

Digitalization and Development

Key Trends and Emerging Issues

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Key Trends and Emerging Issues

1. Global setting

- The global economy, which declined by 3.1% in 2020 due to the Covid-19 pandemic, is expected to grow by 5.9% in 2021 as a result of policy measures taken by many of the larger economies.
- But the economic rebound is highly uneven across and within countries, with potential negative spillovers across the globe.
- Income inequality is rising within and across countries as low-income countries, the poorer segments of societies, low-skilled workers, minorities and women have been hit hardest.
- Uncertainty remains high. While the downside risks have moderated due to development/ application of multiple vaccines, the arrival of the “delta variant,” a more contagious virus, combined with slow vaccination pace, could weaken the recovery.
- The Covid-19 Pandemic has been a game changer as lockdowns and social distancing imposed a radical rethinking of business models. Early results from firm surveys worldwide show that up to 70% of SMEs intensified their use of digital technologies.
- Policy advice to governments from the G7/the G20 and international institutions is “lift supply bottlenecks, vaccinate globally, strengthen health systems and social safety nets, accelerate digitalization in an inclusive and affordable manner, target fiscal support during the transition and plan for clear, effective and sustainable fiscal frameworks in the medium term”

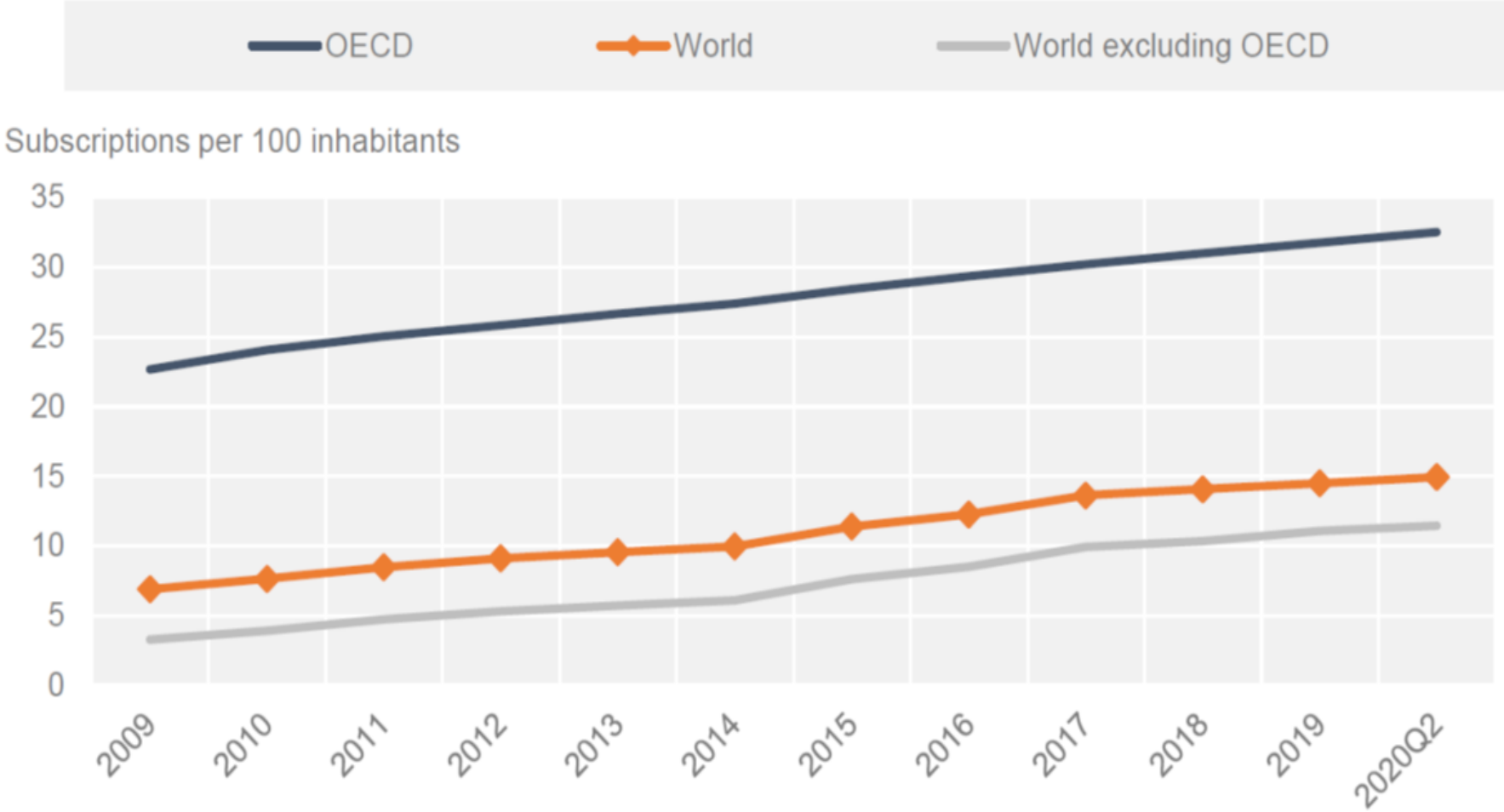
2. Digitalization

- There is no consensus on definition or measurement of digital economy, though everyone agrees that it has been growing fast – much faster than the overall economy. It has grown, for example, from around 6% of the US economy in 2005 to nearly 10% in 2019. A broader definition of digitalization of the economy (including value added of various digital platforms) results in a significantly higher share.
- The digital transformation is an outgrowth of general-purpose technology— technology with the power to affect an entire economy.
- The changes could be highly disruptive in the short-run, as the world is facing a multipronged technological revolution that are fundamentally altering the development pathways that have brought decades of progress in reducing poverty and addressing aspects of inequality.
- General-purpose technologies can significantly boost productivity, but their labor-saving and skill-biased nature could cause dislocation of large segments of the workforce during a transition period that could be long. For developing countries, the potential for digitalization to produce economic gains over the *longer term appears large*.
- However, digital transformation could have significant impacts on income/wealth inequality, employment, supply chains, migration, service delivery, and environmental challenges, requiring policy (including regulatory) changes, reforms and investments.

3. Some of the Key Potential Economic Impacts of the Digital Revolution

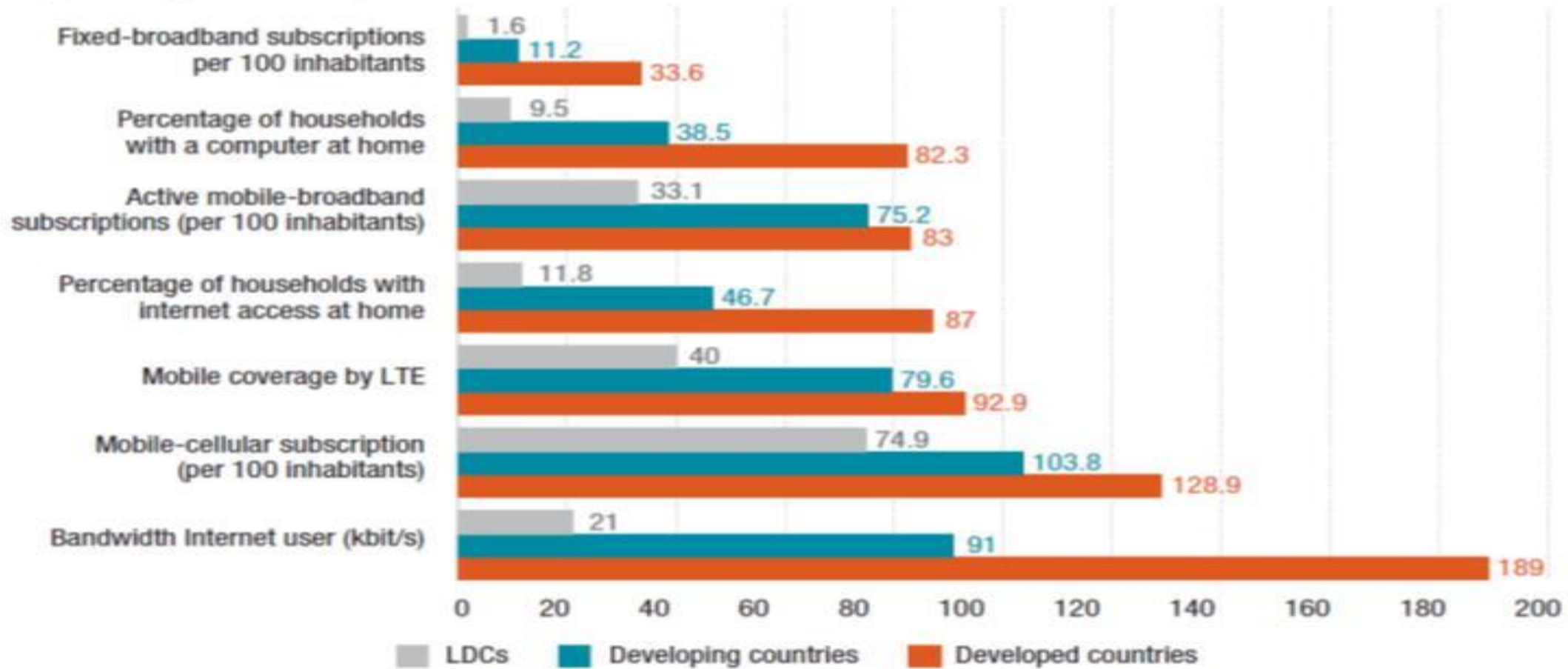
- ***The future of work.*** Automation and AI can improve productivity and boost living standards. But they can also make certain skills redundant.
- ***Financial technology (fintech).*** The application of digital technologies to financial services offers multiple benefits. Fintech promises to boost access to finance, allowing unbanked individuals and small and medium-size enterprises (SMEs) to obtain loans and make payments conveniently.
- ***Digitalization of government services.*** New technologies are revolutionizing the way governments operate. Although important security and privacy concerns need to be addressed, e-government holds the promise of increased efficiency, allowing citizens to obtain services conveniently over the Internet; digitalization may also enable easy public access to key fiscal and other government data, boosting accountability and transparency.
- ***E-commerce.*** For consumers, it provides access to a wider range of products and services at lower prices, boosting consumption. For firms, e-commerce can provide new business opportunities and access to larger markets, supporting investment and creating jobs.
- ***Modernization of agriculture.*** New technologies --digital farming and precision agriculture; innovations in plant breeding techniques; and efficient use of water could dramatically increase agricultural productivity, raising rural incomes.

Fixed broadband evolution in advanced economies (OECD), and developing countries (world excluding advanced economies)– a digital divide that has so far narrowed slowly...



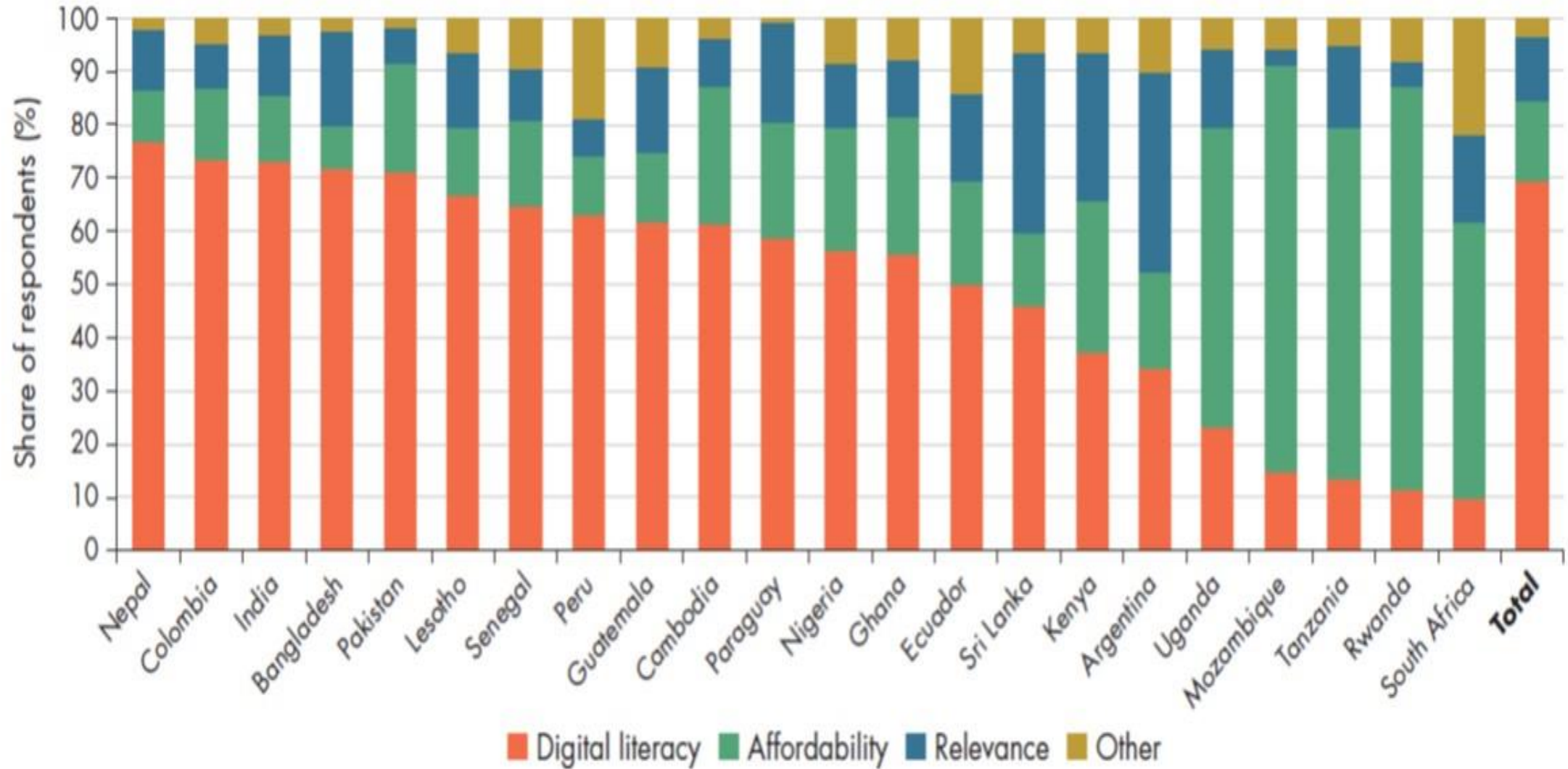
Gaps in digital access remain wide between high-and low-income countries as global economy becomes more knowledge-based, using digital technologies and data intensively (UNCTAD)

Gaps in digital access, 2018



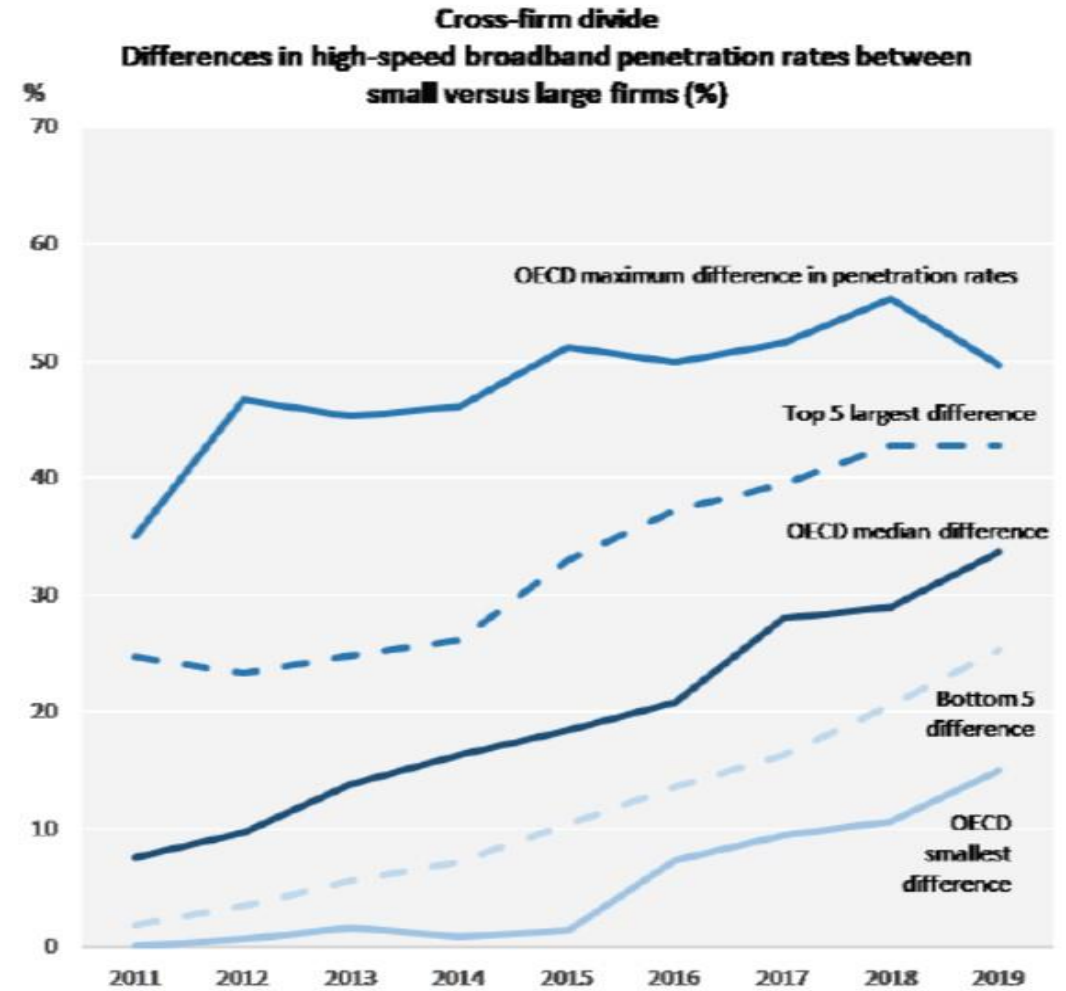
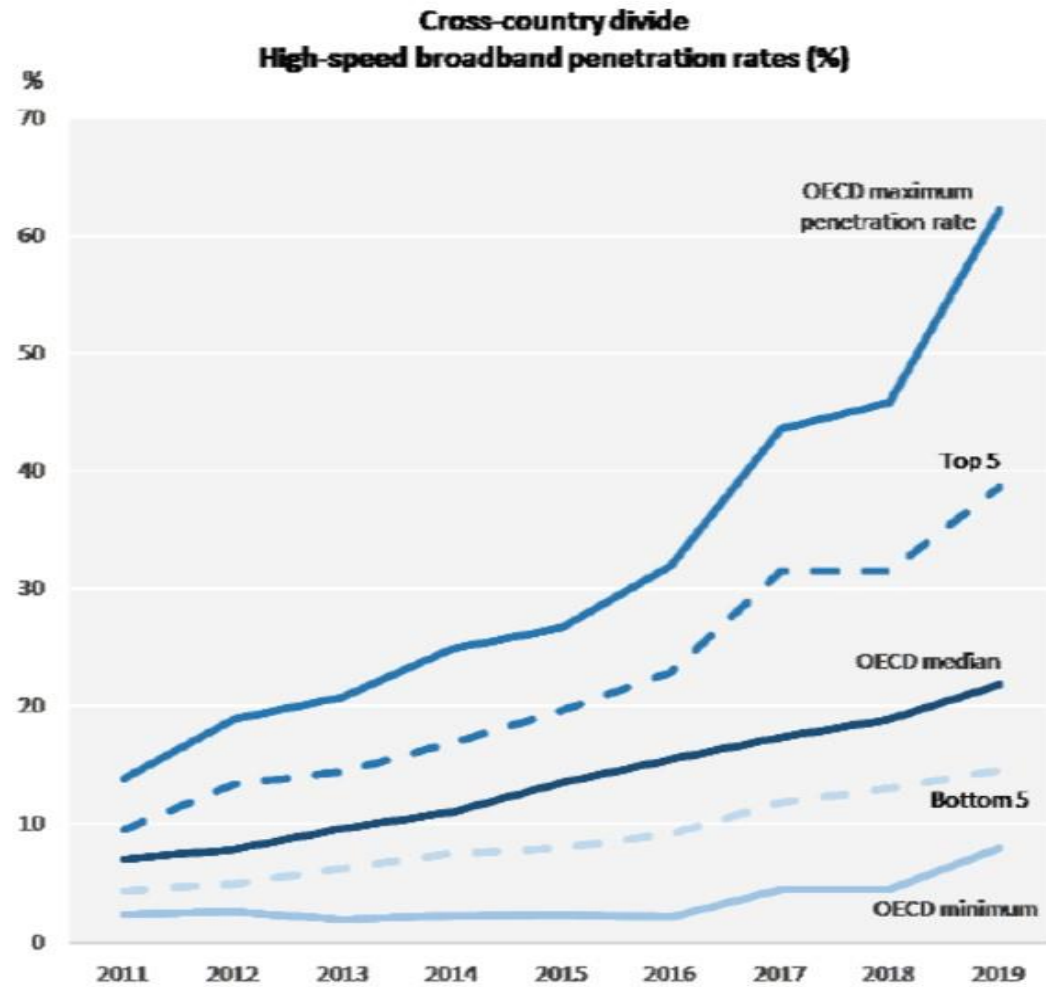
Source: UNCTAD based on ITU (2018, 2019).

In low- and middle-income countries, nearly 70 percent of those who do not use the internet are held back by deficiencies in digital literacy (World Development Report 2021)



Access to high speed broadband remains unequal, and progress has remained low for smaller firms

OECD 2021



Some preliminary lessons from review of recent literature

- Reliable, high-quality, and affordable digital connectivity is fundamental for the digital transformation of economies - as it facilitates interactions between people, firms, organizations, public sector, and machines.
- On some dimensions, good progress has been made in increasing the number of connected people, firms, and public sector entities.
- But major challenges remain: how to close all the remaining gaps, particularly in developing countries -- massive investments and policy changes are needed: how to ensure that everyone in a country benefits from digital transformation, regardless of their gender, income level, or location.
- To close the connectivity divide, people not only need to have access to broadband services, but they need to be trained and connected well: access to high-quality communication networks/services at affordable prices—and a business climate that is conducive to growth of SMEs.
- Policies to contain the COVID-19 pandemic in advanced economies and upper-middle income developing countries have profoundly affected their economies and their relationship with digital technologies.
- Global dependency on digital technology has impacted nearly all aspects of society, ranging from health and education to government and teleworking. The impact of e-commerce has been massive.
- In advanced economies and a few middle-income countries, governments, businesses and academia have been quick to comprehend the potential of AI to contribute to their respective responses to the pandemic crisis. Policy makers must try to implement policies and infrastructure/training investments that would **make the ongoing digitalization more inclusive.**

Thank You