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**Committee on Trade and Development**

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## **GLOBAL ELECTRONIC COMMERCE FOR INCLUSIVE DEVELOPMENT**

The following communication, dated 9 November 2021, is being circulated at the request of the delegations of India and South Africa.

### **1 INTRODUCTION**

1.1. Under the 1998 Work Program on E-Commerce, Members had decided to examine all trade-related issues relating to global electronic commerce, considering the economic, financial, and development needs of developing countries. The Committee on Trade and Development was specifically tasked to examine and report on the development implications of electronic commerce, including in relation to SMEs; challenges to and ways of enhancing the participation of developing countries in electronic commerce; implications for developing countries of the possible impact of electronic commerce on the traditional means of distribution of physical goods.

1.2. However, to date, no comprehensive assessment of the developmental impacts of global e-commerce focusing on exports and export-oriented development of developing countries has been undertaken. This proposal highlights the development impacts of e-commerce, particularly on developing countries' exports and its financial implications with focus on SMEs and digital technology transfer.

1.3. Given the existing digital divide, which is exacerbating global inequalities especially in the times of Covid-19, it is important for WTO members to ensure that global e-commerce delivers inclusive and equitable development.

1.4. To gain from global e-commerce, developing countries will need to advance their digital industrialization by building their digital infrastructures and developing their digital skills and capacities. Linking into digital platforms alone is not sufficient, as the products sold on these platforms also need to be competitive in the digital world.

1.5. For this, countries will need to learn to use big data analytics and digital technologies. They will have to learn to collect, store and process their data and regulate their data flows. They will also require digital technology transfers so as to hasten their digitalization processes while also improving competitiveness of their products.

### **2 GROWING DIGITAL DIVIDE**

2.1. Covid-19 has exposed the existing digital divide and its repercussions. Almost half of the world population has no access to the internet. Only 35% of population in developing countries have internet access as compared to 87% in the developed world. Only 1 in 5 people in LDCs are connected. As a result, countries which are hyper connected have been able to continue many of their economic operations online during the ongoing pandemic, but countries which are less connected were not even able to provide basic information on combating Covid-19 where it was most needed.

2.2. But this is only one of the aspects of the existing global digital divide. The digital divide is more pronounced in terms of existing digital infrastructure, data processing skills and digital technologies. The capacity to store and process data is an important aspect of a data driven economy. According

to the Digital Economy Report, UNCTAD (2019)<sup>1</sup>, out of a total of 4,422 so-called colocation data centers, 80% are in developed countries, with the United States (US) accounting for about 40%. Africa and Latin America together account for less than 5% of the world's colocation data centers. The Cloud market is also highly concentrated where the share of top five providers, with 4 out of the five based in US, which exceeds 75%.

2.3. The digital divide between developed countries and developing countries is a matter of considerable concern. With the digital divide widening over time, the problem has got further accentuated. Without a doubt, some of the developing countries have made improvements in respect of some indicators of digital infrastructure. Notwithstanding this, it is a reality that on many key indicators of digital infrastructure, most of the developing countries have fallen behind the developed countries.

### **3 GROWING CROSS BORDER E-COMMERCE: IMPLICATIONS FOR SMEs IN DEVELOPING COUNTRIES**

3.1. Advanced digital infrastructure and skills in data collection, storage and processing have given first-mover advantage to digital platforms in e-commerce leading to growing concentration of rents and monopolies. Three developed countries (US, Japan and Germany) together account for 45% of global e-commerce sales (Digital Economy Report, UNCTAD 2019)<sup>2</sup> and a handful of digital platforms have captured the cross-border e-commerce markets. Covid-19 has further increased the market dominance of digital platforms and big-tech firms.

3.2. While theoretically digital technologies can benefit small and medium firms (SMEs) in developing countries through easier market access in the digital world, in practice digital technologies and growth of super platforms have led to extreme concentration of export markets which has affected distributional outcomes adding to existing global inequalities. This greater vulnerability, and in some cases ultimate bankruptcy of SMEs within developing countries could also lead to their integration into larger companies as antitrust authorities are likely to address vertical integration more favorably than horizontal mergers between companies in the same sector (Trade and Development Report, UNCTAD 2020)<sup>3</sup>. It is now extensively documented that MSMEs face considerable challenges in selling their products through online retail platforms, where the platform owner can also function as a vendor. Some of the problems confronted by MSMEs include the following:

- On average, some of the prominent online platforms keep 30% of the sale value made by independent vendors on their platforms, thereby squeezing the profits of vendors whilst enriching the platform owners.<sup>4</sup>
- Online platforms leverage their access to data of vendors and consumers for identifying the popular and profitable products. Thereafter, the platform itself becomes a vendor of these products. This adversely affects the MSME vendors and allows platforms to free ride on the innovations of vendors.<sup>5</sup>
- Online platforms almost compel vendors to purchase additional services, such as advertisement, warehousing, transportation etc. It is not uncommon that vendors who decline to purchase the additional services, find access to their products blocked.<sup>6</sup>
- The products of the platform often appear much higher in the search listing, as compared to similar products of independent vendors.<sup>7</sup>

3.3. Thus, the narrative that MSME vendors can expand their sales and exports by linking with online retail platforms may not be entirely accurate. This narrative completely ignores the adverse impact of practices followed by many online retail platforms on MSME vendors who seek to sell

<sup>1</sup> [https://unctad.org/system/files/official-document/der2019\\_en.pdf](https://unctad.org/system/files/official-document/der2019_en.pdf)

<sup>2</sup> [https://unctad.org/system/files/official-document/der2019\\_en.pdf](https://unctad.org/system/files/official-document/der2019_en.pdf)

<sup>3</sup> [https://unctad.org/system/files/official-document/tdr2020\\_en.pdf](https://unctad.org/system/files/official-document/tdr2020_en.pdf)

<sup>4</sup> Investigation of Competition in Digital Markets, United States, pages 220, 339 and 354; and Amazon's Stranglehold, Stacy Mitchell and Olivia LaVecchia, page 20.

<sup>5</sup> Investigation of Competition in Digital Markets, United States, pages 267 and 274.

<sup>6</sup> Investigation of Competition in Digital Markets, United States, page 291.

<sup>7</sup> Investigation of Competition in Digital Markets, United States, page 359.

through such platforms. It is apprehended that on account of the practices followed by the super online retail platforms, most MSMEs may not be able to sustain their businesses.

3.4. Lack of digital infrastructure and digital skills pose grave threats to the existing export competitiveness of SMEs in developing countries and LDCs. There is potential danger of many of the SMEs in the developing world to be outcompeted by those in the developed countries with access to digital technologies.

3.5. Overall, SMEs in developing countries have an insignificant share in the profits and sales emerging from the exponential growth of global e-commerce with most of the gains accruing to big tech firms and digital platforms, which are "majority owned by entities in developed countries.

#### **4 FINANCIAL IMPLICATIONS OF CROSS BORDER E-COMMERCE FOR DEVELOPING COUNTRIES**

4.1. The unfairly skewed distribution of rents in favour of a few super platforms arising from global e-commerce is reinforced by their ability to pay little or no taxes on the profits they earn.

4.2. The existing E-Commerce Moratorium on electronic transmissions also limits the ability of developing countries to impose tariffs on the growing imports of electronic transmissions. UNCTAD Research Paper 47<sup>8</sup> estimates potential tariff revenue loss of \$10 billion per annum for developing countries as compared to \$289 million for advanced countries. It has been argued that developing countries can impose internal taxes to compensate for the tariff revenue losses, however a recent study from Boston University has shown that developing countries lose these tariff revenues permanently<sup>9</sup>.

4.3. As more goods are getting digitized with the advent of industry 4.0 and advances in 3D printing technologies, this estimate of fiscal revenue foregone will snowball. With the advance of 3D printing technologies in the near future, carefully negotiated GATT bound rates which are typically higher in developing countries, will be brought to zero for their digitized counterparts.

#### **5 NEED FOR DIGITAL INDUSTRIALIZATION TO GAIN FROM GROWING GLOBAL E-COMMERCE**

5.1. The above discussed challenges highlight that the gains from the growing global e-commerce will not be automatic for developing countries. This will require strategic interventions at all levels, including at the national and international levels. Policy and fiscal space will be required by the developing world to rebuild their economies and revive their declining trade competitiveness and falling exports.

5.2. Data is a key economic resource for developing countries. Developing countries need to leverage their position as one of the major sources of data to capture a larger share of the digital pie and achieve digital industrialization. The need to collect, store and process data and regulate its flows for development is well understood. For this, national laws and regulations, like laws regarding data sovereignty, will need to be designed and enacted.

5.3. While 3D printing is currently at a nascent stage in developing countries, its market has grown annually by 22% in the period 2014-2018 and with estimates that it could potentially replace almost 40% of cross-border physical global trade by 2040 if investments in 3D printing is doubled<sup>10</sup>. The most affected sectors would include sectors such as textiles and clothing, footwear, auto-components, toys, mechanical appliances, and hand tools, etc. – the very sectors which generate large scale employment for low skilled workers and in which most SMEs operate<sup>11</sup>. This could have a catastrophic effect on the ability of developing countries to protect their nascent domestic digital industries. Developing countries therefore need to take a more strategic approach and manage the potential impact of e-commerce.

<sup>8</sup> [https://www.researchgate.net/publication/342411898\\_UNCTAD\\_Research\\_Paper\\_47](https://www.researchgate.net/publication/342411898_UNCTAD_Research_Paper_47)

<sup>9</sup> <https://onlinelibrary.wiley.com/doi/abs/10.1111/1758-5899.12803>

<sup>10</sup> UNCTAD Research paper No 58

<sup>11</sup> Ibid

5.4. Developing countries including the least developed countries will also have to build their digital infrastructure and design digital industrial policies to rebuild their trade and industry post pandemic. Else, they may lose even their existing export competitiveness.

5.5. Digital technology transfers will be pivotal in bridging the digital divide and building export competitiveness of developing countries. The active role of developed countries to realise such technology transfers will also be crucial.

## **6 GUIDING QUESTIONS:**

1. What steps can be taken to improve digital infrastructure in developing countries including least developed countries?
  2. How can the digital technology transfers to developing countries including least developed countries be facilitated so as to hasten their digitalization process?
  3. What steps have Members taken in their domestic economies to provide easier market access for developing countries' companies in the digital economy, in keeping with Part IV of the GATT [e.g. Article XXXVIII.1a on reducing barriers to products from less developed countries and the GATS [e.g. Article IV on increasing participation of developing countries]?
  4. How can the financial implications arising out of cross-border E-commerce for developing countries be addressed?
  5. What has been the experience of MSMEs who have sold their products through online retail platforms over the past 4-5 years? What favorable conditions if any have Members put in place to support sustainable participation of MSME in digital trade?
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