



## Profiling a methodology for economic growth and convergence: learning from the EU e-procurement experience for central and eastern European countries

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### Abstract

Recent improvements in Internet technology connectivity provide an opportunity to make procurement for goods and services more transparent and efficient. When used for public procurement, information technology can be utilized as a mean to achieve the main principles of perfect competition, namely, access to information, no barriers to entry (transparency), and a large number of participants in market exchange. In this paper, we argue that the electronic procurement, particularly in the public domain, is an effective policy tool to establish the fundamentals of market economy and hence increase country's productivity, remove domestic barriers to international trade, and improve efficiency. The main focus of this paper is to examine the efforts of European Union to transform the procurement process to a more cost-effective and innovative process. Moreover, our goal is to demonstrate that ICT is a power tool that can induce the structural changes within and between countries, and will enable procurement-sensitive goods and services to move freely, fostering the competitiveness of European suppliers in domestic and world markets. An effective public procurement policy is fundamental to the success of the single market in achieving its objectives: to generate sustainable, long-term growth and create jobs, to foster the development of businesses capable of exploiting the opportunities generated by the single market and competitive in global markets, and to provide tax-payers and users of public services with best value for money.

This paper will analyze and evaluate the electronic procurement projects carried out by European Commission to better understand how the use of new information technology supports the delivery of an effective public procurement policy. In the context of market opening and integration, the study will identify a number of key learning lessons based upon the experience of the European Union. The analysis of the data will provide a number of important results in relation to further actions to be undertaken by CEE countries, an action plan for follow-up and use of this research along with proposed recommendations for addressing the major issues for electronic public procurement development and use in the CEE region.

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### 1. Globalization and technology

Globalization is an irreversible process, and relates to the increased freedom and capacity of individuals and firms to conduct economic activities with residents of other countries. The driving forces of globalization are related to the reduction in barriers for conducting business with foreigners, and fast reduction and convergence of transaction costs via advances in 'transport of information' (Braga, 2002, p.3). Braga (2002, p. 7) emphasizes that the new wave of globalization driven by technological advance

in transport and communications technologies led to a better investment climate in developing countries since 1980.

Over the past two decades, many developing countries have embraced economic transition policies to enter the emerging global market. Thus, one important dimension of the globalization process has been, for the developing countries, the implementation of economic policies that aimed to restructure their entire economy, according to IMF and World Bank prescriptions:

1. Competitive environment: to be attractive to foreign investors various regulations and standards are reduced or removed;
2. Macroeconomic stability;

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3. Privatization: sell off public enterprises to the private sector and provides opportunities for the private sector;
4. Accountability: transparency of GOV conduct;
5. Liberalization of trade, and realization of competitive advantage.

During the 1980s and 1990s, most developing countries implemented these significant economic policies aimed towards liberalization of their trade. The results were disappointing and many observers start wondering about the success of the restructuring programs. Economic policies failed to achieve their goals, and in fact exacerbated the economic problems of most developing nations.

The main reason behind these failures resides in the governments' incapacity to deliver due to political conflict, unwillingness to change, and political fallout. In this context, better governance has become critical to the establishment of an open market, transparency and an efficient public administration. The use of information and communication technologies (ICT) might be used in developing countries that are the most disadvantaged by poor access to information to complement economic policies, in order to boost efficiency and enhance market integration. (Treaty establishing the European Community, 1957; Study on Implementation of Electronic Tendering on a Pan-European Environment Hague, 1999; Gibson and Ward, 2000; Everard, 2000; Dutton, 1999; Commission Directive, 2001; Cafiero, 1996; Bimber, 1999; Barber, 1998; European Union Report, 2000; Arunachalam, 1999; Albarran and Goff, 2000).

In order to improve the efficiency, competitiveness, and responsiveness of their governments, and hence democratized governmental institutions, it is imperative to expand the number and variety of services, improve access to their services, and address crucial issues, such as electronic procurement: 'ICT can empower the disenfranchised and their intermediaries ... while promoting transparency of governmental actions and market outcomes' (Braga, 2002, p. 3).

Taking advantage of emerging information technologies requires policies similar to those needed for opening the market and free trade. For example, creating a modern public procurement is part of the process of an efficient, and a competitive market economy that is necessary for these countries' full integration into the global community. In this respect, information and communication technologies can help to achieve a competitive environment (open bidding), provide opportunities for the private sector (free access to public information), government transparency, and eliminate a country elite's hold on the key sectors of the national economy.

This study intends to identify best practices that can benefit the efforts of developing countries in their task to build a creditable government, reliable political system and perfect competitive economy, and to render guidance on the legislative measures and implementation design that the countries concerned need to put in place in order to set up

the necessary regulatory structure to create efficient and open procurement.

### *1.1. Economic growth, convergence and ICT*

The dramatic growth in information and communications technologies has given rise to a vision of a virtually integrated global economy, in which people can interact virtually no matter where they are located. Closely related to the ICT developments have been the increasing economic integration of the world economy, often referred to as globalization. The ICT can be viewed as a technology with great potential for integrating existing markets that may lead to a form of economic integration based on complementarities that might occur on a regional basis.

A resurgence of interest in models of economic growth has brought discussions of convergence, either in the levels of countries' per capita income or in growth rates of per capita income. Moreover, it is also important to distinguish between the notion of absolute convergence and conditional convergence. Barro (1991) shows that 'the hypothesis that poor countries tend to grow faster than rich countries seems to be inconsistent with the cross-country evidence, which indicates that per capita growth rates have little correlation with the starting level of per capita product.<sup>1</sup> This evidence indicates that cross-country data do not support the assumption that convergence applies in an absolute sense. The major reason for this finding is the fact that economies are intrinsically different from each other. Thus, when they control for country-specific characteristics the empirical findings for a group of around hundred countries strongly support the hypothesis of conditional convergence.

We will briefly discuss some of characteristics of the transition process in central and eastern Europe and the Baltic states (CEE) and the Commonwealth of Independent States (CIS). According to the European Bank of Reconstruction and Development (EBRD) Transition Report, 2000, there are wide variations in the level of reform and performance of the 25 transition countries. The EBRD's transition indicators over the past 10 years do not tell a single common story, but 25 distinct stories. Consider for example, the growth rates in real gross domestic product (GDP) in central and eastern Europe, the Baltic States and the CIS. Initially all of them experienced a sharp decline in output; however, the magnitude and the duration of the decline differ significantly across countries. Just to point out a few outliers: Moldova experienced a continuous decline in output (except 1997) of  $-10.6\%$  on average during the period of 1990–1999, while Poland was growing steadily with an average growth rate of  $5\%$  starting with the year of 1992. This result should not be surprising because the transition process in each country started from very different

<sup>1</sup> For graphical illustration of this correlation see Barro, 1991, pp. 408 and 415.

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