SUBMISSION TO INTERGOVERNMENTAL GROUP OF EXPERTS ON E-COMMERCE AND THE DIGITAL ECONOMY ON **'FOSTERING DEVELOPMENT GAINS FROM DOMESTIC AND CROSS-BORDER E-COMMERCE IN DEVELOPING COUNTRIES'**

SUBMITTED BY

RESEARCH NETWORK ON
POLICY FRAMEWORKS FOR DIGITAL PLATFORMS - MOVING FROM OPENNESS TO INCLUSION

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Submission to Intergovernmental Group of Experts on E-commerce and the Digital Economy on 'Fostering Development Gains from Domestic and Cross-border E-commerce in Developing Countries'

Submitted by members of the
Research Network on
Policy Frameworks for Digital Platforms - Moving from Openness to Inclusion

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a) How can developing countries foster local platforms for domestic and cross-border e-commerce?

In a platformizing economy, e-commerce platforms need to be understood not merely as market places, but as digital ecosystems that provide a new architecture for the economy. It is more and more evident that platforms like Amazon orchestrate and control entire market ecosystems comprising providers, producers, suppliers and consumers/users.

E-commerce companies bank on the data produced through their ecosystem for generating value, using such data to create the hold-all digital intelligence to completely transform the DNA of the market and attain a position of dominance. Amazon may have started out as an online book retailer, but has become a 'super platform', a monopsony extending itself across and beyond its e-commerce portal to providing cloud services, a digital wallet, video on demand service and devices (Kindle, Amazon Fire TV Stick, Amazon Echo, Alexa, etc.) Not only is Amazon a super platform in the online world, but its growing interest in brick and mortar business reflects its intent to future proof its advantage through digital disruption in traditional sectors. Amazon's venturing into book shops and acquisition of Wholefoods, and most recently, its cashierless proto-store, Amazon Go, are a case in point.

Developing countries need to recognise that in the datafying economy, any step towards creating a level playing field for local platforms must foreground and tackle the question of data in digital trade regimes. The discourse of free data flows is premised upon the economic value of data and possibilities for innovation that a global data regime can give rise to. However, developing nations are the mining grounds for data, at worst, and the back-offices or server farms for low-end data processing, at best. Even nations that have distinguished themselves as tech hubs often develop innovation products and services only to renege intellectual control and economic dividends to the tech giants of the global north. Thus, the free data flows discourse disregards the unequal footing on which 'intelligence rich' and 'intelligence poor' nations compete in the digital economy.

1. Fostering local platforms is not about simplistic fixes that come from pre-digital thinking. Data sovereignty and control over data of critical sectors becomes vital for businesses and governments in the global south so that they can truly benefit from possibilities in e-commerce/ digital trade. Public support is necessary to catalyse and enable local market ecosystems in which small and marginal players can compete. This not only involves creating open and public data sets that are made available for public and commercial uses, but also support in the form of public digital intelligence infrastructure.

2. Secondly, an agile legal and policy framework to curb platform excess is the need of the hour. The global south risks becoming an unregulated innovation playground for technology giants to

experiment in if adequate and comprehensive policy measures are not developed that can govern their operations. Critical policy frontiers such as labour, consumer protection, privacy, foreign investments and other areas that directly impact the livelihood rights of citizens and the rights of platform users cannot be conceded to immediate short term gains that big platforms often usher in. Dubious contracts, Terms of Service and privacy policies emanating from platforms should not do the heavy lifting for state developed well-rounded policy frameworks. Mandating that platform companies share some of the data they collect with public agencies in key sectors is important for curbing their anti-competitive practices and promoting the space for smaller local start-ups or innovators to use these data sets for coming up with their own innovative niche products.

3. Foregrounding the interests of Micro, Small and Medium Enterprises (MSMEs) and their local platform businesses concerns a range of measures with due recognition to the digitalizing economy. These include:

- Building strong and robust data security regimes for identity authentication, digital payments, data/information security, privacy and data protection by design, etc.

- Creating a supportive operating environment for local entrepreneurship – easy access to credit, dependable power supply, reliable transportation, warehousing and logistics solutions, affordable and quality communication infrastructure.

- Supporting communities to set up and operate non-profit, co-operativist platforms in traditional and emerging sectors through business leadership training programs and digital en-skilling.

- Fostering education at all levels - improving the capacity of smaller firms to engage in e-commerce as well as consumer awareness, attitudes and skills.

- Using policy measures to enhance online visibility of MSMEs through appropriate regulatory measures for algorithmic transparency and accountability; quotas for links of MSME businesses in sponsored ads etc.

- Operating public funded e-commerce platforms especially for creating and promoting the capability of very small and marginal producers and artisans to participate in digital trade.

b. What are the existing barriers related to international e-commerce platforms that developing countries, including the least developed countries, face and how can these barriers be overcome?

International e-commerce is currently dominated by large trans-national technology giants mostly from the global north. In the case of developing countries and least developed countries in Asia and Africa, Amazon and Alibaba have been able to capture a bulk of the market share, leaving little room for smaller, local players to compete. This market distortion takes on various forms:

- Big platforms are able to leverage nascent / ambiguous policy frameworks on digital trade and commerce in developing countries and use loopholes to circumvent measures aimed at anti-competitive practices.

  - Despite rules to the contrary, platforms often run combined inventory and marketplace models and maximize the 'best of both worlds'. Given their economic clout, they are able to easily get around rules that prohibit the conflation of these models by opening up subsidiaries that can push their own product lines, or often enter into preferential deals with certain sellers to make available attractive discounts. Further they also indulge in malpractices such as manipulation of page rankings on their platform and use other strategies that can nudge consumers.

  - Given their deep pockets, such platforms can offer steep, attractive discounts to consumers and entrench themselves in the market by waiting out the inevitable erosion of local competition (The Amazon Great Indian Sales, which are strategically announced around major holiday seasons, directly eat into the share of the local economy, in violation of rules.)

  - Further, such platforms are also a vehicle to further neo-liberal market capture of their parent countries who are often developed nations. This is a double-whammy for developing countries whose domestic markets are then flooded with cheaply produced, sub-standard goods while their own domestic manufacturing is rendered uncompetitive (Alibaba's dumping in Africa and in South east Asia as cases in point).

- Market distortion also happens on account of how global data practices play out. In most countries in the global south, inadequate or archaic legal frameworks fail to address issues of personal data protection, privacy and security, allowing large digital platforms to mine consumer data without informed consent. This, when combined with the lack of clear sectoral data protection laws in health, insurance, banking etc. and the lack of thought on cross-border data flows has created an unregulated and privatized public data regime that platforms can game to their advantage using their ever-growing, colossal networks and engineer lucrative value for their ecosystems.

Regulatory regimes to rein in the run-away power of international e-commerce businesses and harness the potential of the digital and data revolution for local development is an urgent need. The steps towards this are discussed in question 'a' above.

c. What are some of the operational constraints that small and medium-sized businesses in developing countries face when setting up trade online, and how can they be overcome?

There are a range of operational constraints that small and medium businesses face in transitioning to a digital marketplace. In theory, setting up an online store appears to be a simple proposition. However, doing e-commerce presupposes an entire gamut of capacities and structural conditions – from seemingly simple things such as access to Internet infrastructure, digital skills, fast loading pages (which require significant server capabilities), intuitive and legible interfaces to more critical, must-haves, such as secure and robust payment and authentication systems. The assumption that the Internet can be a great equalizer of trade stands challenged given that these conditions and capacities do not obtain for the majority in developing country contexts. We must also consider how search engine rankings will determine a local or domestic business's online visibility vis-a-vis trans-national e-commerce giants such as Amazon or Alibaba, which have cultivated consumer markets that cannot hope to be displaced.

Even in the developed world, MSMEs seem to have little, if any, choice when it comes to seeking an online marketplace for their products, except to go with large digital platforms. As noted by a local businessman in the US, "If the customer is on Amazon, as a small business you have to say, 'That is where I have to go'..." When MSMEs do align with big players, more often than not, they get the raw end of the deal, from being charged hefty commission on sales, to being the target of predatory practices that directly squelch the complementors' product spaces. The lack of access to data capital and digital intelligence puts small players on the backfoot, in both developed and developing countries.

At a structural level, the lack of affordable Internet in many developing nations and the capabilities gap in being able to optimize opportunities of the Internet marketplace such as lack of digital literacy are well documented. For instance, even in the case of Malaysia, a high performer in the Asian economy, 70% of SMEs do not have a website.

Furthermore, global financing instruments and venture capital favor big and established players as do the many layers of platformization and intermediation that have transformed the way global economic activity takes place. The space for start-ups and new entrepreneurship is shrinking by

the day with most ventures either unable to thrive in the first place, or reaching certain scale only to be swallowed up into the existing digital behemoths through acquisitions.

d. What are the good practices that developed and developing countries, including the least developed countries, can learn from each other?

1. Platform marketplaces as public goods

For MSMEs who may not be able to afford the commission/brokerage rates of global platforms such as Amazon, platforms like *e-joyeeta* – which is an online portal established by the Ministry of Women and Children of the Government of Bangladesh provides a useful alternative. The aim of the initiative is to enable women entrepreneurs to expand their market linkages through the Internet. See case study here.

2. Public digital infrastructure to encourage domestic innovation.

India and Singapore have some interesting initiatives in this regard. With voluntary labor from tech developers, the Government of India has set up India Stack, a set of Open APIs that facilitate digital payments processing and identity authentication in e-transactions. This set of APIs has been visualised as public infrastructure that can facilitate innovation both in governance and the private sector (by encouraging businesses, startups and developers to create business models through *'presenceless, paperless and cashless'* commercial transactions). Singapore's Smart Nation initiative is another example in this regard.

3. Public intelligence infrastructure that can provide market intelligence.

China, Canada and Singapore are leaders in this arena. As media reports indicate, the Chinese government has set up a "national laboratory for deep learning", while the Canadian government and Canadian universities are laying down the framework for turning Canada into an AI hub. Singapore's Smart Nation initiative provides public data sets and data analytics to tackle problems in sectors such as urban mobility and energy and has launched a national program called AI.SG.

India's Farmer Zone is a cloud based open-source data platform for smart agriculture, which intends to cater to farmers, from "dealing with climate change, weather predictions and soil, water, and seed requirements to providing market intelligence".

4. Regulation for mandatory data sharing, within citizen rights frameworks

Public data and intelligence infrastructure extends to every sector and is central to different state led initiatives on smart infrastructures, data and AI. Its role in decentralized planning and local

economic activity is indisputable, as has been discussed in the points above. However, such infrastructure carries the risk of undermining public interest and citizen rights by becoming the means for technocratic governance and surveillance. The definitions and boundaries pertaining to data collection, use, processing and sharing for such infrastructure must therefore be democratically-debated, legally backed and sectorally specific, rooted in public interest and citizen rights frameworks.

The municipality of Curitiba in Brazil has recently enacted a legislation that mandates *"administrators of technology in shared transport",* that is, platform companies such as Uber, to share ride/trip-related information generated by their application. However, routing information that can compromise user anonymity is not with municipal authorities. This kind of data sharing is a good example of for checking platform power and to promote models that can exploit the civic-public value of data, encouraging the development of new forms of dedicated public services.