

“E-Commerce and Development”: Whose development?

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Now that we have exhausted the possible discussions on information and communication technologies (ICTs) and the role they could possibly play in the development process, the focus has recently shifted to e-commerce and development. All major funding agencies and research organisations are involved in examining this topic in some form or the other. Here in Germany we have also managed to join the wave and one development agency, focusing on education and training, has recently started offering a one year course on the topic to participants from the South (a project I am involved in). Apart from this, what is of interest in this short article is the latest UNCTAD report, *E-Commerce and Development Report 2002*, on which I have been asked to comment.

Size-wise this report is much more manageable than the 2001 Report which was a few hundred pages long; moreover, it is well-written, -argued and -researched. One can possibly find no reason to criticise it in any way if, for instance, one keeps in mind the theme “e-commerce and the possibilities it offers more advanced developing countries”. However, the report can be a disappointment as its focus is not necessarily on a majority of the developing countries (DCs) or on development as such.

When I start reading something, I mostly do so if the topic, outlined in the title, interests me. I started reading this report with the hope of coming across pages dedicated to the role e-commerce can/could play in the development process of many DCs. Other than a few paragraphs mentioning development, there is no focus on the kind of development issues that I was searching for. The title is therefore misleading and should have more appropriately been “E-commerce and its economic possibilities for more advanced DCs” or maybe even better “emerging economies”, as the “contents” do not apply to a majority of the DCs. The survey conducted for the 2001 Report had already concluded that e-commerce plays a minor role in the majority of the African and South Asian countries (and so does the 2002 Report) and the focus of the 2002 Report should have therefore been redirected to more advanced DCs.

What kind of development?

“Facilitating the take-off of B2B in developing countries is important because of the opportunity for growth that it represents. After all, if e-commerce matters for development it is not because it is a fancier or more convenient way to go shopping: e-commerce matters because it allows enterprises to generate efficiency gains at all the stages of their production and distribution processes. It is these gains, made essential through the adoption of B2B and e-business practices, that count for development, because they translate into improved competitiveness for enterprises and higher levels of productivity, and hence incomes for the economy as a whole”.
(E-Commerce and Development Report 2002, UNCTAD)

The above is one of the few paragraphs, out of a Report of over 200 pages, which refers to the impact of e-commerce on the development process; there wasn't much space

dedicated to this topic in the 500+ pages of the UNCTAD 2001 Report either. This paragraph alone raises a number of questions (not doubting the benefits of e-commerce):

What kind of “*opportunities for growth*” does the Report refer to? Business/economic growth for MNCs operating in DCs, as a result of “*efficiency gains*”, for instance, so that they can add more income to their bank accounts held in OECD countries? Or growth of parastatals or government managed enterprises (politicians have a hand in all big businesses in DCs) which could further boost the bank accounts, held in the West, of corrupt politicians? When it is SMEs which play a major role in DC economies and it is they who are often not in a position (either due to cost or due to poor local infrastructures) to take part in e-commerce, can this new way of doing business or commerce really help with the development process? Maybe for the development of large enterprises but not for the development of the majority which concern us. For the majority of DCs whose main exports are horticultural produce, minerals or garments for instance, e-commerce is at the moment of little concern, even where the infrastructures are not a hindrance to the process (see for example cases from East and South Africa)¹.

Would there be consequences of not being able to take part in e-commerce? Sure there would be, in terms of further digital-divide for instance, but the chances of e-commerce “*improving the efficiency*” of a majority of DC enterprises are still slim. At a national level, the majority of the DCs do not have better-developed ICT infrastructure and unit costs, and at enterprise level the organisational structure, product characteristics and business cultures do not lend themselves to e-commerce.

We see that the opportunities that e-commerce promises to open up cannot be fulfilled in the most advanced countries either, let alone DCs. Research conducted by Kraemer, Dedrick and Dunkel (2002) on e-commerce in 10 developed and developing countries, with focus on the ranking of United States amongst these countries, shows that the picture is very mixed and not always supportive of the claims made by those supportive of e-commerce. The research finding shows that US companies (of various size from manufacturing, retail and finance sectors):

- Are not far ahead in making use of e-commerce, despite not having to face any constraints,
- Have realised few significant impacts of doing business online, other than major improvements in customer service,
- Are not more likely to use various on-line technologies,
- Are less likely to have reduced costs, and
- Have not necessarily improved their efficiency by going online.

This last point is interesting when we compare it with the e-commerce “*efficiency gains*” which the UNCTAD Report “promises”. Maybe more work is required on the impact of e-commerce on enterprises before such doubtful predictions are made by UNCTAD or anyone else as a matter of fact.

Haven't we finally started talking about “sustainable development” and development which impacts the masses? If yes, how does this “*growth*” (referred to above) influence or impact the masses in DCs? Do “*efficiency gains*” for a few enterprises involved in e-commerce really “count” for development as the Report argues? What kind of “*development*” are they referring to anyway? Of organisations, of nations? The only development impact there could possibly be with the applications of e-commerce is if enterprises employ many

¹ www.gapresearch.org/production/e-commerce

people in DCs and they reinvest their gains in some form or the other locally. Otherwise, there will be little development impact for the masses.

The statement “*incomes for the economy as a whole*” is also naïve or too optimistic. Business-to-business or business-to-consumer e-commerce has to date made no “major” contributions to the economy of the developed countries and such “*incomes*” are bound to be minimal in the DCs.

The Report mentions that in the business-to-consumer sector, “*handicrafts and products and services targeting Africans outside their home countries seem to dominate*”. This is also a little hard to believe considering the poor payment and unreliable transport systems, other than a small market, which are prominent in Africa.

When a majority of the DCs are still struggling to deal with the opportunities offered by ICTs, are they in a position to deal with e-commerce? Is such leap-frogging possible? I don't think so. While the use of ICTs has assumed increasing significance in DCs, the real benefits and positive impacts have been somewhat disappointing. The penetration of these technologies in national economies has been below average and experiences in the use of ICTs have been mixed and often disillusioning. There are few success stories around. Few individuals and organisations in DCs have the incentives and the capabilities to use these technologies effectively. Therefore the prospects of e-commerce making major economic contributions to DCs, in the next few years at least, are slim.

The Report has many statistics derived from various surveys undertaken but fails to analyse these figures to come up with conclusions on some of the very important and interesting issues raised above as questions. Sure, numbers often do not mean much as they are continuously changing but since a lot of emphasis is placed on them they should have been used to make better recommendations than to suggest, as has been done a number of times in the Report, the formation of e-strategies and policies:

“Policies must be designed, articulated in coherent e-strategies and implemented in partnership with all the relevant players to ensure that the new opportunities for creating, transforming, applying and exchange of information and value are used to improve the productivity of developing economies and their enterprises.” (page 2, Executive Summary)

When few DCs managed to implement, other than on paper, their information technology policies and strategies created years ago, what chances are there of e-commerce policies being implemented? Maybe a few developing economies who see a future in e-commerce will do so but a majority of DCs will not.

The Report fails to address the (very important) societal factors that have/will have a profound influence on the future development of e-commerce. E-commerce forms part of a broader process of social change, characterised by the globalisation of markets, the shift towards an economy based on knowledge and information, and the growing dominance of technology in our everyday life. So to allow a smooth transition to e-commerce, investments are required in the social infrastructure and skills to allow one to use the technology in a way that is compatible with the local circumstances, cultures and abilities of users in DCs.

The Report outlines a number of areas where it sees scope of e-commerce, a few of which are addressed in the following paragraphs.

In the information technology industry it is observed that “*many of the subsidiaries of the IT companies in developing countries are also using email and have a website, but comparatively few engage in more complex e-business*”. Moreover, “*IT multinationals' investment in developing countries is still heavily concentrated in South Asian and South-*

East Asian countries". So for countries in Africa, for instance, where the IT industry is very small, the possibility of this industry making use of e-commerce is minimal.

In the area of e-services, the Report considers Costa Rica and India as case examples. However, these countries *'have an educated workforce, IT know-how, long experience in high-tech development, contacts in their major export markets and a good reputation abroad. In addition, they have received large amounts of foreign capital for the establishment of the domestic IT sector'*. Few other countries have a comparative advantage in the export of services, such as call centers, data entry, translation, software development, etc., and therefore one should not be carried away by the possibilities of e-commerce in this area.

As far as gender issues and domain names are concerned, I don't think either one of these issues is preventing the growth of e-commerce in DCs and deserves special attention at this stage. One does not get the impression in any DC, whether it is an extensive user of ICTs or not, that women are discriminated upon in any way. In fact, I would say women make up a large proportion of the IT workforce in many of these countries.

In the area of m-commerce, sure *'mobile telephone users worldwide has exceeded fixed lines'* in many DCs, but even if *'difficulties in making electronic payments and concerns over the security and privacy of transactions'* could be overcome, what kind of m-commerce would, say many of the Africans, get/be involved in? Moreover, I suppose, a handphone is not enough to get involved in m-commerce; the supporting infrastructure (Internet backbone, etc.) also need to be in place.

Does e-commerce have a place in DCs?

In short the answer would be NO, at this stage, for a majority of poorer DCs (we may at some point need to come up with another universal term to classify DCs, which vary widely in populations, GDP per capita, political climates, etc.). Most DCs are not eReady (high connection costs, poor telecommunications, poor transport systems, poor electronic payment systems, no security, no standards, no skilled workforce) and even if they are, such as South Africa (supposedly the only country from the whole of Africa!), their enterprises either do not recognise the opportunities that e-commerce offers or if they do they are not ready to take part in it for various reasons.

The opportunities offered by Internet technologies, a necessity for e-commerce, has led many to believe that e-commerce will grow rapidly and help DCs to overcome their problems of exclusion from the world economy and improve the terms of their participation. Although the Report has managed to produce no substantial empirical evidence on how the global spread of e-commerce is affecting DCs, these new ways of trading have to be cost-effective, sustainable over time, and lead to increasing and profitable trade if they are to bring the expected benefits.

On the other hand, DCs do face a challenge as the Internet technologies also pose a danger of economic marginalisation to countries that cannot access it effectively. There are significant disparities in the level of Internet penetration across regions, as the Report shows, which have profound implications for an individual country's ability to participate in e-commerce. But the obstacles to reaping the benefits brought about by e-commerce are often underestimated. Accessing the Web is possible only when telephones and PCs are available, but these technologies are still in very scarce supply. In addition to this problem, Internet access is still very costly - both in absolute terms and relative to per-capita income - in most DCs. While PC prices have fallen dramatically over the last decade, they remain beyond the reach of most individual users and enterprises in DCs. Add to this the human capital cost of installing, operating, maintaining, training and support, and the costs are beyond the means of many enterprises in DCs. Moreover, skilled personnel are often lacking, the transport facilities are poor, and secure payment facilities non-existent in many countries.

Most DCs need to overcome these, plus a few other, challenges before they can exploit the benefits of e-commerce. Other than the insufficient physical infrastructures, the electronic transaction facilities are deficient and the legal and regulatory framework inadequate. Most consumer markets face severe limitations in terms of connectivity, ability to pay, deliveries, willingness to make purchases on the Web, ownership of credit cards, access to other means of payment for online purchases and accessibility in terms of physical deliveries. Moreover, the low level of economic development and small per-capita incomes, the limited skills base with which to build e-commerce services, the number of Internet users needed to build a critical mass of online consumers and the lack of familiarity with even traditional forms of e-commerce such as telephone sales do not help build an e-commerce base.

Maybe the 2003 UNCTAD Report on e-commerce should try to address some of the issues raised above and contribute something more substantial to the study of e-commerce and development. Moreover, something which applies to a wider range of DCs. The focus of the next Report should also be on the impact of e-commerce on the development process of masses in DCs and not of a few large enterprises, mainly MNCs.

Reference

Kraemer, K.L., Dedrick, J. and Dunkle, D. (2002) E-Commerce in the United States: Leader or One of the Pack? Global E-Commerce Survey, Report of Results for the United States, Center for Research on Information Technology and Organisations, University of California, Irvine.

Author Bio

Mayuri is a freelance consultant working in the area of ICTs and Development, with a particular focus on Africa. She has many years working experience in this area and has published widely on the topic. She has researched, taught, consulted and lived in a number of countries and is currently based in Germany where she is consulting (with development agencies) on the impact of electronic commerce and distance learning on the development process.