



A message by

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eTrade for all Leadership Dialogue

**Connecting the Dots
for more Inclusive Development**

**eCommerce
Week**



Data and Digitalization for Development

Before we venture into data, digitalisation and eTrade, let us first shed some light on the term 'development', which remains legally undefined in domestic and international laws. Development, in general, can be visualised as a phenomenon of promoting growth which is sustainable as well as inclusive. This entails 'increasing the size of the cake' (growth) and simultaneously ensuring fair redistribution among and equality of opportunity for larger masses (equity).

Generally, countries put more emphasis on 'growth' in their economic policies, leaving essential aspects of 'equity' and 'inclusiveness' largely to the 'trickle down' phenomenon. This approach may result in better growth indicators, but can lead to increasing inequality, both in terms of opportunity and benefits, especially in the developing world.

This think piece attempts to connect dots with respect to data, digitalisation and e-commerce from the aforesaid development perspective, and with the vision that small businesses would expand their markets, including export markets, using e-commerce. The transition to digital economy needs to be a 'just transition', similar to as being talked about in the energy domain vis-à-vis climate change.

Only a handful of global digital technology giants are dominating the markets though there are no entry barriers. But, the dominance is also influencing consumer behaviour. This is not only adding to the prevailing concentration in the markets, but also enhancing inequality within and between countries. On the other hand, the pandemic has established the essentiality for the digitalisation process. The big policy question, therefore, is how to enhance the pace of digitalisation, and simultaneously make the emerging digital markets more and more inclusive that can reduce inequality within and between countries. Following are some of the policy prescriptions that could be of help in this regard.

Whole-of-government approach with more international cooperation

There is no one government agency or department that can facilitate the achievement of an inclusive digital economy. It has to be a whole-of-government approach under a national digital strategy, which should carefully balance the market efficiency versus equity trade-off. Since, there is a vacuum with respect to rules governing digital space at the multilateral level; countries are largely free to craft their national strategies based upon their development needs.

However, countries should cooperate and agree upon few fundamental principles. Concepts like openness, interoperability and rule-based digital governance should be part and parcel of a national digital strategy. Developed countries should guard against promoting harmonisation and one-size fits all approach to data and digital governance. This is particularly true for the on-going plurilateral negotiation on e-commerce in the World Trade Organisation.

Regulation of data is an important tool

Many countries are working on their digital strategy, where regulation of consumer's data is one of the key ingredients. Regulations promoting enhanced sharing of data by multiple firms, while the data protection/privacy liability flowing with the data, can mitigate market power in few hands. Data portability and interoperability assumes importance in this regard.

Similarly, open models can retard the winner-takes-all phenomenon. For instance, the Unified Payment Interface in India seems to be working well in checking market power in the payment sector. India is also experimenting with an Open Network for Digital Commerce, in order to digitise the entire value chain, standardise operations, promote inclusion of suppliers, derive efficiency in logistics and enhance value for consumers.

Guard against data localisation tendencies

Taking cognisance of the fact that those countries which are dominating the digital ecosystem, namely the US and China, are also garnering more value gains in the global digital markets. Few countries tend to follow a data localisation policy in order to create globally competitive national champions. While it may be fine to promote national champions, it should not be at the cost of competition from both domestic and foreign players. In addition, such a policy can pose barriers to cross-border e-commerce and can balkanise internet.

Aggressive competition enforcement

Aggressive enforcement of competition regime is necessary to deal with abuses of market power or dominance, with some novel approaches such as:

- Factoring in firm's control over 'data' and 'network effect' while determining market power or dominance.
- Determining the 'relevant market' narrowly in order to increase the probability of a firm being a dominant firm.
- Deeper scrutiny of mergers and acquisitions and adding 'deal value' as a parameter to determine the 'threshold' for mandatory merger review. If such threshold is defined on asset and turnover parameters, then digital mergers are likely to remain below such threshold as tech firms are mostly asset light. Furthermore, the merger review should take into account dynamism of markets, rather than sticking to the static market situation.
- Changing the way to determine the presence of 'entry barrier'. The barriers in attaining the critical mass of network effects should be the determining factor, and not mere creation of a platform. Achieving critical mass of network effects in order to sustain in the market is quite tough, particularly when the market tips in with only two to three players.
- Market practices like 'leveraging' and 'preferential treatment' need to be particularly dealt with aggressively.
- More importance needs to be given to vertical integrations in digital markets, which in traditional markets were not taken that seriously.

Consider formulating an ex ante platform-to-business (P2B) Regulation

It would be very useful to formulate an optimal ex ante P2B regulation. Such regulation can deal with preferential treatment; unreasonable pricing that deters small suppliers; lack of transparency in the listing of goods and services; unilateral changes in terms and conditions by platforms without prior notice; and unilateral delisting or suspension of accounts, among others. All of these are traits of market power abuse.

Beware of increase in the regulatory compliance costs

Regulatory distinction can be drawn between big and small tech players, so that regulations do not raise the compliance costs that can hurt small players and pose entry barriers to new entrants.