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Statement by

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

Transcript of Video Message by Evgeny Morozov at the IGE on E-commerce and the Digital Economy 2020

Hi. It is a pity that I could not join you in real time or in person. Unfortunately, I am finishing my most recent book, and, it is quite tough with the time.

So, let me say a few words on this theme of your meeting, which is value creation in the digital economy. I think the very first thing to keep in mind, of course, is that the very notion of the digital economy is quite ambiguous and vague in that it spans areas of activity that are quite, I would say, different in orientation, in the target audience and in the way in which value there is actually generated.

So one side, of course, has to do with consumers and individuals, and another part has to do with providing services to other companies, corporations and so forth -- this classic distinction that we have known for a while. But I think that our discussion of the digital economy is dominated almost exclusively by the first, by the former, if you will, by the consumer focus. So in our daily experience with platforms, with services, with apps, we of course have some rudimentary, even if occasionally incorrect, understanding of how the digital economy works and we then project it to the rest of it, even though I would argue that this is quite inaccurate. Our daily experiences with Amazon or our daily experiences with Facebook, tell us very little about the sale of cloud computing services or the competition and artificial intelligence of the service, which is really where most of the money and R&D investments that do flow into the digital economy are concentrated.

But let me say a few other words about first this consumer sector. So I would say that it spans both platforms like Amazon and eBay, that essentially facilitate trade, with individuals and SMEs, but also a few big brands essentially using them to sell and buy products. But it also spans the likes of Google and Facebook, which essentially are advertising companies in that explicit part of their activities disguised as digital platforms.

So, I think, there is no great mystery to Amazon's sales operations. They benefit hugely from their size, they manage to essentially also deploy the data about transactions that they gather by observing everything that happens on the platform, to build products that undercut the immediate incumbent providers of those products. So, because they have this data layer, Amazon succeeds in essentially being ahead of the competition, and that raises all sorts of anti-competitive concerns of course.

The rest of it, I think, has to do with low costs, with internalization of costs, particularly when it comes to their immense delivery operations but also the entire kind of warehousing operation, where work is rather precarious. And, even though they claim that they are interested in things like providing health care, of course, the associated costs are quite low, or lower than they should be, which allows them to derive hefty profits. At least, I wouldn't say hefty, because this is again a great mystery and a great myth that I think few of us understand, that the real profits in the case of Amazon come from the business side, which for a very long time, until recently, subsidized the retail operation, which is our kind of immediate encounter with Amazon as consumers.

Plenty of other services, of course, exist that are in the consumer sphere, we also know and use them, from Uber to Airbnb, and one thing to keep in mind is that, again, not everything is what it seems. The immense popularity of these services often has to do with the fact that they are heavily subsidized by venture capital. There is a logic and rationale there, but what we need to remember is that, what appears to be free, or what appears to be cheap, is very often just a temporary condition which has to do with where these companies are in their, kind of, business model cycle and what it is that venture capital is expecting at any given moment, which is often to get market share. And once the market share is there, perhaps to raise prices or to completely adjust the business model. So that is another lesson to draw, that this kind of unique and exceptional nature of the digital economy as being hugely efficient or cheap, is often just a myth.

And it is a myth sustained by these massive investments, which in themselves, need to be investigated. This is one of the stumbling blocks for many analysts of the digital economy. It is that they fail to make the connection to the broader macro-economic situation, and understand the factors that drive and push too many asset managers, sovereign wealth funds and other essential pools of capital, towards the digital sector. That we really need to have a comparative analysis of this particular type of investment vis-à-vis real estate or vis-à-vis annual government obligations and bonds, in order to understand why is it that all of a sudden, the tech sector became almost the default call for idle capital, at this particular moment after the financial crisis and COVID, and so forth.

But since I do not have much time left, let me say a few words about this more invisible part of the digital economy, which has to do with services provided to corporations and governments. And this is where I think we don't even have a very good picture, but this is where huge investments are made, and this is where a lot of profits are made as well.

And I would argue that, even though we tend to view the digital economy, because of our consumer experiences, as entirely dominated by monopolies, these companies do compete quite heavily in this other sector, which has to do with services like artificial intelligence and cloud computing. And this is the reason why, if you look at their R&D spending, across the last 5 years, from Facebook to Microsoft to Amazon to the Chinese companies like Baidu and Tencent, they are investing billions, and often tens of billions, in order to stay ahead of the curve when it comes to services like facial recognition, or voice recognition, or virtually anything else that, by using data, which often are derived from the consumer sector, so as we are being shown targeted advertising or as we are using Google search, or we are using Gmail, in the case of Google or Alphabet, there is the secondary layer of data that gets generated, which in one way or another can find its way into various AI models being built by the companies, which then gets monetized in this kind of invisible market of services being sold to governments and other startups.

This can be made quite visible if you just go to Google cloud and you sign up to one of the services, you can even use them as an individual. There are huge costs attached and this is where you start seeing that there are these vast and visible connections between the consumer side on the one hand, which we still dismiss as trivial, and this more sophisticated and technologically interesting and intensive kind of services-oriented part, and particularly services offered to governments and other corporations.

And I think that, we need to have a better model here, of how the two interconnect. We also need to understand that it is primarily at that level that geopolitical competition, between America, China and of course the European Union, works itself at the moment. It is not really so much about TikTok, even though that's what the newspaper headlines say. It is really about who is going to dominate this most advanced, cutting edge part of the digital economy. This has to do with infrastructure, and particularly infrastructure offered as a service.

So, I hope this picture, even though very short, at least gave you some clues. I think ultimately, we need to have a better account of the many markets in which these companies are active. We need to understand the ways in which data has many lives, it does not have just one life. It might have its first life in order to optimize the sale of advertising. It might have a second life as a way of training AI models. And we need of course to understand the ways in which many of these services, perhaps in a different arrangement, can in fact function as quasi-, or perhaps actually full-blown infrastructures, that perhaps alternative models exist and these alternative models of social organization where AI and cloud computing would be treated as a public good that they would essentially make the economy, if you will, also more productive in a way that they would not ration access to these precious resources and tie the charges incurred to specific use.

So this is kind of the whole premise of the "as a service" model, that essentially every single time you interact with that service you have to pay for it. So it is basically use-based charges.

And we have accepted this as the default feature of the digital economy. But we might also start wondering to what extent this actually will also function as a constraint, meaning that to what extent if you were to depart from this use-based charge model, we would actually unlock even more innovation, more collaboration and alternative business models, which currently cannot come into existence because they cannot bear the costs that need to be paid for the likes of Amazon or Google who provide this underlying infrastructure.

Well I think I will have to stop here as I have run out of time. I wish you a productive meeting. And I hope that you manage to resolve some of these theoretical and empirical challenges in the time-span of this conference.

Thank you so much.