



ECA



What does digital trade mean for industrialization:

Using digital trade for development in Africa

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Why industrialization matters?

- Traditional route to development
- Manufacturing sectors had returns to scale, generated technological spill-overs and experienced rapid productivity growth
- Farmers to factory workers
 - ~ 70% of population in Africa smallholder farmers
- Modern, organized manufacturing industries continue to exhibit *unconditional* convergence, unlike rest of the economy (Rodrik, 2013)

Industrialization in the era of digital trade

- Africa is prematurely de-industrializing: manufacturing value added in GDP fallen from nearly 12% in 1970s to just over 9% in 2010s
- While export-led growth was the basis of success of growth over the past half century, the factors that enabled manufacturing to provide that growth spurt would not be able to do so to the same extent in the future – Stiglitz
- Industrialization has become really hard for all countries of the world – Rodrik
- Reasons: global demand shifts, global competition, and **technological changes.**

How has (and will) digital trade change development opportunities, and what can countries do about it?

1. Digital dividends
2. But also worries
3. Updating our toolkit of policy responses



Digital trade:

DIGITAL DIVIDENDS

Digital dividends

1. Reduced information costs

- Platforms reduce the cost of acquiring the information that enables transactions between parties that would have not otherwise known about each other

2. Reduced information asymmetries

- Even if you knew about a vendor, you may not trust them

3. Integrated services

- Marketing, payment, delivery services of platforms create sales that would not otherwise exist.

4. Boosts efficiency and productivity

5. Dividends particularly for MSMEs

6. And cross-border trade

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Digital trade:

BUT ALSO DIGITAL WORRIES

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Distributional implications

1. Skill-biased technological change

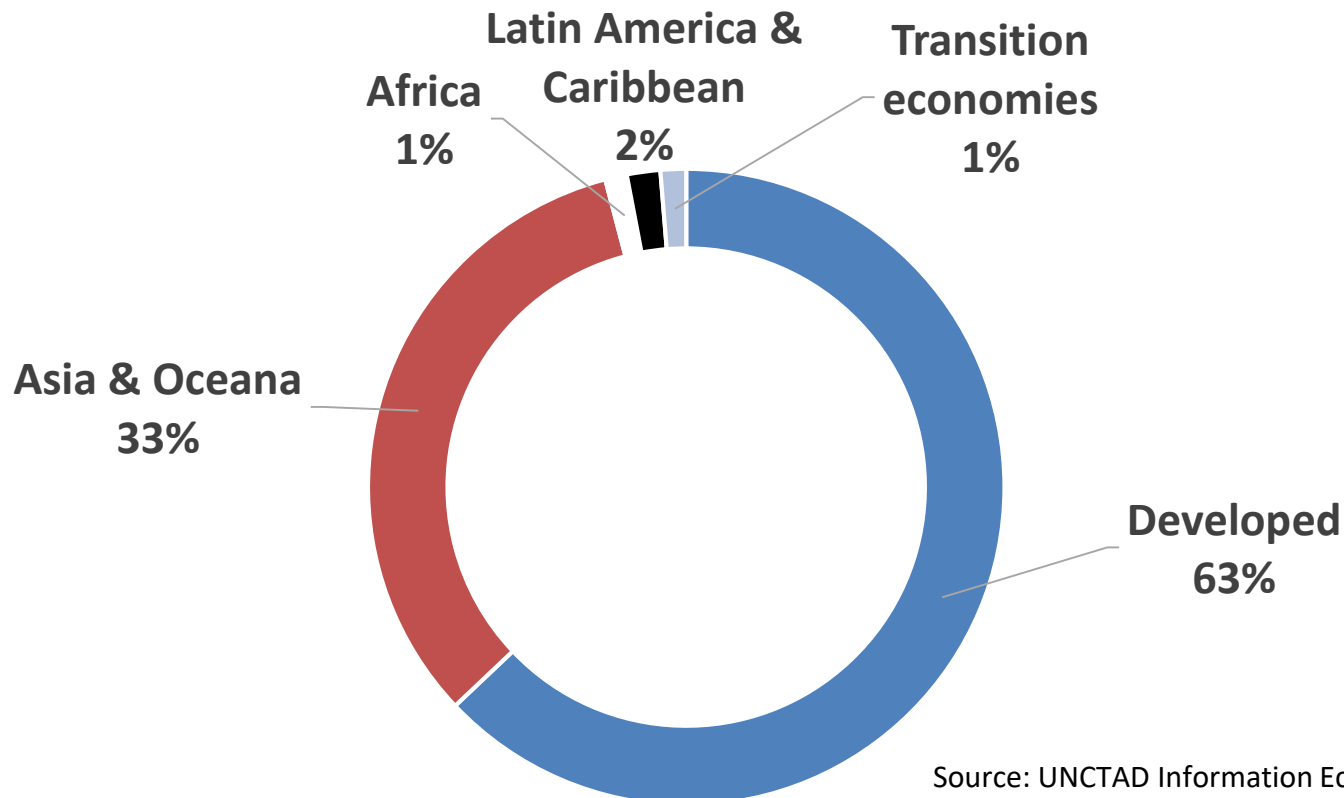
- Considerable opportunities, but are these going to be realized by subsistence farmers?
- More skilled workforces of developed countries more ready

2. And can erode the comparative advantage of low-cost labour

- Automation at heart of reasons for earlier de-industrialization
- Developing countries are most susceptible to the hollowing out of lower and mid-level jobs by automation – WB estimate two-thirds of all jobs at risk to automation in the developing world

3. International e-commerce platforms not always connecting producers in developing countries, but aiding importers

Share of world exports associated with e-commerce transactions, 2014



Market concentration

1. Network effects create natural monopolies

- Social platforms have value because everyone is on them while marketplace platforms are more valuable if you can get everything on them delivered anywhere.

2. Big data fuels these digital monopolies

- Platforms have access to big data to refine their operations, target users and outcompete rivals
- Platforms can act as both marketplaces and direct competitors in those market places

3. Can outcompete physical rivals through lower costs and circumventing regulations – or else out-purchase

4. By providing services to other businesses, these monopolies operate like utilities

Taxation: many new policy challenges

1. Remote access to markets

- Infrastructure can be centralized at a distance from a market jurisdiction and yet conduct substantial sales into that market

2. Importance of intangibles and profit shifting

- Greater value of intellectual property and data in digital business models make profit more mobile
- How to attribute value created from the generation of data?

3. Broader changes of the digital economy

- Substantial operations possible with minimal use of personnel
- Easier to fragment physical operations to avoid taxation
- Consumers can access products and services from anywhere in the world, generating challenges for collecting consumption tax

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Digital trade:

UPDATING OUR TOOLKIT OF POLICY RESPONSES

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New competition policies for new business models of the digital era?

New taxation policies

1. Revisit rules for taxable presence when a non-resident enterprise has a significant *economic* presence

- For instance, if user data enhances the value of the services an enterprise offers, a stronger user network is likely to result in that enterprise selling more, in which case the revenues generated from having users in a country could potentially factor into establishing economic presence.

2. Re-consider novel approaches

- Eg fractional apportionment of tax
- Withholding tax on digital transactions?
- Equalization levy

Strategies for addressing distributional concerns

- 1. Invest in digital capabilities to better compete in this industry**
 - Education and upskilling
 - Digital infrastructure
 - Regional integration to overcome small fragmented African markets – eg single digital markets
 - E-trade strategies
- 2. Enter manufacturing sectors less susceptible to automation and digital disruption (Banga)**
- 3. Consider broader-balanced development strategies:** agro-processing, value-added in natural resources, services, alongside opportunities in traditional manufacturing

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THANK YOU!