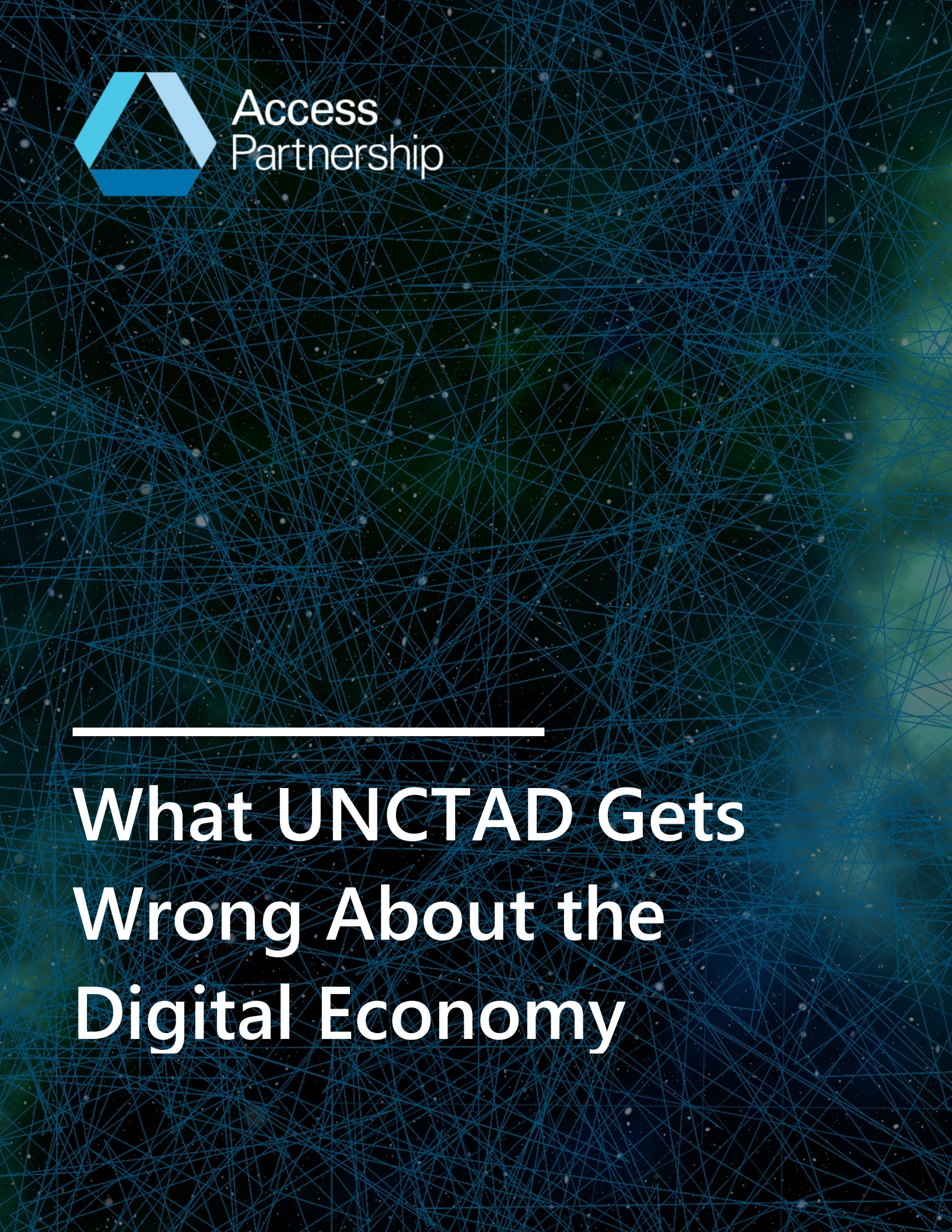

What UNCTAD Gets Wrong About the Digital Economy

Introduction: A wrong turn for UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) serves a critical role. For many years, it has provided sound advice and "evidence-based policy analysis" to help developing countries craft policies that promote growth and social inclusion,[1] including thorough reports on data protection[2] and the information economy.[3] However, UNCTAD took a wrong turn in its recent Trade and Development Report 2018, titled *Power, Platforms, and the Free Trade Delusion*.[4] Departing from its mission — and contradicting its own previous conclusions — this paper has substituted ideological rhetoric for evidence-based and rigorously researched advice.

The authors paint a dire picture of the plight of the developing world and digital trade, calling development through free trade in online services and digital tools a "delusion." Unfortunately, the authors do not have seem to have interviewed any of the small businesses in developing countries whose lives and economic potential have been transformed by digital trade. While there are certainly challenges from globalisation — including continuing inequities in Internet access — there is no doubt that the digital economy and global digital platforms are part of the solution to building a more productive and inclusive economy that serves all participants. Technology services and online tools for small and medium businesses create new economic growth and export opportunities for emerging markets.

UNCTAD's report outlines a policy vision that will take countries backwards, not forwards; worse, it distracts from far more pressing challenges. Instead of recommending ways to expand the benefits of trade and the global digital economy, or grappling with new economic opportunities for those who have previously been shut out of global trade, UNCTAD is recommending countries put up barriers and withdraw from these opportunities. The paper's distorted representation of technology companies and of technology's role in international trade drives a set of corresponding policy recommendations that are simply wrong. Trade and technology have benefited and continue to benefit the developing world. The facts support this reality.

Fact: A global digital economy empowers developing country SMEs

UNCTAD asserts that the digital revolution has harmed emerging markets, based on the presumption that large corporations and developed countries benefit from the digital economy and trade at the expense of SMEs and developing countries. It is absolutely true that large companies benefit from the Internet, but the same tools are allowing new companies from emerging markets to compete, like Go-Jek in Indonesia. In fact, the biggest beneficiaries of the Internet are SMEs, as they enjoy new opportunities and free tools that, for the first time, provide a level playing field with those large companies.

The instantaneous and borderless nature of digital commerce significantly changes the geometry of global trade, enabling small countries and small firms to reach far beyond local markets. Starting from a smaller resource base, digital technologies again have a disproportionate benefit for SMEs by allowing firms to go global without making large upfront capital investments, building offices around the world, and engaging in complex supplier and distribution deals. As a result, the digital economy allows emerging markets and their industries to more easily find their footing amidst global competition, a phenomenon well documented.

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[1] For more information on UNCTAD publications, see the UNCTAD website.
[2] Data Protection Regulations and International Data Flows: Implications for Trade and Development, UNCTAD Report.
[3] Information Economy Report 2017: Digitalization, Trade, and Development, UNCTAD Report.
[4] Trade and Development Report 2018: Power, Platforms, and the Free Trade Delusion, UNCTAD Report.

For example, the Internet dramatically reduces SMEs' fixed costs and improves competitiveness. Small companies will never have the capital to invest in the same level of infrastructure as a large company. Platforms and digital transactions bridge this investment gap, allowing small businesses to perform at a higher level. A recent study found that the use of digital tools reduces MSMEs' exporting costs by up to 82%, and decreases the time needed to export by 29%.[5] This study estimates that digital technologies can save MSMEs over USD 339 billion in export-driven costs in China, India, Indonesia, South Korea, and Thailand.

The ability to leverage data insights to improve decision-making and streamline process is also enormously important for firm competitiveness. One 2013 study demonstrated that improving data quality and access by 10% increased labour productivity by an average of 14%, with an even stronger impact on sectors like retail, food products, construction, steel, and automobiles.[6]

Having boosted productivity and simplified planning, digital tools help SMEs in developing countries overcome longstanding trade barriers and sell their improved offering. For example, language is one of the simplest and most significant barriers faced by SMEs. Online translation tools, including some provided by the 'digital giants' caricatured in UNCTAD's report, have been shown to increase SME export volumes by 17.5%. Researchers at MIT recently concluded that these online services "make the world significantly smaller and more connected" and have an even greater impact on trade than traditional administrative and logistics barriers.[7]

Free or affordable digital services are key. Even comparatively basic tools like access to Internet search, email, translation software, marketing analytics, and using social media as sales channels can be transformative for small businesses, not to mention the administrative benefits of tools like accounting software, online HR services, or leveraging the economies of scale provided in cloud computing.[8] There is evidence that SMEs that use the Internet to trade on global platforms survive at a higher rate than their offline peers — 54% to 30% — and are almost as likely to export as larger businesses, despite the disparity in resources.[9]

UNCTAD's paper supports a false, zero-sum notion that the success of big digital firms implies the failure of smaller digital firms and SMEs in a developing country's market. However, UNCTAD's own analysis fails to provide any evidence of how these companies undermine development. Instead, the report relies on guilt by association and unexamined analogies to colonial-era value chains. This is wrong. In fact, the digital economy has empowered the developing world to compete in new ways, enabling millions of SMEs to develop their ideas, scale up new businesses, and reach global customers in a way that would have been unimaginable in the 1990s. Economic evidence developed by global organisations dedicated to economic growth, including UNCTAD, demonstrates this.

The OECD, for example, has recognised that "the digital economy fosters growth and productivity and supports inclusive development," and that "exploiting the benefits of the global digital ecosystem is important for both advanced and developing countries."[10] UNCTAD itself has said: "Digitalisation of economic activities and transactions can help to overcome certain barriers to more inclusive

[5] Micro-Revolution: The New Stakeholders of Trade in APAC, AMTC Report.
[6] Measuring the Business Impacts of Effective Data, University of Texas.
[7] Brynjolfsson, Erik, Ziang Hui, and Meng Liu. "Does Machine Translation Affect International Trade? Evidence from a Large Digital Platform"." *The National Bureau of Economic Research*, Working Paper No. 24917 (August 2018).
[8] Micro-Revolution: The New Stakeholders of Trade in APAC, AMTC Report.
[9] Austin, Sidley, and Marcelo Olarreaga. "Enabling Traders to Enter and Grow on the Global Stage." eBay Report (2012).
[10] Harnessing the Digital Economy for Developing Countries, OECD Working Paper.

development."[11] The same UNCTAD paper notes, "The digital economy is creating new opportunities for trade and development. It is helping smaller businesses and entrepreneurs in developing countries to connect with global markets more easily and is opening up new ways of generating income."

These objectives are reflected in the UN Sustainable Development Goals, which recognise the centrality of increased digital connectivity to economic growth, technological upgrading and innovation, scientific research, and increasing developing country exports.[12] Developing countries and developing country SMEs benefit from technology and trade.

Fact: A global digital economy enables innovation and digital development

Most of the benefits of new technology do not accrue to those who *supply* technology but rather to those who *use* technology. By leveraging access to digital tools and platforms from abroad, countries give local companies the ability to build up new online businesses and reach new markets via global services. Developing countries, SMEs and export champions are already doing this to innovate and compete across industries.

The truth is that digital platforms have enhanced growth in income, not hampered it. Global platforms support competition, innovation, and business formation across sectors. As documented above, they have levelled the playing field for companies who see economic gains by simply using technology. As UNCTAD itself has previously documented, digital platforms have led to a "sharp reduction" in the entry costs for experimentation and business creation, leading to a global proliferation of Internet startups.[13] These companies need access to new technology to compete, invest in their own growth, and innovate on par with global peers.

Many developing countries have already seen the tangible benefits of a digital economy. The growth of the business process outsourcing (BPO) industry has resulted in a flow of jobs and data to developing markets, enhancing their contribution to the value chain, and fuelling the rise of large, sophisticated technology firms in developing countries. For example, in India, currently ranked the most attractive global services destination by A.T. Kearney,[14] the BPO industry, led by local tech giants like TCS, Infosys, and Wipro, is estimated to have directly employed 5 million people in 2014-2015, with a further 1.6 million employed in ancillary services.[15] This success, unthinkable without access to and processing of other countries' data, has had the further spillover effect of powering India's rise to be the third largest start-up location globally.[16] India is on track to be a USD 1 trillion digital economy by 2025.

Global technology companies can also be an important partner for local start-ups and support accelerators around the world by unlocking access to new resources for start-ups to grow in their home economy. Even outright acquisition usually means growth, not siphoning away of a country's hard-fought success. The acquisition of Skype by eBay and Microsoft, for example, meant that the company could gain more exposure, grow faster, and support digital development and local talent in Estonia, where a significant

[11] Information Economy Report 2017: Digitalization, Trade, and Development, UNCTAD Report.
[12] For more information The 2030 Agenda for Sustainable Development, see UN website.
[13] Technology and Innovation Report 2018: Harnessing Frontier Technologies for Sustainable Development, UNCTAD Report.
[14] The Widening Impact of Automation, 2017 A.T. Kearny Global Services Location Index.
[15] E. Baby. "A Study on the Dimensions of Employee Attrition and Retention in the Business Process Outsourcing Industry in Chennai City." (PhD Diss, University of Madras, 2015), Chapter 3.
[16] Myers, Joe. "India's astonishing start-up boom – all you need to know in 5 charts." *World Economic Forum*, 3 October 2016.

portion of its staff remains. According to an Estonian lawmaker who has seen the benefits, "companies like Skype are a huge deal for a small country — it's changed the whole infrastructure — it had a huge impact on the ecosystem."[17]

Fact: The digital economy is a highly competitive marketplace

The tech sector is characterised by dynamic competition. Companies offer a range of services, not all of them alike, to compete for consumers' attention and enable access to information and diverse commercial services like online shopping, travel, communications, and more. These services enable better efficiency among consumers and businesses alike. In the technology industry, companies are on top only as long as they have the newest, greatest idea. Competitors can scale quickly to challenge them. This high turnover means that digital markets are still ripe for disruption from new sources of innovation, including from developing countries.

The characteristics of digital competition put technology providers and startups in developing countries in a strong position to compete with providers in the developed world. Internet companies require relatively little capital to start, and gaining new customers can be done with nearly zero marginal cost. Leveraging global cloud computing resources as well as global marketing tools and search engines, companies anywhere can rapidly scale innovative ideas or target particular niches in the market.[18] This is especially true for local companies that have developed better insights into what works in specific cultures. E-commerce companies like Flipkart in India, B2W in Brazil, Go-Jek in Indonesia, and Jumia in Africa have found success catering to the needs of their native markets more effectively than foreign competition, while South Korea's Naver maintains a robust presence locally and across Asia in Internet search.

UNCTAD asserts that a high degree of market concentration globally in certain digital services will constrain growth of services in developing countries, and that it would be preferable to regulate technology services as public utilities. However, UNCTAD provides no evidence that these dynamics are creating barriers to competition, and no explanation of why treating an internet platform like a water utility would deliver value or efficiency for consumers. In many cases, utility-style regulation would have the perverse effect of locking in a *currently* successful online service provider as the *only* default provider for decades to come.

Fact: Global platforms help ensure a more robust and accessible global data ecosystem

In a virtuous cycle, competitive data markets create Internet-based companies, which themselves strengthen data markets. Data is a renewable and a reusable commodity, and digital firms are not "excluding" others from using data, a claim the UNCTAD authors make with no evidence. Far from it, because data is a non-rival good, any company can collect data — based on the laws of their country — without necessarily restricting access to that data from another company, organisation, or citizen. Economists at the World Trade Organisation and elsewhere have repeatedly rejected the misleading characterisation of data as "oil," highlighting that data has many properties that are quite different from an exhaustible resource.[19] In many cases, the data in question is collected by a government and made

[17] Cellan-Jones, Rory. "Estonia – the Skype Effect." BBC News, 13 May 2016.
[18] Harnessing the Digital Economy for Developing Countries, OECD Working Paper, p.14.
[19] Use of Data in Digital Economy, WTO Conference, 2-3 October 2017.

available to all users and companies on equal terms, or is provided in "reusable" form by a digital company through APIs or other access tools.

In short, data is not a finite resource, and the volume of data itself is not what makes digital companies successful. Rather, their growth is based on how they process, analyse, and use the data, and how they turn that into valuable services, which is an ability not limited to developed countries. For example, Twiga is a mobile-based supply platform based in Kenya that provides produce to retail outlets, kiosks, and market stalls throughout Africa. The company leverages data in multiple innovative ways – including through state-of-the-art data analytics and smart inventory management tools, traceability tools that enable customers to chart a path back to the farm that sourced the produce, and a mobile-based and cashless system. Many of these technologies depend on access to global digital platforms and tools.

In fact, technology companies generally have an incentive to make data *more* available to other players. Google, for example, supports a number of tools that make data easier to find for researchers and innovators, including its Open Source and Public Datasets initiatives, as well as a newly launched Google Dataset Search. AWS Open Data also promotes greater availability of data. AWS's partnership with Transport for London (TfL), for example, has fuelled the development of 600 applications running on TfL's transportation data and saved Londoners an estimated GBP 130 million annually.[20]

Instead of erecting barriers, as the global data economy matures, large and small digital companies are leading the way in facilitating portability of information in the data ecosystem. Most large customer-facing services like Google, Facebook, and Twitter already provide mechanisms for consumers to download their data. Taking it a step further, in July, Google, Facebook, Microsoft, and Twitter announced the joint Data Transfer Project to design standards that facilitate moving data between platforms.[21] It aims to make it easier for consumers to safely and seamlessly transfer their data between services, consistent with recommendations in the GDPR on portability. The global reach of these companies enables them to play an instrumental role in facilitating universal data standards that will support competition among many different platforms globally.

Fact: Companies have legal responsibility for personal data no matter where it sits

Companies are not absolved of legal obligations just because a server is located outside a country. While there are sometimes gaps and conflicts of law, regulators and law enforcement have different tools at their disposal and will achieve more with these tools than the damaging solution of localisation.

Global companies work hard to comply with national rules for a simple reason: they have to in order to do business. A data localisation requirement does not change that, because the need to comply with national rules is typically established simply by having a presence in a market (such as local staff or a business registration). Courts have not been shy about enforcing legal obligations on digital firms in the absence of localisation requirements.

Of course, legal compliance is not the only incentive for companies to act responsibly. Being a trustworthy custodian of personal data is a requirement for digital companies to survive, with irresponsible companies unable to attract users.

Not only are data localisation requirements irrelevant to the question of legal responsibility; these requirements also risk undermining the safety and security of data. Trust and security are fundamental

[20] Sundwall, Jed, "Why Share Data?" AWS Government, Education, & Nonprofits Blog, 22 October 2018.
[21] For more information on the Data Transfer Project, see project website.

concerns for cloud providers and customers when determining where to store and how to transfer data. Forced data localisation overrides their calculations, increasing data security risks and costs by requiring storage of data in a single centralised location that is more vulnerable to natural disaster, intrusion, and surveillance.[22] These requirements also make it more difficult for digital providers to detect and respond to vulnerabilities and possible breaches across different geographies, rendering citizens and local firms less secure in the long run.

There are legal gaps in some bilateral relationships that do create confusion or roadblocks for regulators. Companies themselves can also be caught when different national laws conflict. But these problems can be solved through smarter regulation and better international cooperation without damaging economic growth. For example, as UNCTAD has highlighted, the APEC Cross-Border Privacy Rules offer an opportunity for countries to find common ground between diverse privacy and data protection frameworks, and move towards a world where data is protected on a global basis.[23]

The adoption of regional and global standards is key to avoid global fragmentation triggered by the proliferation of unilateral country-by-country approaches. While the global system of mutual legal assistance treaties (MLATs) has some deficiencies, policy-makers can improve the system and promote new arrangements, potentially modelled on the recently passed US CLOUD Act, to enable reciprocal law enforcement access by countries with strong rule of law frameworks.

Conclusion: Developing countries should choose openness, not barriers.

Economic development is not a simple task. Old tools of trade protectionism and narrow thinking will not grow local economies in the fiercely competitive global digital environment. Policy-makers in developing economies should keep an eye not just on the companies that lobby for protection, but also on the hundreds of SMEs and other national businesses that rely on technology.

The digital barriers that UNCTAD proposes will harm developing countries. Barriers like data localisation will raise costs and cut off access to the services already being used to enable development. Instead, emerging markets should foster the growth of local companies by ensuring they have access to global data and can grow at scale. Restricting digital development along national lines will dramatically slow this process and foreclose the efficiencies of global scale for both users and providers. Policy-makers wishing to instead accelerate this growth will need to increase the availability of digital technologies and use global tools to take advantage of national and global data.

Emphasising the importance of openness is not new or radical advice. Global economic experts have recommended using, engaging with, and learning from foreign-developed technology for development for years. The OECD, for example, has stressed the importance of learning through engagement, noting that diffusion, adoption, and of use of new technologies is closely connected to trade links, foreign investment, and participation in global value chains.[24] Even UNCTAD itself — before its current departure — stressed how access to and use of frontier technologies can enable the fulfilment of the Sustainable Development Goals, and how innovation and growth is best achieved through engagement, not barriers. In its 2018 Technology and Innovation Report, UNCTAD offers critical advice on the precondition for healthy domestic innovation:

[22] For more information on cloud security, see Leviathan Security Group website.
[23] Data Protection Regulations and International Data Flows: Implications for Trade and Development, UNCTAD Report.
[24] Enabling the Next Production Revolution: The Future of Manufacturing and Services, OECD Interim Report.

"Most actors need first to develop a basic capacity to learn how to adopt, assimilate and diffuse existing knowledge and technologies." The solution is not to put up barriers, but to facilitate connections, including "developing links with foreign firms, funders, and research centres."[25]

Despite severe shortcomings in its most recent report, UNCTAD has provided very sound advice on digital trade and development over the past decade. If developing country policy-makers seek to promote sustainable development, they need to further empower their entrepreneurs and SMEs with access to digital tools, not raise barriers to local SMEs. Digital protectionism based on rhetoric and unexamined ideas will only hold back the transformative impact of technology, the growth of local entrepreneurs, and the growth of local technology champions.

[25] Technology and Innovation Report 2018: Harnessing Frontier Technologies for Sustainable Development, UNCTAD Report.

Access Partnership

9th Floor, Southside
105 Victoria Street
London SW1E 6QT

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