



Economic and Social Commission for Asia and the Pacific
Committee on Trade and Investment**Sixth session**

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Leveraging e-commerce for graduation of least developed countries**Leveraging e-commerce for graduation of least developed countries****Note by the secretariat***Summary*

The least developed countries in the region have achieved remarkable progress in their development. Ten of the region's 12 least developed countries have already met the criteria for graduation from the category of least developed countries and are on track to graduate in the next years. Despite this, these countries continue to grapple with significant development challenges. The agricultural and service sectors remain the largest employers. These sectors, however, offer limited formal employment opportunities and have not generated high value-added activities. Furthermore, the least developed countries still suffer from low levels of human capital and limited productive capacities.

Among the channels available to address the challenges faced by the least developed countries in their graduation and sustainable development efforts, electronic commerce (e-commerce) has the potential to open new opportunities. However, the successful development and utilization of e-commerce in the least developed countries still require a set of fundamental reforms to take place, such as improving the infrastructure of information and communications technology services, establishing secure online payment systems and adopting a sound regulatory framework.

The Committee on Trade and Investment is invited to reflect on the opportunities and challenges related to leveraging e-commerce for the graduation of least developed countries by sharing experiences and lessons learned in these areas. Furthermore, the Committee is invited to identify policy priorities and focus areas for regional cooperation to guide the work of the secretariat.

* ESCAP/CTI/2019/L.1/Rev.1.

I. Introduction

1. The Asia-Pacific region hosts 12 least developed countries: Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People's Democratic Republic, Myanmar, Nepal, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu.

2. These economies are making substantial progress in graduating from their status of least developed countries, with 10 of the 12 countries having met the criteria for graduation. During the 2018 triennial review of least developed countries, Bangladesh, the Lao People's Democratic Republic and Myanmar met the criteria for graduation for the first time (countries become eligible for graduation after having met two consecutive triennial reviews). Two of the three countries recommended for graduation come from the Asia-Pacific region, with Bhutan recommended to graduate in 2023 and the Solomon Islands recommended to graduate in 2024.¹

3. However, least developed countries in Asia and the Pacific continue to grapple with many challenges. While the value-added share of agricultural activities has been declining, the sector remains the largest employer in most least developed countries. The services sector remains important for these economies; however, the sector currently offers limited formal employment opportunities and has not generated high value-added activities.

4. The least developed countries also face formidable challenges to structural transformation, including low levels of human capital and productive capacities; remoteness and isolation from world markets for those that are landlocked (Bhutan, the Lao People's Democratic Republic and Nepal); high levels of economic vulnerability and lack of economy of scale for those that are also small island developing States (Kiribati, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu).

5. Among other channels available to address the challenges faced by the least developed countries, e-commerce has the potential to open new avenues for economic and social development for these countries and support their graduation.

6. While definitions vary, e-commerce generally refers to the production, advertising, sale and distribution of products through electronic means. E-commerce can occur within and between three basic participant groups – business, government and individuals. E-commerce can be divided into domestic business and cross-border trade, depending on whether the seller and buyer are located in the same country or not.

7. E-commerce has changed how people, companies and even countries communicate, trade, network, process and manage information, carry out payments and manage data. E-commerce has also become a bridge between enterprises in small, isolated countries and larger markets globally. It has enabled the establishment of subcontracting, joint ventures and alliances with companies that might have never cooperated before. E-commerce has led to the emergence of new sectors in the economy, by creating new commodities, services and business models.

¹ See A/73/L.40/Rev.1.

8. The Asia-Pacific region is emerging to be a leading force in the global e-commerce market. The region accounted for over 40 per cent of the global e-commerce transactions in 2015 (over \$1 trillion), experiencing also the highest growth rate in 2015, at 28 per cent.²

9. While e-commerce has developed rapidly in more advanced or large economies such as China, Japan and the Republic of Korea, the least developed countries can be the ones that comparatively benefit the most from e-commerce, since e-commerce is particularly relevant in economies with less efficient business eco-systems and institutional landscapes. It allows private sector players to improve accessibility to customers, markets and trade information and bypass some costly intermediaries. Research shows that small and medium-sized enterprises in the least developed economies generally lag behind their counterparts based in more advanced economies in their level of Internet adoption and use. But once online, they can go through the learning curve and catch up quickly.³

10. However, the conditions for successful development and utilization of e-commerce in the least developed countries still require a set of fundamental reforms to take place, such as improving the infrastructure of information and communications technology (ICT) services, establishing secure online payment systems, adopting a sound regulatory framework, developing the necessary skills set and supporting incubation schemes, promoting a secure, efficient and reliable logistics and trade facilitation process, and leveraging access to finance.⁴

II. State of play of e-commerce in the region, especially in the least developed countries

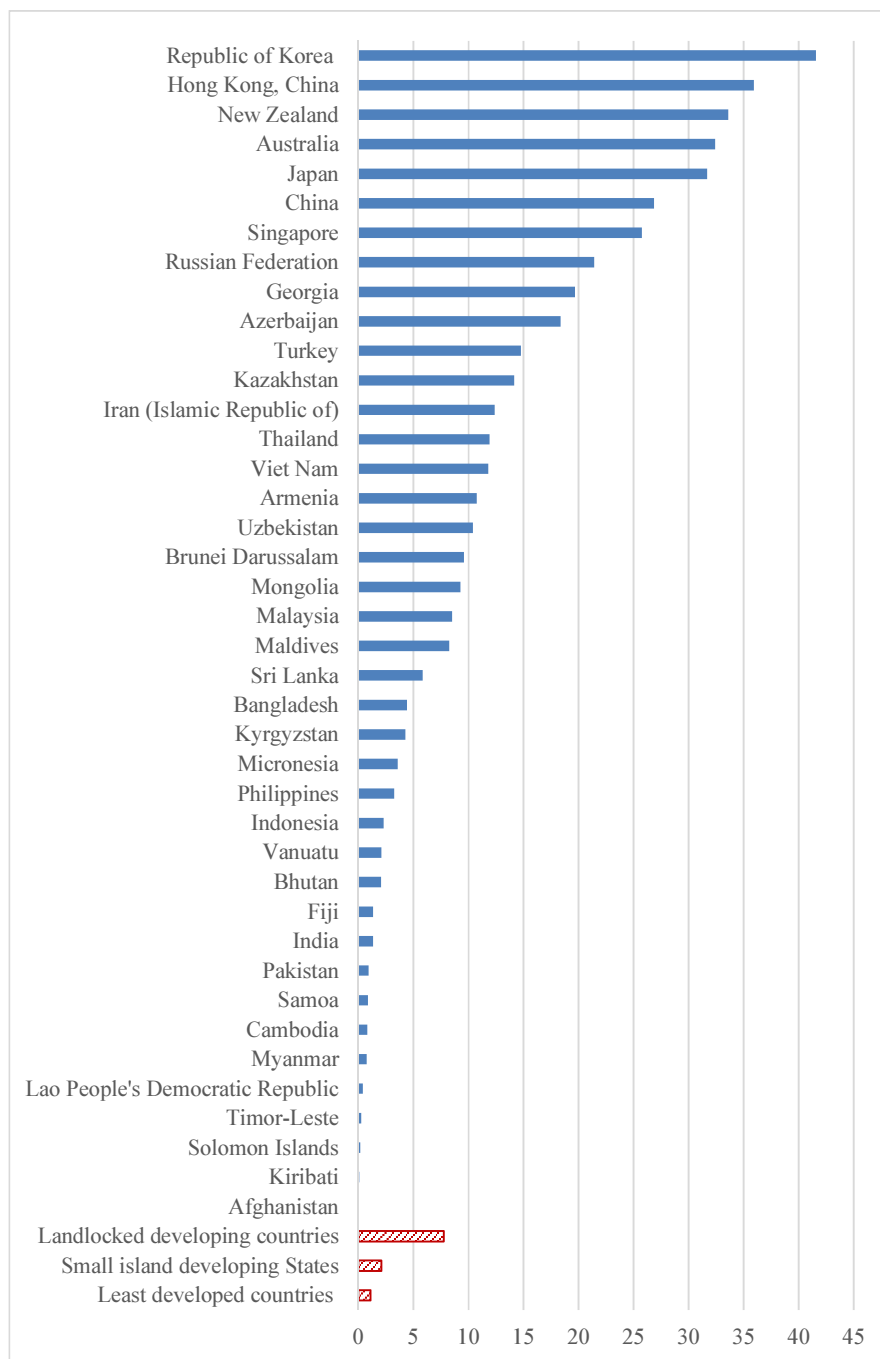
11. The e-commerce spread in the Asia-Pacific region varies greatly, both in terms of the industries that are engaged in it and market trends. The digital divide among countries in the region highlights the different stages of readiness for participating in digital trade and e-commerce (figure 1).

² More detailed definitions of e-commerce are available from ESCAP and Asian Development Bank (ADB), *Embracing the E-Commerce Revolution in Asia and the Pacific* (Manila, ADB, 2018).

³ Paul Zwillenberg, Dominic Field and David Dean, *The Connected World: Greasing the Wheels of the Internet Economy – A Country-by-Country E-Friction Analysis* (Boston Consulting Group, 2014).

⁴ These key pillars for a thriving e-trade sector is captured in the United Nations Conference on Trade and Development (UNCTAD) Rapid eTrade Readiness Assessment of Least Developed Countries. Available at <https://unctad.org/en/Pages/Publications/E-Trade-Readiness-Assessment.aspx> (accessed on 15 December 2018).

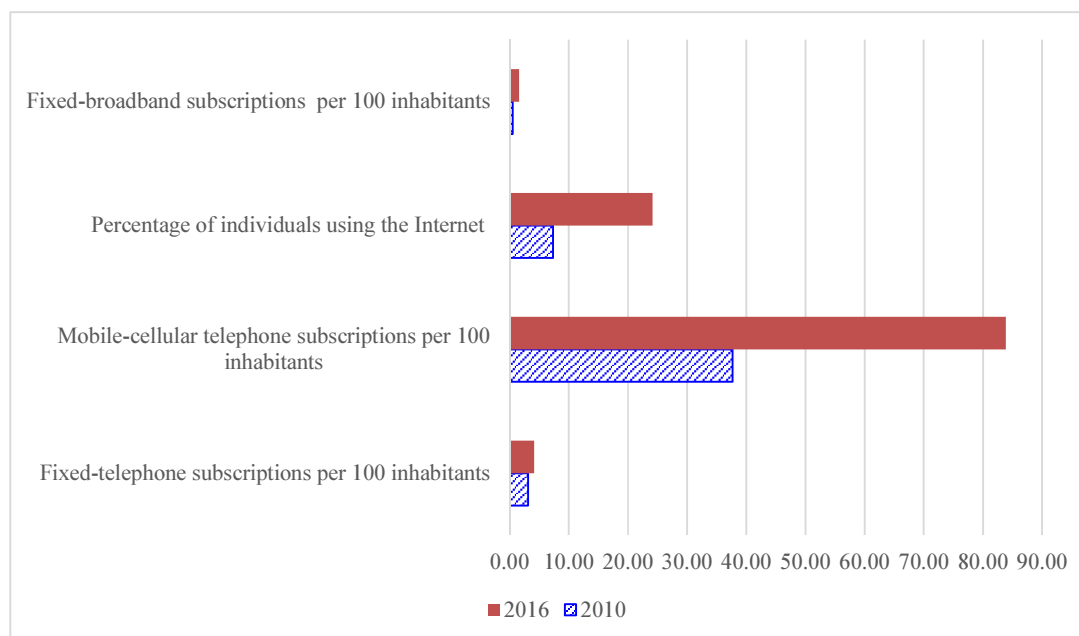
Figure I
Fixed-broadband subscriptions per 100 inhabitants in ESCAP member countries, 2016



Source: ESCAP calculations based on International Telecommunication Union, Global and regional ICT data. Available at www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx (accessed on 26 December 2018).

12. On the other hand, the rapid increase in Internet penetration rates in the region's least developed countries is likely to stimulate e-commerce growth (see figure II).

Figure II
Information and communications technology for the least developed countries in the region, 2010 and 2016



Source: International Telecommunication Union, Global and regional ICT data. Available at www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx (accessed on 29 November 2018).

Note: The indicator “individuals using the Internet” highlights 2016 data.

13. A series of e-trade readiness assessments highlight key areas of progress and challenges for e-commerce in several least developed countries in the region:⁵

(a) Bhutan is a latecomer to the ICT space, with the earliest efforts for introducing television or other forms of ICT dating back to 1999. In the past decade, the ICT sector in Bhutan has experienced rapid development. The international Internet bandwidth has increased from 10 megabits per second in 2005 to 5 gigabits per second in 2015, with a total of over 300,000 Internet users. Challenges remain: weak domestic demand for ICT services; lack of clarity among government initiatives; low levels of innovation and significant skills gap and mismatch;

(b) In Cambodia, there is substantial scope to leverage e-commerce due to the highest rate of Internet connectivity growth in the Asia-Pacific region and a very young population. Cambodia's relatively small market size, low broadband Internet penetration (especially in rural areas), payment issues and poor logistics networks are cited as stumbling blocks to e-commerce development;

⁵ This information is contained in the Rapid eTrade Readiness Assessment of Least Developed Countries.

(c) In the Lao People's Democratic Republic, surveys indicate that about 70 per cent of clients in the business-to-business category state that trade through e-commerce is unavoidable, and that there are increasing returns to scale through investing in e-commerce channels.⁶ While ICT services are slowly becoming an important segment of the national economy, triggered by the country's participation in international negotiating fora, such as the Association of Southeast Asian Nations (ASEAN), e-commerce development is hindered by its weak ICT infrastructure, the low use of credit cards in general, unsecured online payment systems and its regulatory framework;

(d) Myanmar has been focusing on the new opportunities created by its reintegration in the global trade system and the introduction of the ASEAN Economic Community. Despite high mobile and smartphone penetration rates, the country still faces substantial obstacles preventing technology start-ups and merchants from scaling up their businesses through e-commerce and more generally for an uptake of e-commerce in the country, such as a weak regulatory and legislative framework, lack of trust in electronic payments and poor digital literacy, ICT skills and knowledge;

(e) In Nepal, e-commerce is at a nascent stage, representing an underexplored market. Rapidly increasing Internet penetration has opened opportunities for several e-trade niches. Domestic and foreign players are trying to address the needs of the e-commerce ready population, creating competition, in particular among financial service and payment service providers. Despite these promising trends, e-commerce is currently not achieving its full development potential in Nepal, mainly due to domestic transportation and distribution challenges, difficulties in cross-border money transfer, and outdated legal and regulatory framework;

(f) Solomon Islands has low national readiness level for e-commerce, despite having recently adopted a series of relevant policies to support its growth. The country has experienced a rapidly increasing Internet penetration rate. However, the lack of proper infrastructure, such as a submarine cable, forces the country to rely on satellite Internet, which is slow, expensive and unreliable;

(g) Vanuatu has put key public policies in place covering sustainable development, trade development and ICT development; however, structural bottlenecks in financial regulations, knowledge and skills gaps, as well as the size and remoteness of the economy, hinder the possibilities of the country to materialize the existing opportunities. Also, the absence of a physical addressing system combined with the challenging geography of the archipelago make deliveries and transport in general costlier than in other economies in the region.

III. Addressing challenges for developing e-commerce in the least developed countries in the Asia and the Pacific

14. Notwithstanding the differences among the least developed countries in the region, the common challenges faced by them in Asia and the Pacific include a low level of acceptance of e-commerce, lack of basic ICT

⁶ Kiengkhammanh Khottavong, "Development on export promotion and e-commerce for Lao SMEs", presentation made at UNCTAD E-commerce Week, Geneva, 16–20 April 2018. Available at https://unctad.org/meetings/en/Presentation/dtl_eWeek2018p29_KiengkhammanhKhottavong_en.pdf.

infrastructure, lack of access to trade finance, and insufficient legal and regulatory safeguards to regulate and ensure secure online transactions.⁷

15. Sound, robust and comprehensive economic, financial and legal policy frameworks must be in place to tap the full potential of e-commerce and address the challenges. In order to achieve this, collaborative policy efforts between the government and private sector are necessary while designing a policy framework for e-commerce.

16. While there is probably no one-size-fits-all solution for all the countries in the region, several critical policy areas may be considered in any national e-commerce strategy:⁸

(a) **Provision of affordable ICT infrastructure and services.** As a prerequisite for conducting e-commerce, it is essential to improve access to reliable and affordable ICT, make available the hardware and software necessary to develop electronically sellable services at reasonable prices, implement effective communications regulations and ensure access to reliable power;

(b) **Strengthening the logistical and transport infrastructure and services.** Adequate transport and logistics infrastructure, an efficient transport and logistics service, an established national address system, among others, are essential for the actual delivery of physical goods;

(c) **Fostering an environment for e-commerce and online payment solutions.** It is important to strengthen the environment for online payments since an enhanced use of electronic payment systems is important for facilitating e-commerce and promote the availability of e-commerce solutions that are tailored to suit local needs such as the use of mobile payment systems. Interoperability with international payment systems is a critical element of gaining access to cross-border payment systems such as international e-wallets. Also, promoting secure servers and safe online payment systems, and more generally ensuring that the legislation is in place for e-transactions to take place safely, will enhance consumer confidence;

(d) **Strengthening the legal and regulatory framework.** A stable, consistent, clear and predictable legal environment and policies and legal framework will go a long way in promoting e-commerce by increasing certainty while fostering trust in e-commerce. Furthermore, a legal framework also ensures consistency in standards and addresses concerns over privacy, consumer protection and reliability of payment systems in addition to ensuring that operators conform to national and international laws. There is a lack of availability of sufficient human resources with skill sets on e-commerce in many countries;

(e) **Promoting skills development.** Raising stakeholder awareness on e-commerce is the first step for promoting skills development. This policy area focuses on building e-commerce skills among small businesses, exploring the scope for women entrepreneurs to engage in e-commerce and leveraging entrepreneurship through business incubators, co-working spaces and mentorship schemes and promoting business platforms usage to slash

⁷ See ESCAP and ADB, *Embracing the E-Commerce Revolution in Asia and the Pacific*.

⁸ *Information Economy Report 2015: Unlocking the Potential of E-commerce for Developing Countries* (United Nations publication, Sales No. E.15.II.D.1).

transactions costs and create new markets for small and medium-sized enterprises;⁹

(f) **Promoting government e-procurement.** Making e-procurement a requirement for public tenders provides an incentive for small and medium-sized enterprises to increase the use of the Internet as a business tool.

IV. Addressing challenges for cross-border e-commerce in the region

17. While the issues discussed in previous sections are related to both domestic and cross-border e-commerce, the latter has to be discussed in the context of international trade. Many trade rules, especially when they are technology neutral, can be applied to e-commerce. By and large, cross-border e-commerce is related to at least three areas of international trade:¹⁰

(a) Market access: contains a wide range of topics including customs duties, valuation issues, movement of natural persons and access to data;

(b) Rules and regulations: touch on different issues including intellectual property rights, protection of personal information, consumer protection and competition;

(c) Facilitation: covers areas on paperless trade, e-signatures and digital authentication.

18. Globally, the World Trade Organization (WTO) plays a key role in facilitating discussions about e-commerce. In 1998, WTO established the Work Programme on Electronic Commerce to examine e-commerce issues related to four major areas: trade in services; trade in goods; intellectual property rights; and trade and development. In recent years, the discussions about the future of the Work Programme and e-commerce discussions in general have intensified at WTO, especially since July 2016, when some Member States proposed to negotiate new rules and push e-commerce negotiations into the WTO agenda. This was opposed by many developing countries as they argued that it was contrary to the current mandate of the Work Programme on Electronic Commerce, as well as the Nairobi Ministerial Declaration that put the remaining Doha Round issues at the core of the negotiations at WTO.¹¹ More recently, the eleventh Ministerial Conference of the World Trade Organization held in December 2017, agreed to continue the work under the Work Programme on Electronic Commerce and maintain the current practice of not imposing customs duties on electronic transmissions until the next session to be held in 2019.¹²

19. The Agreement on Trade Facilitation, the first multilateral agreement under the auspices of WTO, is not an e-commerce treaty per se, as it does not discriminate between the types of trade to which it can be applied, whether

⁹ World Bank, *Information and Communications for Development 2018: Data-Driven Development* (Washington D.C., 2019).

¹⁰ Amir Ebrahimi Darsinouei, *Understanding E-Commerce Issues in Trade Agreements: A Development Perspective Towards MC11 and Beyond* (Geneva, CUTS International, 2017).

¹¹ The South Centre, “The WTO’s discussions on electronic commerce”, Analytical Note, No. SC/AN/TDP/2017/2 (Geneva, 2017).

¹² See WTO, Ministerial Decision of 13 December 2017 (WT/MIN(17)/65-WT/L/1032).

goods purchased online or through traditional means. Nevertheless, the Agreement on Trade Facilitation, when implemented, can greatly boost the development of cross-border e-commerce because it will simplify and streamline border crossing procedures, enhancing the transparency of trade rules and regulations, and supporting efficient and reliable international deliveries. On the other hand, as the Agreement on Trade Facilitation is not specifically designed for handling cross-border e-commerce, which is often characterized by a large number of parcels rather than containers or traditional bulk or general cargoes, the Agreement alone certainly cannot cope with all the challenges related to e-commerce delivery and logistics.

20. The United Nations Commission on International Trade Law (UNCITRAL) plays an important role in promoting cross-border e-commerce. Its Model Law on Electronic Commerce purports to enable and facilitate commerce conducted using electronic means by providing national legislators with a set of internationally acceptable rules aimed at removing legal obstacles and increasing legal predictability for electronic commerce.

21. E-commerce has found its way into regional initiatives, including regional trade agreements. Sixty-nine of the regional trade agreements signed and submitted to WTO between 2001 and 2016 had either a standalone e-commerce chapter or e-commerce related articles. However, the scope, depth and binding nature of these chapters and provisions differ widely. At one extreme, are several relatively recent regional trade agreements whose e-commerce chapters address a wide range of digital trade issues, including data localization and the treatment of source code. At the other end of the spectrum, are those treaties that only restrict customs duties for e-commerce transactions and seek cooperation between regulatory authorities. To date, not a single least developed country has agreed to a regional trade agreement with an e-commerce chapter; however, two least developed countries in the region, Cambodia and the Lao People's Democratic Republic, agreed to a regional trade agreement with some e-commerce provisions.¹³

22. On 12 November 2018, economic ministers from the 10 members of the ASEAN including three least developed countries – Cambodia, the Lao People's Democratic Republic and Myanmar – signed an agreement to facilitate cross-border e-commerce transactions.¹⁴ While the effectiveness of the implementation of the agreement remains to be seen, the agreement certainly holds promise for developing a cooperative and conducive environment for conducting e-commerce in the region.

V. International support and partnership for developing e-commerce in the least developed countries

23. While the least developed countries face many challenges in developing e-commerce, they are not working alone. Development partners, the private sector and other actors can provide useful support.

¹³ Mark Wu, "Digital trade-related provisions in regional trade agreements: existing models and lessons for the multilateral trade system" (Geneva, International Centre for Trade and Sustainable Development; Washington, D.C., Inter-American Development Bank, 2017).

¹⁴ See Tang See Kit, "ASEAN economic ministers ink first e-commerce agreement", Channel NewsAsia, 12 November 2018. Available at www.channelnewsasia.com/news/business/asean-economic-ministers-ink-first-e-commerce-agreement-10920610.

24. Since 2016, UNCTAD has also coordinated a new multi-stakeholders' initiative, eTrade for All (etradeforall.org), which aims to improve the ability of developing countries, particularly the least developed countries, to use and benefit from e-commerce. The Enhanced Integrated Framework, one of the founding partners of the eTrade for All Initiative has supported several e-trade readiness assessments of least developed countries.

25. Other key donor-supported initiatives to promote e-commerce uptake in least developed countries include the Universal Postal Union's E-Commerce Programme – ECOMPRO – and the International Trade Centre's E-solutions programme. Furthermore, the Trade Facilitation Agreement Facility was created at the request of developing and least developed country members of WTO to help ensure that they receive the assistance they need to reap the full benefits of the Agreement on Trade Facilitation.

26. Initiatives by the private sector such as the Electronic World Trade Platform¹⁵ may offer e-commerce development solutions to micro-, small and medium-sized enterprises in developing economies. The Global Alliance for Trade Facilitation represents a public-private partnership dedicated to international trade facilitation while trade facilitation is an important factor for development of e-commerce.

27. The least developed countries should be proactive in taking advantage of the support from donors and development partners. To this end, they need to identify the strategic areas for developing e-commerce where they request for the support from the donor.

28. The least developed countries may work with the private sector and e-commerce platforms to test some pilot projects. Experiences in other developing countries in the region serve as useful references in this respect. For example, in China, governments, rural smallholders and popular e-commerce platforms work together to sell products online as part of the strategy of using e-commerce as an instrument for poverty reduction. The least developed countries may consider working with regional platforms to sell their national products to overseas markets. Such cooperation will have spill over effects: the least developed countries may also learn the advanced knowledge on cross-border e-commerce; build their capacities in developing e-commerce; and identify more business opportunities.

VI. Conclusions

29. E-commerce represents a unique opportunity for many operators to enter into domestic and international markets without the same degree of sunk costs that traditional market entry requires. In particular, e-commerce facilitates access to information and buyers through digital market places, which slash inventory and fixed costs. Moreover, modern platforms, combined with data analytic tools, also provide insights into users and their preferences in order to effectively customize services and products to meet buyer requirements. E-commerce is not a panacea for market entry and trade, but it represents an unparalleled channel for least developed countries to seize and exploit in order to promote development, and generate broad based growth, across industries and across enterprises.

¹⁵ Further information is available at www.ewtp.org/.

30. While the benefits are significant, there remain significant challenges for least developed countries to take advantage of e-commerce, not least because of the need for reputation and branding that still permeates sales and the dominance of large platforms, particularly those that enjoy a sufficiently large critical mass and that are run by large developing countries and developed countries. The challenges for traditional businesses are often still encountered in e-commerce business models. The challenges include the need for a responsive and effective business ecosystem, a strong investment and business enabling environment, the protection of consumer rights and updated and enforced laws on e-commerce, electronic signatures and the need for e-government procurement systems, efficient, transparent and predictable trade facilitation measures, and recognized and secure online payment systems.

31. A number of policies can be adopted by least developed countries in order to embrace e-commerce and promote small and medium-sized enterprise integration into the global trading system. A number of least developed countries are already moving ahead in this area and have shown positive results, even though a number of key pillars of e-commerce are still in need of further support.

VII. Issues for consideration by the Committee

32. The assessments of key requirements for conducting e-commerce suggest that a number of common issues related to trade and technology need to be addressed. Successful experiences and lessons learned at the national and regional levels in support of digital trade and e-commerce, especially in a context of graduation of least developed countries, should be shared by countries and used to identify key capacity-building needs required in order to make substantial progress in this field.

33. To support the countries in the region to develop e-commerce, the secretariat carries out research and analysis,¹⁶ provides technical assistance and capability-building to supports its members.¹⁷ Its programme, as highlighted by the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific, advocates for a regional solution to enhancing e-commerce.

34. The secretariat will continue to serve as a bridge connecting global partners and the private sector with the countries in the region. Subject to the availability of resources, the secretariat will work with partners to carry out more in-depth studies on cross-border e-commerce. The outcome of the studies will provide advice to the countries, especially the least developed countries, on how to improve their legal and business environments to facilitate cross-border e-commerce as a vehicle for strengthening their exports.¹⁸ The secretariat, together with other partners, will continue to build the capacity of policymakers in the region in e-commerce. Furthermore, the secretariat will

¹⁶ The secretariat and ADB published a report to review the opportunities and challenges for developing e-commerce in the region. See ADB and ESCAP, *Embracing the E-Commerce Revolution in Asia and the Pacific*.

¹⁷ In 2018, the secretariat and ADB jointly organized two workshops to build capacity of policymakers on e-commerce. Further information of the workshops are available at www.unescap.org/events/adb-escap-wto-conference-promoting-connectivity-inclusive-asia-and-pacific and www.unescap.org/events/adb-escap-workshop-promoting-e-commerce-asia-and-pacific-holistic-approach.

¹⁸ Sustainable Development Goal target 17.11 aims to significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020.

explore the possibility to work with partners, including the private sector, to support the selected countries in implementing pilot projects on cross-border e-commerce.

35. The Committee may wish to discuss the following matters, ideally by reflecting on the experiences of member States:

(a) What are the drivers of e-commerce at the national level, and what kind of public-private partnerships can be leveraged to promote e-commerce in least developed countries and developing countries more generally?

(b) What critical regulatory and policy framework should be put in place to support least developed countries to build up their competitiveness in goods and services through e-commerce?

(c) How can the work of donors and partners play a role in prioritizing the agenda for e-commerce development?

36. The Committee may wish to discuss other issues contained in the present document.
