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

# Note

## How can developing countries steer the digital economy for equitable and sustainable development?

By Amol Kulkarni, Peter Misiani Mwencha & Yasmin Ismail

### Introduction

The digital economy is transforming the way people interact, work, and live and is offering innumerable opportunities for growth and prosperity. However, the benefits of this transformation are not equally distributed, and many people and communities are left behind, particularly in developing countries. There are real concerns about the concentration of wealth and rising inequalities in the global south.

In addition, developing countries are significantly exposed to global risks such as climate change, disruption of supply chains, and medical and health emergencies, as covid-19 pandemic showed. Effective steering of the digital economy through national and international support measures offers an opportunity to address such risks, pursue sustainable development, and ensure that the benefits of the digital economy are shared more equitably. This Note identifies some key components of the digital economy and offers suggestions to developing countries to leverage it for their development goals.

### Making e-commerce inclusive

Electronic commerce is growing worldwide, with the fastest growth being recorded in the global south. It is a very powerful instrument to create employment

for semi-skilled workers, women, small and medium enterprises (SMEs) and other vulnerable groups.<sup>1</sup>

To this end, it is essential to create a supportive regulatory environment that encourages innovation, protects consumer rights, and promotes competition. Governments have a critical role in developing policies that limit the dominance of a handful of tech giants and e-commerce platforms. This can be achieved through developing national e-commerce strategies, reducing trade barriers, enhancing payment systems, promoting digital literacy, and providing access to finance for e-commerce entrepreneurs and SMEs. Such policies must aim to promote fair competition among businesses, encourage investments in digital entrepreneurship, innovation, and research and development. These are necessary to create new markets and opportunities.<sup>2</sup>

Through national policies, developing countries must also address digital security and privacy concerns to safeguard consumers and businesses. This involves developing appropriate privacy laws and regulations, building the necessary data infrastructure, and promoting digital skills development.

Such national policies will need supportive cooperation at the international level to help developing countries address some major and

<sup>1</sup><https://www.worldbank.org/en/news/press-release/2019/11/23/e-commerce-can-boost-job-creation-and-inclusive-growth-in-developing-countries>

<sup>2</sup> [https://www.cuts-geneva.org/pdf/KP2018-Study-Competition\\_Concerns\\_in\\_Cross-border\\_E-Commerce.pdf](https://www.cuts-geneva.org/pdf/KP2018-Study-Competition_Concerns_in_Cross-border_E-Commerce.pdf)

unique challenges they face in e-commerce development. Technical assistance, capacity building, and knowledge sharing, particularly around e-commerce, are crucial to ensure that developing countries are not left behind in the rapidly evolving digital economy.<sup>3</sup>

## Enabling cross-border data flow with trust

Cross-border data flows (CBDF) have been the engine for economic growth in the global south. CUTS' estimates suggest that unreasonable restrictions on CBDF can cause a decline in digital services exports from India<sup>4</sup> and Bangladesh<sup>5</sup> by 19 percent and 44 percent, respectively. This could adversely impact India's and Bangladesh's GDP by up to 0.3 percent,<sup>6</sup> and 0.9 percent, respectively.<sup>7</sup> Developing countries have scripted global success stories on the back of CBDF which has had positive spillovers in employment generation, boosting of innovation, facilitating start-ups, and attracting investments.<sup>8</sup>

CBDF has also benefitted consumers in developing countries, by enabling access to services at reasonable prices. This has particularly helped low-income consumers who otherwise would have found it difficult to access education, information, entertainment, and income-generation opportunities. CBDF also helps in spotting cyber security, fraud, and data breach-related risks.<sup>9</sup> In addition, it has huge potential in predicting climate change-related shocks, making supply chains resilient and predictable, facilitating research and innovations in agriculture, health, and medicine, targeting the delivery of essential supplies,

designing just transition strategies, identifying vulnerabilities, and helping combat emergencies.<sup>10</sup>

However, some genuine concerns exist with respect to allowing an unchecked flow of data across borders. These include the unavailability of timely data to law enforcement agencies in developing countries, risks of privacy and data breach, challenges in fixing accountability and ensuring grievance redress, data access and misuse by malicious and non-state actors.

The solution to such concerns is not prohibiting CBDF but building adequate safeguards and trust around CBDF. While the Indian government is considering the creation of white- or blacklists of jurisdictions to allow or prohibit data transfer, a nuanced and graded approach taking into account the sensitivity of data, track records and controls adopted by data processors, privacy and data protection frameworks in relevant jurisdictions, needs to be considered by the global south.

Such an approach could be informed by, but need not be a replica of, adequacy considerations put in place by the EU. Developing countries would need international support to adopt such an approach. It must necessarily consider state capacity, local considerations, need to support domestic enterprises while acknowledging that developing countries are most exposed to climate change, inequality and sustainable development-related risks, and CBDF can be an effective tool for dealing with them.

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<sup>3</sup> [https://www.cuts-geneva.org/pdf/KP2020-Study-Fast\\_Forward\\_E-Commerce.pdf](https://www.cuts-geneva.org/pdf/KP2020-Study-Fast_Forward_E-Commerce.pdf)

<sup>4</sup> <https://cuts-ccier.org/pdf/data-localisation-indias-double-edged-sword.pdf>

<sup>5</sup> <https://cuts-ccier.org/pdf/report-impact-of-data-localisation-on-economy-of-bangladesh.pdf>

<sup>6</sup> <https://cuts-ccier.org/pdf/data-localisation-indias-double-edged-sword.pdf>

<sup>7</sup> <https://cuts-ccier.org/pdf/report-impact-of-data-localisation-on-economy-of-bangladesh.pdf>

<sup>8</sup> <https://cuts-ccier.org/pdf/preserving-indias-digital-atmanirbharta-data-localisation-impact.pdf> and [Is data](#)

[localisation economically pragmatic for Bangladesh? | The Financial Express](#)

<sup>9</sup> [https://cuts-ccier.org/pdf/Findings\\_of\\_Consumer\\_Impact\\_Assessment\\_of\\_Data\\_Localisation.pdf](https://cuts-ccier.org/pdf/Findings_of_Consumer_Impact_Assessment_of_Data_Localisation.pdf)

<sup>10</sup> <https://pandemichub.who.int/>, <https://web-assets.bcg.com/7a/2b/9a0cb4b545ad87cf7e901301ad27/en-uncdf-brief-cross-border-data-flows-2022.pdf> and <https://www.thedatasphere.org/news/how-has-covid-19-influenced-data-localization-measures/>

# Institutionalising effective data governance frameworks

Data governance refers to diverse arrangements, including technical, policy, regulatory or institutional provisions, that affect data and their cycle (creation, collection, storage, use, protection, access, sharing and deletion) across policy domains and organisational and national borders.<sup>11</sup> Data governance creates an enabling environment for sharing data, linking data, interoperability, and data exchange; it often includes initiatives in terms of data generation, reporting, result dissemination, and data innovation.<sup>12</sup>

Effective data governance is required to tackle the complexity of multiple and interdisciplinary data sources and the significant challenges of coordinating data gathering and collection, data partnerships, and data analytics. It is also crucial for facilitating data dissemination across government institutions and between government and citizens and other stakeholders.<sup>13</sup>

There are six data governance attributes at both the national and international levels. These are: strategies; laws and regulations; structural changes; human rights and ethical guidelines; involving the public; and mechanisms for international cooperation, as explained in the figure below.<sup>14</sup>

The Six Attributes of Data Governance	
Strategic	The government has a vision or plan for different types of data in the economy and polity.
Regulatory	The government constructs a legal regime around data's types and/or uses.
Responsible	The government thinks about the ethical, trust, and human rights implications of data use and re-use.
Structural	The government alters institutional structures in response to data-driven transformation.
Participatory	The government informs its constituents about its activities and asks for public comment, with the intention of incorporating their feedback.
International	The government joins with other nations in shared international efforts to establish data governance rules and norms.

Source: The Digital Trade and Data Governance Hub (2021)

Effective data governance encompasses four distinct layers at national and international level that build on and support one another: (i) infrastructure

policies; (ii) legal and regulatory environment; (iii) economic policies; and (iii) institutional ecosystem, as indicated in the figure below.<sup>15</sup> A robust and

<sup>11</sup> OECD (2022[3]), *Going Digital to Advance Data Governance for Growth and Wellbeing*, <http://dx.doi.org/10.1787/e3d783b0-en>.

<sup>12</sup> UN DESA (December 2020). *Strengthening Data Governance for Effective Use of Open Data and Big Data Analytics for Combating COVID-19*. p.4. [https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/PB\\_89.pdf](https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/PB_89.pdf)

<sup>13</sup> UN DESA (December 2020). *Strengthening Data Governance for Effective Use of Open Data and Big Data Analytics for Combating COVID-19*. p.4.

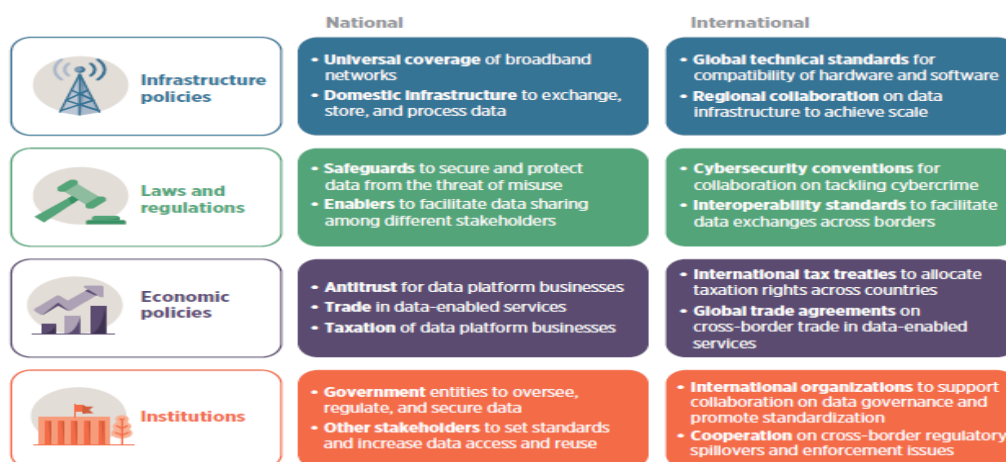
<sup>14</sup> The Digital Trade and Data Governance Hub (2021). *Global Data Governance Mapping Project - Year Two Report*. p.2. <https://globaldatagovernancemapping.org/images/DataGov-Year-2/year-two-mapping-report-1.pdf>

<sup>15</sup> The World Bank, *World Development Report 2021: Data for Better Lives*, p. 38. <https://www.worldbank.org/en/publication/wdr2021>

effectively implemented data governance framework by developing countries can strengthen trust in the data system, thereby incentivising the use of data-driven products and services, increasing their value, and ensuring a more equitable distribution of benefits.<sup>16</sup>

It is essential to ensure that the digital economy creates jobs and economic opportunities in global south. Therefore, governments should work to

ensure inclusion of underrepresented groups in the digital economy, such as women and people with disabilities, by providing support, training, and resources, and effective voice in design and deployment of data governance frameworks.<sup>17</sup> Through such mechanisms, developing countries can create a supportive environment that fosters innovation, protects consumers, and promotes competition, which is critical for realising the full potential of the digital economy.<sup>18</sup>



Source: World Bank (2021)<sup>19</sup>

## Conclusion

To ensure that the benefits of the digital economy are shared more equitably for developing countries, and to ensure that digital economy contributes to their pursuit of sustainable development, there is a need for a comprehensive approach that addresses the infrastructure, legal, financial, and human resource challenges to support a thriving digital economy. Improving access to affordable broadband, expanding digital literacy, and investing in digital infrastructure, are also critical.

National and international policies and support

measures can help address the challenges faced by developing countries in making e-commerce inclusive, ensuring the free flow of data across borders with trust, and institutional effective data governance frameworks. Developing countries can benefit from global good practices and frameworks for promoting digital literacy, providing access to finance, ensuring data protection, building data infrastructure, and promoting digital inclusion through mobilizing international cooperation.

By adopting these policies and measures, developing countries can leverage the benefits of the digital economy for sustainable economic growth and inclusive development.

<sup>16</sup> The World Bank (2021) p. 38.

<sup>17</sup> [https://www.cuts-geneva.org/pdf/KP2020-Study-Fast\\_Forward\\_E-Commerce.pdf](https://www.cuts-geneva.org/pdf/KP2020-Study-Fast_Forward_E-Commerce.pdf)

<sup>18</sup> <https://www.iisd.org/system/files/2021-01/digital-divide-e-commerce-en.pdf>

<sup>19</sup> The World Bank (2021), p.11.



## **CUTS International, Geneva**

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