



**No.92**  
JANUARY 2022

# POLICY BRIEF

## Key points

- Digital trade – trade in goods and services that are digitally ordered and/or digitally delivered – accounts for a growing share of international trade, which increased during the pandemic
- Digitalization creates new trade opportunities and the potential to support resilience in times of disruption, yet economies and firms with low levels of digital preparedness risk falling further behind
- Ensuring more inclusive outcomes from digital trade requires a holistic and coordinated approach to formulating and implementing relevant policies, often supported by development assistance

## Digital trade: Opportunities and actions for developing countries

Digital trade is increasingly important and comprises both digitally ordered trade in goods and services (cross-border electronic commerce (e-commerce)) and digitally delivered trade (services delivered internationally through the Internet or other networks). However, countries vary greatly in their readiness for digital trade. If the share of developing countries, particularly the least developed countries, in world trade is to increase, as envisaged in the 2030 Agenda for Sustainable Development, actions are needed to strengthen their capacity to benefit from digital trade. The coronavirus disease (COVID-19) pandemic has made this need even more urgent.

### What is digital trade and why does it matter?

In 2020, digital trade was defined by three international organizations as “all trade that is digitally ordered and/or digitally delivered”. Under this definition, digitally delivered trade is “international transactions that are delivered remotely in an electronic format, using computer networks” and digitally ordered trade is “the international sale or purchase of a good or service, conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders”.<sup>1</sup>

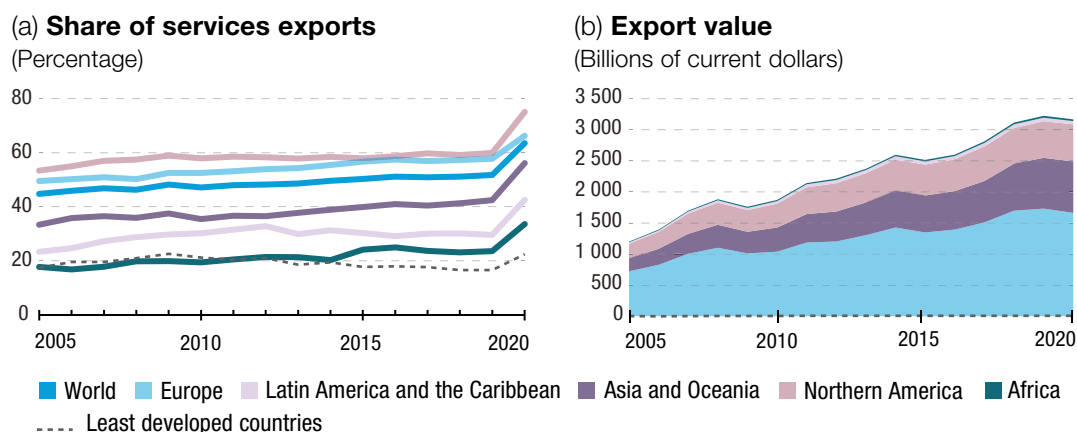
### *Digitally delivered trade*

People and businesses increasingly use online means of buying and selling, and global value chains have become more and more digitalized. It is now essential for businesses in developing countries to have the capacity to trade digitally. The pandemic has served to further highlight the importance of digital technologies in supporting international trade. In 2020, global services exports fell by 20 per cent compared with 2019, but exports of digitally deliverable services – those that can be delivered remotely over information and communications technology (ICT) networks such as the Internet – proved relatively resilient, declining by only 1.8 per cent, despite extensive economic disruption during the pandemic.<sup>2</sup> As a result, digitally deliverable services reached almost 64 per cent of global services exports (see figure).

<sup>1</sup> Organisation for Economic Co-operation and Development (OECD), World Trade Organization and International Monetary Fund, 2020, Handbook on measuring digital trade, available at <https://www.oecd.org/sdd/its/Handbook-on-Measuring-Digital-Trade.htm> (accessed 5 January 2022).

<sup>2</sup> UNCTAD, 2021, Impacts of the COVID-19 pandemic on trade in the digital economy, Technical Notes on ICT for Development No. 19.

## Exports of digitally deliverable services, by region and country grouping



Source: UNCTAD.

These developments have accelerated a pre-existing trend, namely, that digitally deliverable services are becoming an increasingly important element of services trade. From 2005 to 2019, global exports of digitally deliverable services grew at an average nominal rate of 12 per cent per year and at a rate of as much as 21 per cent in Asia. The share of digitally deliverable services in total global services exports had already increased from 45 per cent in 2005 to 52 per cent in 2019.

The largest component of digitally deliverable services is the broad and varied category “other business services”, followed by “telecommunications, computer and information services”. Services types have been identified as digitally deliverable (also referred to as “potentially ICT-enabled”<sup>3</sup>), yet the share of services that is actually delivered digitally is not routinely distinguished. UNCTAD is working with countries to measure this through surveys. Initial results obtained from Costa Rica, India and Thailand suggest that, between 80 and 99 per cent of services that can be delivered through ICT networks are actually delivered in this manner.<sup>4</sup>

### **Digitally ordered trade**

Digitally ordered trade is a subset of e-commerce. In 2020, 24 per cent of firms received orders online and over 40 per cent of firms placed orders online.<sup>5</sup> Uptake varies by firm size; on average, more than twice the share of large firms sell online compared with small firms.<sup>6</sup> With regard to consumers, an estimated 1.5 billion people, or 27 per cent of the global population aged 15 and older, shopped online in 2019.<sup>7</sup> Among the 27 member countries of OECD for which data are available, the share of people shopping online increased by 5.2 percentage points in 2020.<sup>8</sup> This was the greatest increase since records began in 2005.

In terms of economic value, total e-commerce is estimated to have reached \$26.7 trillion globally in 2019, including both domestic and international transactions.<sup>9</sup> The availability of reliable statistics on the share of cross-border e-commerce is limited; cross-border business-to-consumer transactions are estimated to have accounted for around \$440 billion of total business-to-consumer e-commerce sales at \$4.9 trillion. In 2020, around one in four online shoppers made cross-border purchases. However, business-to-business transactions account

<sup>3</sup> UNCTAD, 2015, International trade in ICT services and ICT-enabled services, Technical Notes on ICT for Development No. 3.

<sup>4</sup> UNCTAD, 2018, Implementing a survey on exports of ICT-enabled services, Technical Notes on ICT for Development No. 11.

<sup>5</sup> Estimated based on the Eurostat digital economy and society database, the OECD ICT access and usage by businesses database and UNCTAD statistics; data on e-commerce sales (54 countries) are from 2020 for most countries, and from periods from 2017 on for some countries; data on business e-commerce purchases (47 countries) are from 2019 or the most recent available period from 2017 on.

<sup>6</sup> OECD, 2019, *Measuring the Digital Transformation: A Road Map for the Future*, OECD Publishing, Paris.

<sup>7</sup> UNCTAD, 2020, UNCTAD B2C [business-to-consumer] e-commerce index 2020: Spotlight on Latin America and the Caribbean, Technical Notes on ICT for Development No. 17.

<sup>8</sup> Data cover individuals aged 16–74; see [https://stats.oecd.org/Index.aspx?DataSetCode=ICT\\_HH2](https://stats.oecd.org/Index.aspx?DataSetCode=ICT_HH2)

<sup>9</sup> UNCTAD, 2021, Estimates of global e-commerce 2019 and preliminary assessment of COVID-19 impact on online retail 2020, Technical Notes on ICT for Development No. 18.

for the bulk (82 per cent) of e-commerce, yet the share that is international and therefore forms part of digital trade has not yet been determined.

There is a need to agree on methods for the measurement of cross-border e-commerce and to broaden the number of countries that produce such statistics. At the same time, statistics on digitally delivered services trade (as opposed to digitally deliverable services) also need to be further developed and more widely compiled in order to arrive at complete and robust figures for digital trade, to support evidence-based policymaking.

### ***Growth in digital trade is highly unequal***

Digitally deliverable services still account for a significantly lower share of exports in the least developed countries and in Africa and Latin America and the Caribbean than in other parts of the world. Similarly, while over half the population in high-income countries shopped online in 2019, this figure was only 2 per cent in low-income countries.

Less digitalized countries are at a disadvantage in leveraging e-commerce. They are also less able to benefit from the resilience of digitally deliverable services trade in response to shocks such as the pandemic and therefore likely to experience more extreme declines in export earnings and economic growth. More generally, as digital ordering and digital delivery have become increasingly critical to accessing markets in many parts of the world, those lacking the ability to trade digitally risk falling further behind economically.

### **Strengthening the capacity of developing countries to benefit from digital trade**

Many developing countries need to improve capacities to engage in and benefit from digital trade. Policymakers face a formidable task in keeping up with the rapid pace of technological change and dealing with the general scarcity of data and high degree of uncertainty. Ensuring more inclusive outcomes from digital trade requires a holistic and coordinated approach, across Governments and with other stakeholders, to formulating and implementing relevant policies, as well as global development assistance.

Recommended policy actions are provided in the table.<sup>10</sup>

<b>Recommended policy actions</b>	
<b>ICT connectivity</b>	<p>To ensure adequate, affordable and reliable connectivity for people and enterprises to be able to engage in digital trade, many developing countries need to build and maintain high-speed, reliable and affordable networks, with wide population coverage, as well as ensure the availability of affordable devices. Key actions include the following:</p> <ul style="list-style-type: none"> <li>• Ensuring an open, transparent and fair telecommunications market that attracts domestic and foreign investment in infrastructure, for example, through infrastructure-sharing, effective spectrum management and reduced taxes on ICT equipment and services</li> <li>• Facilitating imports of relevant equipment and services through expedited regulatory authorization and trade facilitation processes, as well as reduced import duties on ICT equipment</li> <li>• Increasing public investment in infrastructure</li> </ul>
<b>Education, skills and awareness</b>	<p>Adapting to changes in labour markets and skills requirements induced by digitalization requires changes in formal education systems, as well as public and private skills development strategies. Key actions include the following:</p> <ul style="list-style-type: none"> <li>• Integrating ICT at all levels of education, embracing industrial collaboration in developing curricula and reforming teaching methods to promote complementary non-cognitive skills such as leadership and social and behavioural skills</li> <li>• Expanding opportunities for workers and teachers to retrain and upgrade skills, through the provision of digital literacy programmes, role models and networks, as well as incentives for workers and firms</li> <li>• Conducting awareness campaigns to ensure that individuals, business decision makers and policymakers understand the opportunities and challenges of digital trade</li> </ul>

<sup>10</sup> For more details, see UNCTAD, 2017, *Information Economy Report 2017: Digitalization, Trade and Development* (United Nations publication, Sales No. E.17.II.D.8, New York and Geneva).

<b>Trade facilitation</b>	<p>Countries need to adapt to increased levels of digital delivery and the shift from large shipments to large numbers of small parcels triggered by cross-border e-commerce. Key actions include the following:</p> <ul style="list-style-type: none"> <li>• Implementing the Agreement on Trade Facilitation under the World Trade Organization, to modernize and streamline customs processes, including through the use of UNCTAD guidelines for the adaptation of the Automated System for Customs Data</li> <li>• Implementing digital single window systems to ensure efficient interactions between importers, exporters and authorities</li> <li>• Introducing simplified export processes for shipments of low physical weight and value, to increase exports by small businesses</li> </ul>
<b>Microenterprises and small and medium-sized enterprises</b>	<p>Countries need to boost ICT use among smaller firms, to enable their effective integration in global value chains increasingly reliant on digital solutions. Key actions include the following:</p> <ul style="list-style-type: none"> <li>• Ensuring affordable access to ICT infrastructure</li> <li>• Strengthening the availability of relevant skills, as well as knowledge of e-commerce and digital delivery among business decision makers, through training and capacity-building</li> <li>• Adapting trade promotion by leveraging online platforms and online marketing channels and by supporting businesses in meeting the digital standards applicable in target markets</li> </ul>
<b>Gender-based inclusion</b>	<p>Countries need to bridge the gender-based digital divide, which limits the ability of women to participate in digital trade and is most pronounced in Africa and the least developed countries. Key actions include the following:</p> <ul style="list-style-type: none"> <li>• Establishing networks for women entrepreneurs in e-commerce, to ensure a strong voice in policy discussions, including by learning from the eTrade for women initiative (see <a href="https://etradeforall.org/et4women/">https://etradeforall.org/et4women/</a>).</li> <li>• Showcasing women role models in digital trade and disseminating good practices on how to grow a business and access export markets</li> <li>• Developing sex-disaggregated statistics</li> </ul>
<b>Regulatory frameworks</b>	<p>Countries need to establish appropriate policies, laws and regulations. Key actions include the following:</p> <ul style="list-style-type: none"> <li>• Promoting the digital economy for development and encouraging digital entrepreneurship</li> <li>• Recognizing the legal equivalence of paper-based and electronic forms of exchange</li> <li>• Enshrining standards for privacy and data protection, considering compatibility with those adopted by key trade partners</li> <li>• Protecting both buyers and sellers against cybercrime</li> <li>• Granting consumer rights and providing channels for recourse in case of loss or detriment related to digital trade</li> </ul>

Source: UNCTAD.

### UNCTAD support for harnessing and measuring digital trade

The UNCTAD-led eTrade for all initiative aims to improve the ability of developing countries, particularly the least developed countries, to use and benefit from e-commerce and digital

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