

Gearing Developing Economies for the New Economy

Reshaping APEC for the Asia-Pacific Century
Melbourne, Australia

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New Economy and Developing Countries: Key Messages

- There will always be technological advances
- New business models (outsourcing, offshoring) will create opportunities for developing countries .. but results are not automatic and depend critically on the capabilities
- Supply side issues are important
- On demand side .. look at markets of developing countries

The New Economy

- Macroeconomic Perspective:
 - High growth cum low inflation record
 - Productivity keeps costs down and growth up
 - Productivity as fruit of IT investments

The New Economy

- Growth Theory Perspective
 - Growth record of the US economy
 - Diminishing marginal returns to capital does not appear to take place
 - Innovation continues to propel growth in advanced countries, pivotal in explaining growth

The New Economy

- Microeconomic Perspective
 - Friedman's flatteners
 - Confluence of factors:
 - Economic doctrine: market economy
 - Technology: browser and internet
 - Cost of entry: low, equalizer
 - Business Models: fragmentation, digitalization, outsourcing, offshoring, supply chain structures

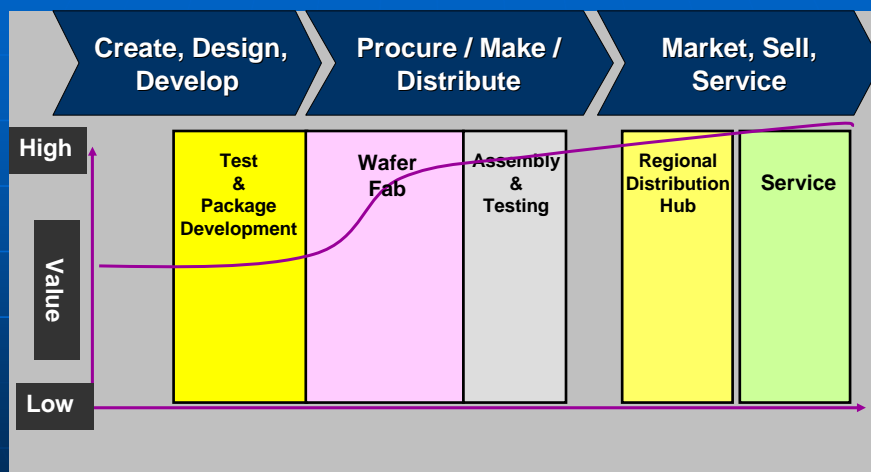
Impact

- Leapfrogging technologies
- Greater competition: footloose investments
- Intensified international production networks: volume of outsourced and offshored tasks
- First mover advantage: ladder of value added, learning-by-doing, comfort level

Imperatives

- Rethinking industrial policy
 - Nexus of manufacturing and services
 - Convergence of industries: synergy of tourism, transport and telecommunication
 - Participation in the supply chain: function of logistics services
 - Implications on trade policy, services liberalization and Mode 4

Electronics Value Chain



Source:

Imperatives

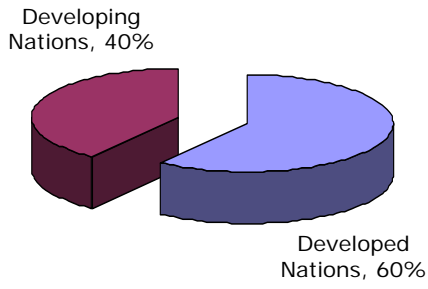
- Supply creates its own demand
 - There is demand for outsourced and offshored tasks
 - The capabilities are limited and leads to capability divide
 - Improving capabilities is critical:
 - Knowledge, budget for education
 - Infrastructure cooperation

Imperatives

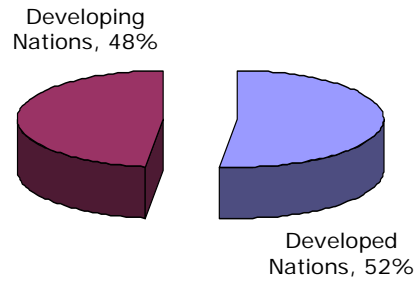
- Look South as well...
 - In PPP terms, developing countries have higher share in world output
 - Developing APEC members export more than developed members
 - South-South trade accelerating
 - Yet tariff barriers in South are higher and logistical inefficiencies more prevalent
 - Greater scope for increased South-South trade as tariffs are removed
 - Implications on tariff policy and trade facilitation

Share in World Output

1990



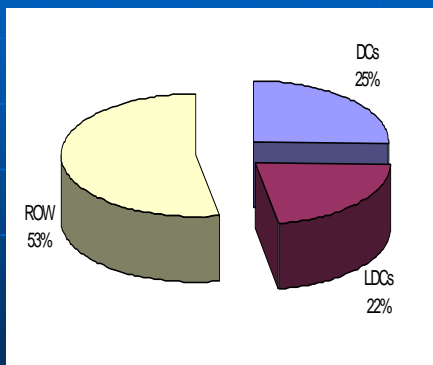
2005



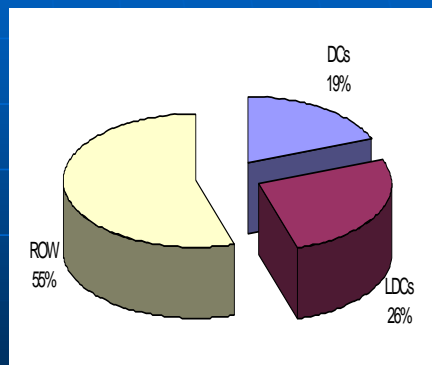
Source: International Financial Statistics, IMF

APEC Countries' Share in World Exports

1996

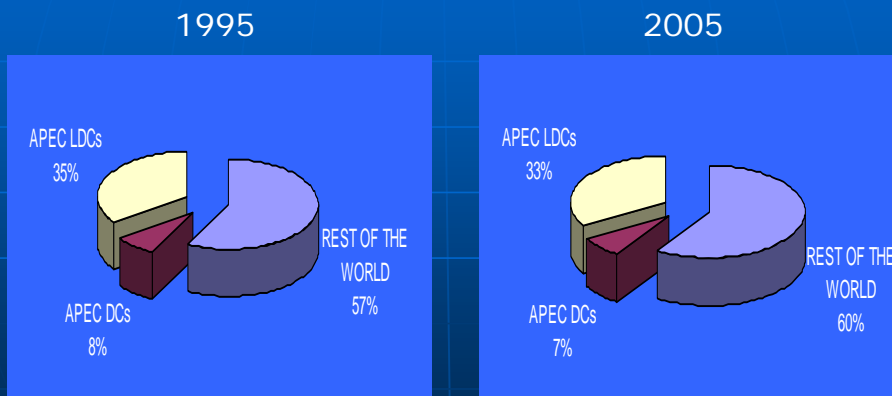


2005



Source: International Financial Statistics, IMF

World Population



Source: International Financial Statistics, IMF

Imperatives

- Quality of government
 - Match of individual talents and societal capital
 - Transaction costs of bureaucracy and uncertain policies
 - Reassess compensation issue, sustainability of reform process

Trading Across Borders

Region	# of Documents for Exporter	Time for Exports (days)	# of Documents for Importer	Time for Imports (days)
East Asia & Pacific	6.9	23.9	9.3	25.9
OECD	4.8	10.5	5.9	12.2
Sub-Saharan Africa	8.2	40.0	12.2	51.5

Source: Doing Business, World Bank

Moving forward...

- Supply side issues: best addressed by cooperation initiatives, ecotech
- Trade facilitation issues: implications on participation in global supply chains, 'time' as an important factor, need clear benefit cost understanding
- Policy sustainability issues: openness, policy space, compensation

Thank You!