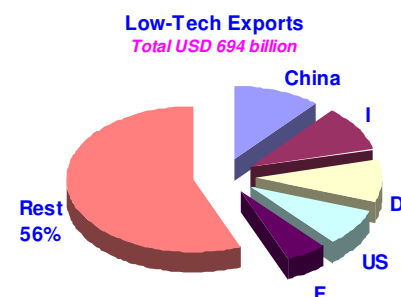
COUNTRY	TNI
Hungary	25
Estonia	24
Latvia	19
Czech Republic	18
Croatia	13
Lithuania	12
Bulgaria	11
Moldova	9
Slovakia	7
Slovenia	7
Russia	5
S & M	5
FYROM	5
Albania	4
Ukraine	4
Belarus	3
BiH	2

Over the last decades more countries have participated to a higher degree in world trade. The top 25 countries' share of world exports shrunk in all four product categories, as the UN Comtrade database reflects.



UNIDO's scoreboard database shows that the developing countries' share in world exports fell from 27 to 23 percent for resource based goods, but rose for low tech goods from 28 to 35 percent and more than doubled for medium tech goods from 10 to 21 percent from 1985 to 1998.

Still, the geographic concentration of economic activities remains high. The UN Comtrade Database (1998) shows that on all four levels (resource-based, low-tech, medium-tech and high-tech) five countries account for $\frac{1}{3}$ to $\frac{1}{2}$ of world exports. Most interestingly, the US and Germany are among these five leaders in all four groups!



There is a variety of reasons for this, but one conclusion is particularly important: the same advanced elements of technology, logistics and infrastructure, which enable a country to manufacture and distribute high-tech products, also facilitate the production and sales of lower technology goods. The computerized optimization of agriculture, the sophisticated processing of mail-orders for consumer goods, as well as flexible just-in-time production and delivery of industrial parts by sub-suppliers are examples for the impact of advanced IT and communications technology on all levels of industry and trade.

These are some key factors which make countries lead in both high and low-tech industries:

- **Easy access to international market intelligence**
- **High speed transfer of large amounts of information**
- **Advanced financial logistics**
- **Efficient transportation infrastructure**
- **Top class research and education facilities**
- **Proactive career development schemes**
- **Supportive government institutions**
- **Non-restrictive legislation**
- **Reliable judiciary**
- **Business friendly environment**

In recent years, e-commerce has become an ever more important element of trade. E-commerce raises efficiency and leads to lower sales costs, cheaper customer support, cheaper and faster procurement, smaller inventories, and better forecasts of consumer demand. Telecommunication is the backbone of e-commerce. To visualize the explosion of capacities of Internet and telephony, it suffices to recall Time Magazine's TV commercial:

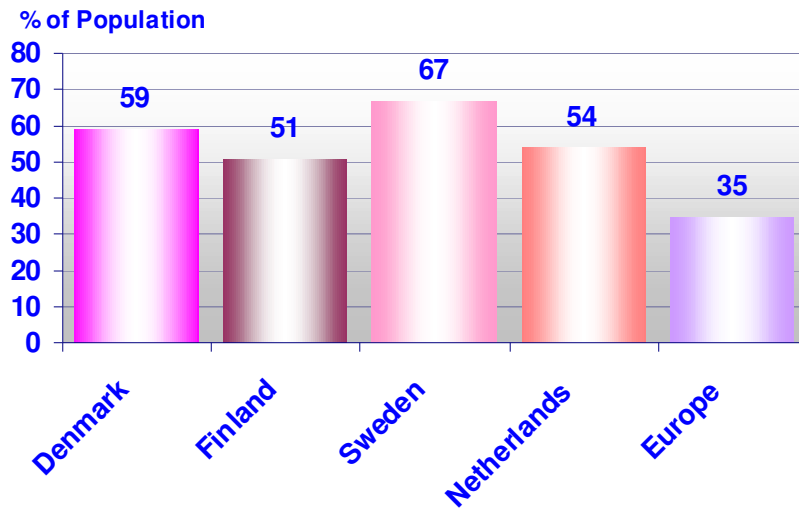
In 1993 only 130 sites on the World Wide Web and 34 million cell phones existed.

In 2002 we have 34 million websites and over 1 billion cell phones!

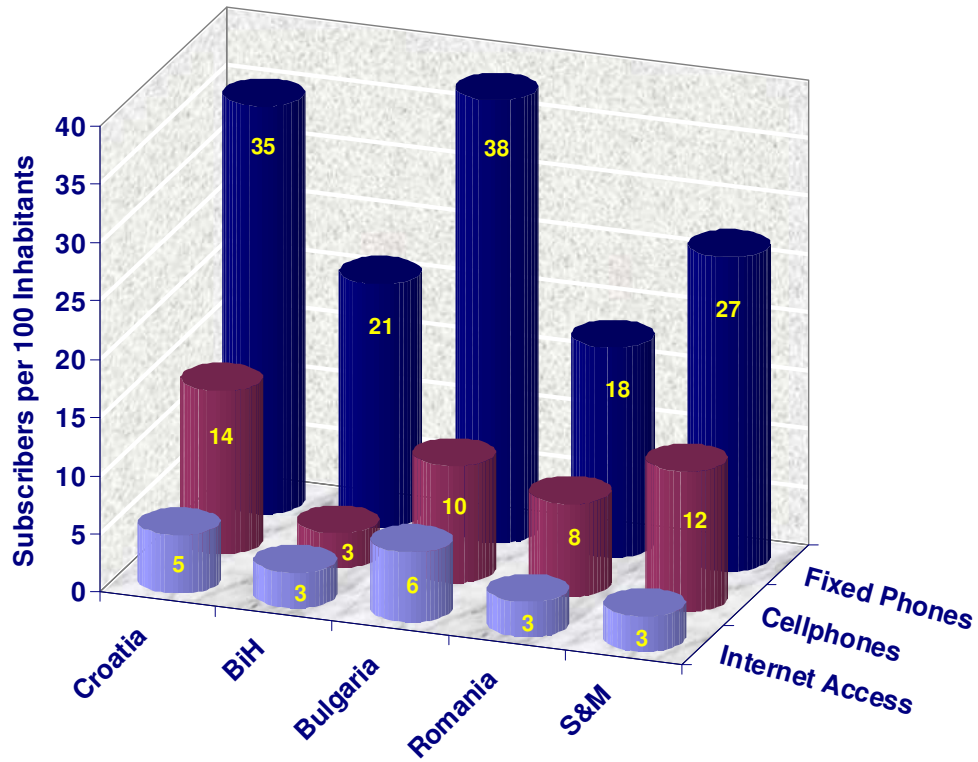
In 1993 the number of fixed phones was at some 700 million 20 times as large as the number of cell phones. Today the number of cell phones has already surpassed the number of fixed phones worldwide. A graphic representation of international telephone traffic on a world map shows that most call minutes are placed between the countries of Western Europe, North America and South-East Asia. Comparatively, the calls to the CEE countries are still marginal. Similarly, Internet traffic is focused through London, Paris, Amsterdam, Copenhagen, Frankfurt, Madrid and Stockholm in Europe, New York, Washington, Miami, Seattle, San Francisco, Los Angeles and Dallas in the US, and Tokyo, Seoul, Taipei, Sydney, Mexico City, Buenos Aires and Sao Paolo in the rest of the world. There are no major hubs anywhere in Eastern, Central or South-East-Europe. Internet bandwidth in 2001 was over 160,000 Mbps between Europe and North America, 42,000 Mbps between North America and Asia/Pacific, 14,000 Mbps between North and Central/South America, 1,200 Mbps between Europe and Asia/Pacific, but less than 500 Mbps between Europe and Africa.

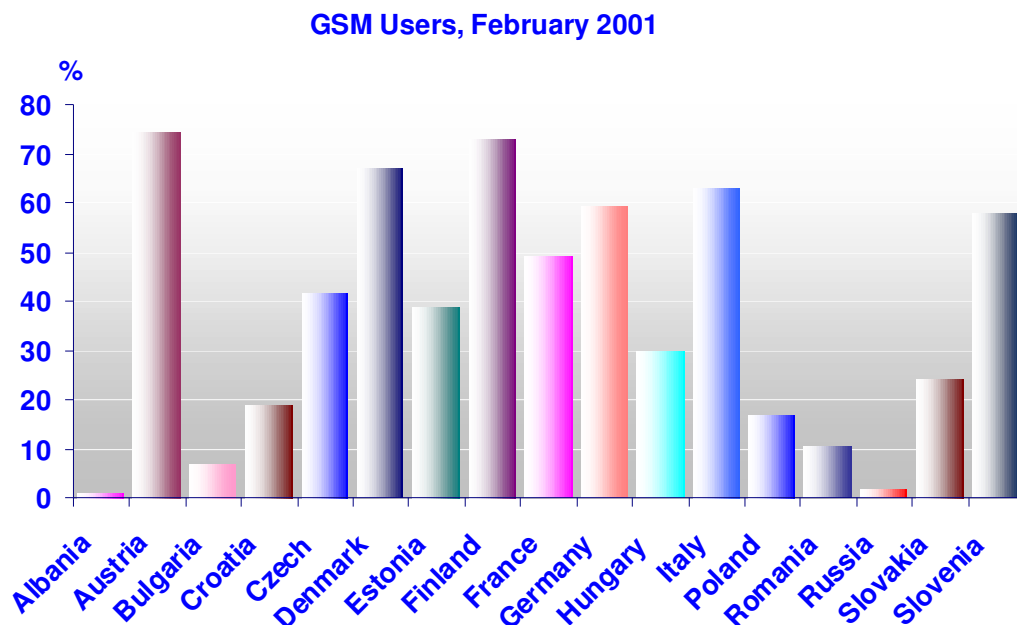
The CEE countries lag still far behind the EU countries in both Internet and telephony, although the number of subscribers has been growing rapidly in South-East Europe over the last few years, starting from a very low level. The Eurobarometer study of April 2002 shows the top Internet user countries in Europe in percentage of the population:

Internet Subscribers, April 2002



In most CEE countries the Internet user percentage is in the 5% range and below. The number of cell phone subscribers is similarly low in some CEE countries, while others are close to the European average.





The European Commission is well aware of the importance of the new technologies for the future of Europe, as the following two quotes demonstrate.

Romano Prodi, President of the European Commission: *The story of the e-Economy is complex, but it is one we need to understand. The prosperity of the EU's 377 million citizens - or about half a billion if we include the candidate countries - depends on it.*

Erkki Liikanen, Commissioner for Enterprise and Information Society: *Europe is now on the right tracks to rapidly become an «eEurope». But we haven't won this game. The ultimate success will depend on each of us.*

The European Commission launched the **eEurope 2002** initiative in December 1999 with the objective to bring Europe on-line. After the European Council in Lisbon on 23 - 24 March 2000 Commission adopted a draft Action Plan on 24 May 2000. In June 2001, the Candidate Countries for EU accession with the assistance of the European Commission drafted the **eEurope+** Action Plan, which reflects the priority objectives and targets of **eEurope** but focuses on the specific situation of the Candidate Countries.

In May 2002, the Commission adopted a follow-up Action Plan to **eEurope 2002**, called **eEurope 2005**. According to this plan, Europe should have by the year 2005:

- **Modern Online Public Services**
- **e-Government**
- **e-Learning Services**
- **e-Health Services**
- **Dynamic e-Business Environment**
- **Broadband Access at Competitive Prices**
- **Secure Information Infrastructure**

Recognizing the danger for South-East Europe to fall behind in the development of the information society, the Stability Pact formulated the **eSEE** Initiative at its meeting in Zagreb

on January 24, 2001. Its objectives are to help SEE seize the opportunities of the new technologies, promote full participation across SEE and prevent further divide, facilitate cooperation between international, bilateral and private donors, ease the cooperation between the public and private sector and society, and encourage cooperation across SEE for economic and democratic stability.

On 3 - 4 June 2002 the Ministers responsible for the development of the Information Society or their authorized representatives of Albania, Bosnia and Herzegovina, Croatia, FRY (Serbia and Montenegro), FYROM, and Moldova, met in Ljubljana within the context of the Stability Pact's **eSEE** Initiative.

Aiming to improve the future prosperity and stability of the region and contribute to improved democratic structures, economic progress, social cohesion and regional security, and recognizing the positive experiences of the **eEurope** and **eEurope+** processes, the Ministers committed themselves to:

- **Introducing rapidly a new legislative and policy framework for the Information Society, in particular in the area of telecommunications**
- **Improving the capability of the region to apply Information and Communications Technology for better governance, economic development, social cohesion, and cultural diversity**
- **Cooperating closely in regional and international scale with the aim to integrate the countries of the region into the global knowledge-based economy**

The planned **eSEE** agenda is to be agreed by the end of October 2002.