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Session 2. **The potential for diversification towards and through digitally deliverable services**

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



Economic diversification thru and towards digitally delivered services:

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The rapid development of digital technology has transformed services sectors and with the pandemic, it has further accelerated digital transformation of services.

Services sectors are traditionally reliant on physical delivery of services, such as healthcare services, education services, financial services, retail and distribution services. Adoption of digital technology have transformed services sectors' main mode of delivery from physical thru digitally delivered services. The economic diversification in services sectors occurred in two ways: vertical diversification and horizontal diversification.

Service providers such as e-commerce platforms do horizontal diversification by extending their services into home food delivery and they do vertical integration by entering financial payment service into their platform or by extending their platform into logistic and shipment services. We also see the merge of two giant platforms of ride hailing and e-commerce platform where they do both vertical and horizontal diversifications, by integrating their services, allowing them to tap into bigger market.

This also happens in healthcare service providers where they traditionally serve their customers in their premises for medical consultation, they are now diversifying horizontally by providing their service digitally. The diversification thru digitally delivered services has impacted services in two ways: improving efficiency as well as opening new markets for service providers.

ISD recent study on MSME in Java and Bali found that adoption of digital has increased the ability of MSMEs to develop more rapidly, improve efficiency and reach wider market including export. ISD study shows that MSME who adopted digital and diversified its services thru digitally delivered services, have following business impacts:

- Increased the consumer base by average 31.18%
- Improved efficiency in marketing cost by 20.14%
- Improved efficiency in logistics cost by 15.98%
- Increased in gross income by 24.42%, and profit by 22,51%

It is clear that having greater access to the internet and digital technology makes countries more economically competitive. It enables businesses of all sizes to tap into online marketing, financing and logistics applications as well as cloud storage. The cost advantages are even greater for smaller firms with limited resources. SMEs that diversify thru digitally delivered services are more likely to become exporters, giving rise to new opportunities to grow.

Potential Barriers for services to transform and diversify thru and towards digitally delivered services :

1. **Digital Infrastructure.** One of the key factors to digital adoption is having an adequate digital infrastructure. Investment in this area is key to improve the imbalance access to digital.
2. **Digital Literacy and Digital Skills.** Low digital literacy would hold back digital transformation of services. To address this issue, it would need higher participation of private sectors in digital skills development. Private sector involvement in overcoming this issue is crucial.
3. **Data Governance policy.** One of the main factors for the development of digital economy is the relatively free flow of data across borders which is a major part of digital activities, become affordable-free and provides many benefits for economic development, supporting innovation, productivity and raise export competitiveness, especially for startups and MSMEs. Policy that limits the cross border data flow, or data localization requirement would increase barriers and potentially limit the economic potential of digitally delivered services.

Services sectors were able to survive and grow during the time of pandemic due to digital adoption and diversification thru digitally delivered services. Therefore, digital transformation is key to economic recovery and to the development of the services sectors. Minimizing barriers of entry is as equally important as intensifying the development of digital infrastructure and improving digital literacy for services sectors to grow.