

Internet and the Three Digital Divides: the Elusive Quest of a Frictionless Economy

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ABSTRACT

Internet and the associated ICT revolution are often seen as important instruments for increasing economic welfare, mainly through a reduction in prices and an increase in competition. The aim of the report is to argue that, in reality, it is not obvious that the world wide diffusion of Internet will lead to a stronger competition, lower prices, and less cross country inequality. Such controversial predictions are analyzed along three key dimensions: the new consumer, the new producer and the new patterns of international trade.

Previous technological revolution, albeit skill biased along the production line, led to a world in which economic goods were made available to potentially any consumers, independently of their level of human capital. Conversely, digitalized consumer products will be available only to online consumer, potentially leading to an increase in price discrimination between on line and off line consumers. Such phenomena will increase consumption inequality both within and across countries. In addition, while it is possible that third party intermediaries will tend to disappear, as predicted by previous studies, it is not obvious that rents appropriated by third party intermediaries in the old economy will now be captured by consumers. Indeed, a case study analysis applied to the real estate industry, suggests that following the explosion of ICT transactions in France, sellers appear to have benefited most.

In terms of supply chain, Internet will have dramatic impacts on the supply chain but once again, it is possible that such revolution will increase polarization. In principle, the possibility of instantaneously contacting suppliers around the world, will lead to substantial costs savings on the part of producers, with immediate impacts on prices and marginal costs. Along the same line of reasoning, scholars offer argue that Internet will lead to the “death of distance”, with producers of a given good dispersed around the world. Yet, even when supply offers will instantaneously made available by on line suppliers, asymmetric information between suppliers and contractors regarding the quality of production will persist. Arguably, solving this type of asymmetric information will require a dramatic increase in industry certification, leading to an ex-post increase in polarization, since certified firms will acquire a dominant insider position vis-à-vis outsider and non certified suppliers. These predictions appear consistent with the correlation found between ICT use and certification procedures for a representative sample of French firms. However, certification will not be the only way through which asymmetric information will be dealt with. Indeed, most business transactions still require a significant amount of F2F (face to face) interactions, so that even in a online world close physical distance will be taken into consideration in the location decision of existing business. Indeed, along such dimension, the geographical structure of Europe may act as a substantial advantage, for at least two reasons. First, because contacts between suppliers and producers can be more easily made F2F; second, because relatively short distance between suppliers and producers will make it possible to respond faster to just in time consumer requests.

It is well understood that delays in the development process are primarily links to ill- functioning institutions. In this respect, non-OECD countries are very likely to fall behind in solving those governance issues – pertaining for instance to consumer protection, security of transactions, privacy of records, and intellectual property – that are crucial to achieve e-business readiness. While new technologies may make it easier and less expensive to trade *information*, it is arguable whether they affect the process of *knowledge* creation. For all these reasons, there is a risk that a “digital divide” will simply reinforce existing income and wealth inequalities between countries. These issues are analysed in the context of four case studies, which pertain to such diverse industries as coffee, flowers, garments, software development, and tourism services. Despite the

different and peculiarities of all cases analysed, it is clear that the ICT revolution has not produced, and is not likely to produce in the future, substantial impacts on the distribution of global production.