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**Contribution by**

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**The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.**

# Input to UNCTAD's Intergovernmental Group of Experts on E-commerce and the Digital Economy

*Submitted by IT for Change<sup>1</sup>*

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*(Based on the four guiding question proposed by the organisers)*

## How can developing countries foster local platforms for domestic and cross-border e-commerce?

It is first of all important for developing countries to understand the real nature of digital platforms. They are *not* just new, more efficient, marketplaces in each sector, which view currently dominates policy thinking. **Digital economy is defined by complete re-organisation of every sector employing data-driven-intelligence** (data intelligence or digital intelligence). **Such re-organisation generates phenomenal levels of efficiencies**, and transforms the activities, roles and relative powers of all the actors involved in any sector. It is no longer the ownership of industrial capital or intellectual property that puts one on the top of value chains in any sector. It is the ownership of data and digital intelligence that is becoming central to organising production, and thus the most lucrative economic perch.<sup>2</sup> Fostering local platforms therefore principally means fostering local ownerships of data and digital intelligence.

Uber, for instance, does not just connect buyers and suppliers of car rides. It re-organises the whole transportation or mobility sector, based on granular, real-time intelligence about every activity and actor in the sector.<sup>3</sup> It is equally erroneous to see Amazon and Alibaba as just running marketplaces; they are re-organising the whole consumer goods value chain, from determining production, to managing inventory, to running logistics, delivery and payments.<sup>4</sup> Such digital re-organisation creates immense new efficiencies (digital value) across any sector, and most seem to benefit from it initially. **This tends to blind-side public interest actors from focussing on who controls new economic organisations and systems, and what are the mid to long terms prospects of developing countries with regard to distribution of the new economic gains, across countries and among different actors in the ecosystem.**

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1 [www.ITforChange.net](http://www.ITforChange.net) . For any questions or further information, please contact [ITfC@ITforChange.net](mailto:ITfC@ITforChange.net) .

2 In a 2011 report, McKinsey had identified data as “an important factor of production, alongside labor and capital”. <https://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/big-data-the-next-frontier-for-innovation>

3 In the case before the European Court of Justice (ECJ) to decide whether Uber is a technology company or a transport company, ECJ's Advocate General gave the following opinion:

Uber is not an intermediary matching supply with demand but "a genuine organiser and operator of urban transport services". "Drivers who work on the Uber platform do not pursue an independent activity that exists independently of the platform," "On the contrary, the activity exists solely because of the platform, without which it would have no sense." Uber, creates and controls the supply by setting prices and rules for drivers that allow it to "manage in a way that is just as — if not more — effective than management based on formal orders given by an employer to his employees."

<https://www.bloomberg.com/view/articles/2017-05-11/why-uber-s-struggling-to-remain-a-tech-company>

4 In fact, in a new approach to mom and pop stores in China, Alibaba is ready to give up the “marketplace” ownership, leaving the shop-front to the traditional owners and taking up management of the back-ends, supply, logistics, etc. <https://www.chinamoneynetwork.com/2017/08/31/alibaba-transform-chinas-mom-pop-shops-offline-expansion> This clearly shows that owning the point of sale is not even the most important element for what are otherwise called ecom companies. It should then be investigated what their real nature is.

Unless developing countries first comprehensively understand, in a forward-looking manner, the basic nature of digital economy and its central business model of platforms based on data and data/digital intelligence, they can be in no position to “foster local platforms”.

***Developing countries need to develop frameworks for local – personal and community (including national community) – ownership, use and re-use of data, and of digital intelligence that arises from it.*** It calls for a new political economy approach. In default, developing countries would simply succumb to monopolistic global digital value chains centred mostly in the US, from where digital re-organisation and running of various sectors in every developing country will be “intelligently” controlled. It will be like a country out-sourcing its “brain”, and sub-brains of different sectors to different foreign platform companies. And whoever controls the “brain” controls everything. The dependency will be absolute, far exceeding the dependencies of developing countries in the earlier industrial economy paradigm.

***Platforms are basically “intelligence infrastructures” of the respective sectors.*** They collect and centralise data from across the sector, and from it develop intelligence that is then provided to (or used to control) every activity and actor, optimizing their collective output. This is the reason that, like most infrastructures, they tend towards monopolies. This is also the reason that a strong public sector role is important in their regard, both of provisioning in key areas, and of regulation.

In order to foster local platforms, developing countries need to develop data infrastructures in most sectors, related to key economic and social data. (They also need to develop other kinds of digital infrastructures – broadband, cloud infrastructures and transactions-enabling infrastructures). Like mechanical industrialisation (as against the new digital industrialisation) depended upon a key public sector role in laying infrastructures – roads, railway, ports, financial/banking systems, etc, such roles are equally required in the digital economy.

***A mixed economy approach would imply public data and private data working together to create data/digital intelligence in a manner that results in the best economic value. This is what will really enable a local digital private sector to flourish.*** New institutional, jurisprudential, legal and regulatory approaches are required in this regard. Yes, the task is complex and demanding; but no short cut is available.

A detailed analysis and recommendations in this regard are provided in the draft paper, [“Digital Industrialisation in Developing Countries: A Review of the Business and Policy Landscape”](#) .

Developing countries will have to undertake this task largely by and for themselves. Knowledge sharing and collaborative strategies, promoted by organisations like UNCTAD, would be very helpful. Global digital economy space is one with the greatest cut-throat competition (among those who understand what is happening) and long-term geo-economic strategizing. New kinds of value chains, and leadership positions built into them, are being entrenched in this area very quickly, and very deeply, which may very soon become largely irreversibly. Developing countries therefore need to act fast.

**What are the existing barriers related to international e-commerce platforms that developing countries, including the least developed countries, face and how can these barriers be overcome?**

In the background of the above analysis, it is not clear what is meant by “barriers” in this question, and barriers for whom. We understand that this may be meant with regard to producers and traders from developing countries being able to use and fruitfully gain from international e-commerce platforms.

In this regard, there are, what can be considered as, first order barriers, like connectivity and other e-infrastructures, technical skills, digital payment systems, logistics, customs clearance, regulatory environment, and so on. We expect many contributions to go to great length regarding these important issues, which we will not elaborate upon here.

We focus on second-order, but structural, barriers, or problems, that developing country producers and traders face, which will further accentuate as globally monopolistic platforms get entrenched everywhere. ***These relate to their relative economic power and independence vis a vis gigantic platforms running the entire ecosystem, and consequently the accrual of economic gains to them.*** Platforms (owners) will soon be able to decide the minutest aspects of production as per intelligence exclusively available to them; what has to be produced, in what manner and in what quantities. Manufacturers would therefore be no more than outposts of these platforms, tightly controlled by them. And so would traders just be agents for oiling the process of movement of goods. There is not adequate space here to elaborate on these digital developments, but the general drift of the argument should be easy to catch.

Market signals, received and interpreted by innumerable market actors, currently organise production and trade. This imprecise system will be superseded by complete sector-wide digital intelligence possessed by monopoly sectoral platforms, which will organise production, trade and consumption much more efficiently. However, market-signals based intelligence is “relatively” open and accessible to a large range of actors, and their respective interpretive capabilities determine their profit or loss. ***Digital intelligence, on the other hand, is monopolised by platform companies, which enables them to control the behaviour of all the involved actors, who have no access to this centralised digital intelligence*** (the centralised systems soon comes to know more about every economic actor in the sector than that actor would know about itself!). Monopoly platforms based digital economy is in that sense actually a post-market phenomenon. If information asymmetry was the key market problem, in the digital context it is so acute that it must be called by some other name – “informational dependency”, perhaps.

***Such abject dependence of domestic producers and traders on foreign monopoly platforms, which owing both to their size/power and foreign location also tend to escape appropriate regulation, leads to the former getting squeezed to a subsistence level of economic returns.*** All surplus above this level gets siphoned off by these platform monopolies, and, if they are foreign, goes out to foreign shores.

If developing countries are to escape such dystopic economic, social and political futures, they need to urgently take digital re-organisation of their economies into their own hands, through fostering local ownership of data and digital intelligence, and local platforms. The latter should act in a competitive environment. Basic data infrastructures should be available to all actors for them to value-add to such data to develop market products and services, including platforms. Platforms must be appropriately regulated, by developing new paradigms of regulations (and not just retrofitting old ones, which may not always work). International digital businesses, and ecom platforms, will also have their due place in such public-interest driven digital economy ecologies.

### **What are some of the operational constraints that small and medium-sized businesses in developing countries face when setting up trade online, and how can they be overcome?**

It was a dotcom era utopia that all current offline businesses just need to set up an online presence and, in one simple step, they will thus stand equal to the largest businesses across the world, for every global customer. Nearly two decades later we are wiser. We understand that the digital does not just linearly enable equal access for every business to every potential consumer,

thus levelling the playing field. In fact, the Internet's impact on the economy may have led to greater consolidation of economic power rather than less.

The impact of the digital on small and medium-sized businesses should be seen from structural perspectives. Digital economy creates new sectoral ecosystems, and value chains, with platforms at their centre or top.

Therefore, while small and medium enterprises (SMEs) need to complement their offline channels with online ones, and there are many good practices available in this regard, they must also contend with larger structural forces of overall digital re-organisation, requiring their integration into new digital sectoral eco-systems, a process which is largely inevitable. ***What is needed is to explore how SMEs can retain the greatest possible independence and profitability in these new digital sectoral ecosystems, and prosper with and within them.***

The key imperatives in this regard are (1) to ***decentralise economic power in new digital sectoral ecosystems***, that are centred on sectoral platforms, (2), to explore ***new institutional forms for commons-based and public data infrastructures*** with regard to key sectoral and society-wide data, which should be made available in open forms, and (3) development of ***new economic regulatory frameworks*** that address the digital context.

**What are the good practices that developed and developing countries, including the least developed countries, can learn from each other?**

There does not yet exist any comprehensive policy or programmatic vision, especially from a Southern perspective, on digital economy, and its central artefact, the sectoral platforms. Steps taken by various countries (other than the global digital leaders) have largely been piecemeal, reacting to immediate challenges. What is required instead is to step-back and try to better comprehend the larger digital phenomenon, and develop as per such understanding a long-term holistic approach to digital economy and digital platforms. Meanwhile, some promising "good practices" are briefly referred to below.

Most countries now understand the need to ***support local digital start-up ecologies***, although success varies in this regard. Much greater support beyond enabling legal frameworks, and putting up venture funds and incubators, will be required.

India has taken pioneering steps to ***develop public transactions-enabling digital infrastructures***, like for identity management, document authentication and digital payments. These efforts have also moved towards development of data infrastructures with regard to some key data systems. At least in one sector, marketing of agriculture produce, a public sector platform has been developed.

African countries are awake to the structural issues of global digital trade especially the importance of ***data as its key raw material, and issues around its ownership***. This becomes evident in their collective submissions to the WTO process in the run up the Buenos Aires Ministerial. When everyone seems to be proclaiming that "data is the new oil", and then also many call for "free global flow of data", it is not made clear why, if data is indeed a crucial raw material, it should flow out freely from developing countries without ascertaining of ownership rights around it. No one expects oil to flow freely out of countries where it is mined; free both as being unconstrained and free as without remuneration – the two clearly being different things!

The EU has been taking some steps to ***develop public (and/or open) digital platforms and ecosystems in crucial areas like health and transportation***. It has programmes for public infrastructures in the area of cloud storage and computing, high performance computing, etc, and

is running pilot projects on commons-approach to data based city governance. It closely regulates economic exploitation of personal data of Europeans. A recent EU policy document explores issues around ownership of Internet of Things (IoT) data, possible open access to data on Free, Reasonable and Non-Discriminatory (FRAND) terms, and free access to public interest data for the concerned public authorities.<sup>5</sup> Recently, there have been moves to make laws and regulation to resist foreign acquisition of businesses of strategic economic importance.<sup>6</sup> As forming the intelligence infrastructures of every sector, there could be few businesses with greater strategic economic significance than platform businesses.

Next to the US, China has seen the greatest success in terms of digital economy. Public authorities maintain close relationships with digital companies, and provide funds and other support to start-ups. **Significant digital and data infrastructures have been developed either directly by the public sector, or in partnership with domestic digital companies.** China has designated “important data” beyond just “personal data” for restrictions on indiscriminate data outflows – although the justification largely remain security-related and not directly economic, which should be developed independently, and upfront. There are ambitious vision documents for rapid progress in key areas of digital economy, and very high level of public expenditure in digital R&D.

A brief exposition of digital industrialisation efforts/ strategies of India, US, China and EU is provided in the cited paper on “[Digital Industrialisation in Developing Countries: A Review of the Business and Policy Landscape](#)”, with a view to obtain lessons for developing countries. “Fostering local platforms” would a central feature of such digital industrialisation strategies, but it must be placed within a larger holistic framework.

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5 [http://ec.europa.eu/newsroom/dae/document.cfm?doc\\_id=41205](http://ec.europa.eu/newsroom/dae/document.cfm?doc_id=41205)

6 <https://www.reuters.com/article/us-eu-trade/eu-plans-measures-to-block-foreign-takeovers-of-strategic-firms-idUSKBN16H1DZ>