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POLICY BRIEF

Key points

- For developing countries, digital platforms generate both opportunities, to engage in trade and to develop, as well as challenges.
- In order to maximize development gains from digital platforms, policies and regulations need to address in a holistic manner diverse challenges, including those related to competition and consumer protection, data protection and privacy, taxation and employment and working conditions.



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MAKING DIGITAL PLATFORMS WORK FOR DEVELOPMENT

Digital platforms create new opportunities for companies of all sizes to engage in trade. They can lead to efficiency gains through lower transaction costs and reduced information asymmetries supported by rating systems. Other benefits include lower consumer prices, increased market access, more competition, better use of underutilized resources and increased flexibility for the providers of services. However, gains are not automatic, and there are growing concerns over the rising market power of certain platforms and the related implications for competition, data protection and ownership, consumer protection and taxation and employment policies. Economic policies and regulations will need to maximize the benefits while at the same time minimizing the costs of digital platforms.¹

¹ This policy brief is based on UNCTAD, 2017, *Information Economy Report 2017: Digitalization, Trade and Development* (United Nations publication, Sales No. E.17.II.D.8, New York and Geneva); and UNCTAD, 2018, *Fostering development gains from e-commerce and digital platforms*, TD/B/EDE/2/2, Geneva, 14 February. Note: Mention of any firm or licenced process does not imply the endorsement of the United Nations

Electronic commerce in the digital economy landscape

Digital platforms are key in the evolving electronic commerce (e-commerce) and digital economy landscape. Their main characteristics include the provision of infrastructure to intermediate between different users; the reliance on network effects, as more users beget more users, leading to monopolistic trends; and the use of cross-subsidization. The most important value of such platforms stems from the data extracted from users that can be further analysed, used and monetized. Data have become a valuable extractable resource in the digital economy.

By reducing transaction and search costs, digital platforms enable those offering assets or services to connect more easily with those wishing to use or consume them. This has created potential opportunities for new trade types (in digitally traded products, services and tasks) and for more traditional trade using e-commerce and other online platforms to better match buyers and sellers and to make products more visible. Many

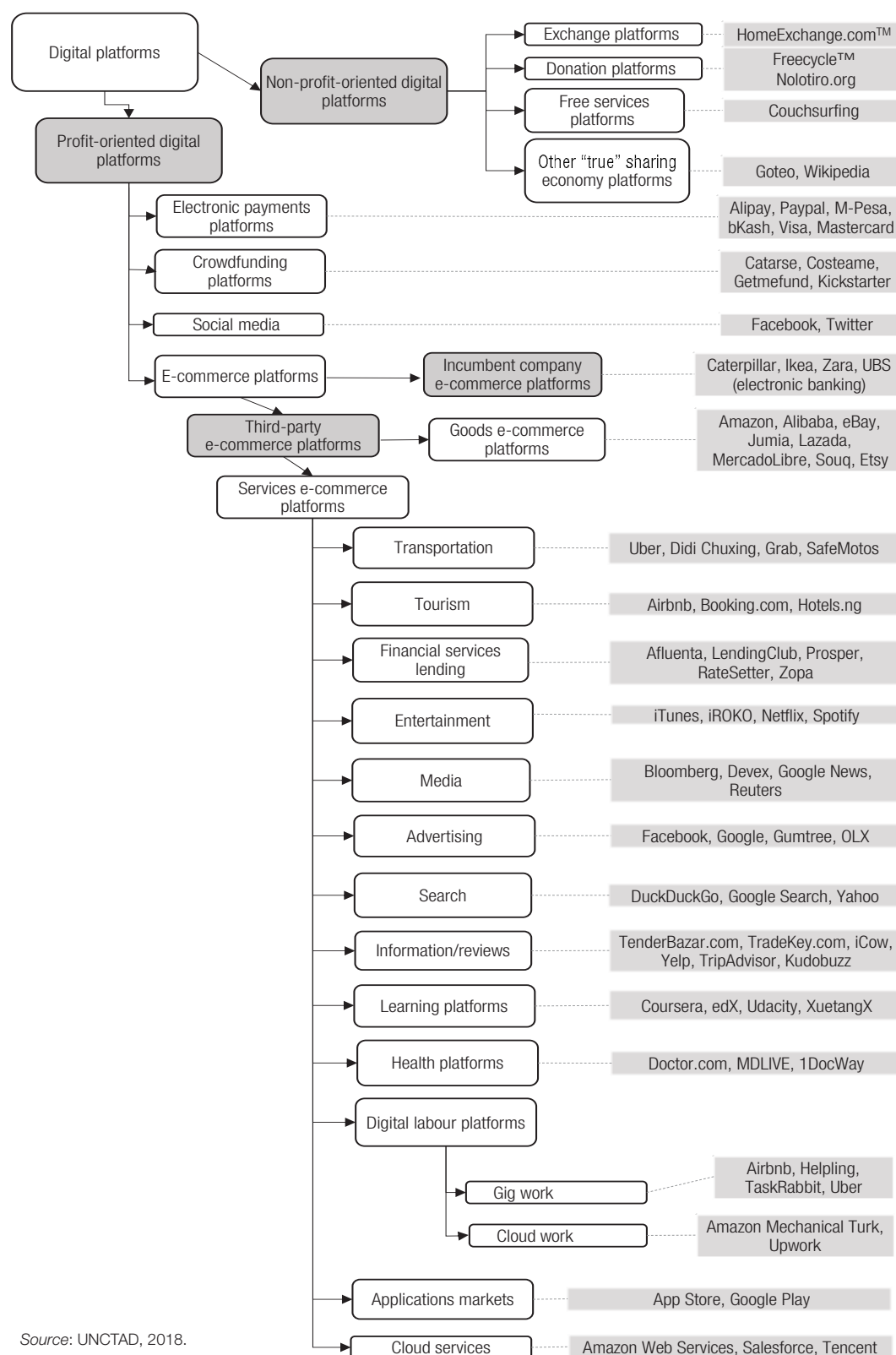
platforms provide access to free or paid services via the Internet to connect users, buyers and sellers, such as services related to logistics, payments, market research, trade compliance, market intelligence data, advertising, refunds and dispute resolution.

Digital platforms can allow for a more efficient utilization of physical assets and time. Often accessed through mobile applications, they aggregate and bring together supply and demand in ways that were not possible before. Digital platforms can also help to empower women entrepreneurs.

One way of illustrating this new digital platforms landscape is shown in the figure. Digital platforms are divided into two groups: profit-oriented and non-profit-oriented. The size of non-profit-oriented platforms is likely to be marginal compared with profit-oriented platforms. Profit-oriented platforms can also be subdivided depending on their main business focus. Some examples of the different categories are provided. As some platforms are multipurpose, they may appear in several places.



Electronic commerce in the digital platforms landscape



Source: UNCTAD, 2018.

The role of electronic commerce platforms in developing countries

There are different ways for microenterprises and small and medium-sized enterprises to gain an online presence to market their

goods and services to potential buyers in their own country or in foreign markets. Participation in online platforms may be more useful for smaller firms that compete in specific, well-defined market segments, such as niche trading in tourism and in value added food products.

Different options vary in terms of resource requirements, flexibility and the need for in-house skills and capabilities. One option is to use third-party online marketplaces. Some provide a full range of services – payment processing, customer service, shipping, return processing and delivery – while others act mainly as an online forum for buyers and sellers to meet; transactions are carried out offline. The primary focus of these marketplaces may be business to business, business to consumer or consumer to consumer. They often specialize in certain types of products, such as physical goods, digital products or information and communications technology-enabled services. The geographical focus of such marketplaces is also important. International online marketplaces may be open solely to international sellers, to international buyers, or both. In countries with expanding e-commerce markets, domestic and international platform providers often compete head to head.

Another option is to set up a stand-alone e-commerce site. This can be done, for example, by adding an e-commerce function to an enterprise's existing website, by using a software-as-a-service e-commerce solution with a package of what is needed to operate e-commerce or by building a customized e-commerce site.

Benefiting from economies of scale and network effects, a few major online marketplaces have captured significant parts of the overall market. Leading e-commerce platforms include the Alibaba Group, Amazon, eBay and Rakuten. The development of a local e-commerce industry can provide convenience for residents through shorter shipping times, flexible payment options, relevant products and local language interfaces. Other potential advantages domestically may include more linkages with local industries, reduced reliance on imports and greater openness to support exports. E-commerce platforms that have emerged in developing economies include Jumia in Africa; Flipkart, Lazada and Souq in Asia; and MercadoLibre in Latin America.

The division between local and foreign platforms is becoming increasingly blurred. Many domestic platforms may be unable to compete with international platforms. In addition, once domestic e-commerce platforms achieve a certain scale, they often become targets for acquisition by global players. For example, recently,

Walmart has acquired Flipkart, Alibaba has acquired Lazada and Amazon has acquired Souq.

Due to the existence of network effects, local platforms may not become profitable until they reach a critical mass. If only 2–3 per cent of consumers in a country buy online, it may not be worthwhile to invest in digital platforms. Companies may need to wait until the market exhibits some growth. However, with fast market growth expectations, some firms may temporarily accept low or negative profitability to reap first-mover advantages.

In some developing countries, the absence of global platform providers creates scope for local players. For example, in sub-Saharan Africa, various e-commerce solutions have been developed to facilitate commerce over feature phones. There are thousands of e-commerce start-ups throughout the continent, but only a few have reached significant scale. Many new e-commerce payment gateways have also cropped up. In various low-income developing economies, new e-commerce sites are targeting the domestic market, enabling consumers to browse and order goods or services online. More research is required to understand the income and employment effects of local e-commerce platforms.

Policy implications

The growing use of digital platforms has economic, social and political impacts. Policymakers face challenges in different policy areas, including the following.

1. Competition and consumer protection

Winner-takes-all dynamics are typical in platform-based economies, where network effects can generate major benefits to first movers. Whoever controls the platform also controls the distribution channel, giving the dominant platform (and data) owner considerable market power.

Digital platforms are transforming markets and competition. If they evade some of the regulatory requirements that traditional businesses need to meet, they may be perceived as providing unfair competition. The digital platform environment may lend itself to potential anticompetitive practices. As a result of network effects, platforms may gain market power and could abuse their dominant position, for example by imposing exclusivity arrangements on their



providers or carrying out predatory pricing against competitors. In some competition cases involving platforms, they were not considered to hold dominance over the relevant market.² By contrast, the European Commission recently fined Google €4.34 billion for breaching European Union antitrust rules.³ Finding the appropriate responses to deal with possible anticompetitive practices in the digital economy will become increasingly important.

Consumers have benefited from digital platforms through new and better-suited offers, lower prices and more pertinent information. Yet the lack of face-to-face transactions entails greater risks regarding disclosure and transparency, data protection and the applicable laws and responsibilities of platforms and peer providers. As stated in the United Nations Guidelines for Consumer Protection, member States should ensure a level of protection in e-commerce that is “not less than that afforded in other forms of commerce,” which also applies to digital platforms.⁴

2. Data protection and privacy

platforms, there are concerns over how to harness data flows while addressing concerns related to privacy and security.

Policymakers need to strike a balance between the need for companies to collect and analyse data for innovation and efficiency gains and the concerns of other stakeholders with regard to security, privacy and the movement and ownership of data. The current system for data protection is fragmented, and national data policy and legislation has not yet been developed in many developing countries. Efforts to promote convergence and ensure compatibility between different international initiatives are needed.

3. Taxation

Policymakers in both developing and developed countries face the challenge of taxation with regard to the digital economy. Reliance on digital platforms may weaken the international tax concept that allocates jurisdictional tax claims over profits of multinational companies based on physical presence. It raises issues such as enforcement, where to tax non-resident e-commerce businesses, how to assess

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