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FROM SELLING SHEEP TO TRANSCRIBING TAPES:**prospects bright for e-commerce in developing countries,
says new UNCTAD report**

Editors: pls. note the availability of a related press release which looks at trends in e-commerce and its economic impact.

“Very big sheep”, promises the website, www.EthioGift.com – “a 35 Kg (Guaranty) Sheep for Your Family’s Feast (\$97)” – featuring a photo (with zoom view) of an attractive brown and white ovine. EthioGift, “your online gift delivery service for Ethiopia”, is a model of its kind – an e-commerce venture based in a developing country doing a booming business with clients in the industrialized world. It and enterprising upstart firms like it are capitalizing on the e-commerce explosion to create business opportunities that at the same time contribute to national development, according to the *E-Commerce and Development Report 2001*,¹ released today by the United Nations Conference on Trade and Development (UNCTAD).

Operating out of Addis Ababa, EthioGift offers 48-hour delivery of sheep, cakes, flowers and liquor within Ethiopia, through credit card payments handled by a secure socket layer server in Canada. The site, which targets the large, affluent Ethiopian diaspora in Europe and the US, is the brainchild of an Ethiopian Ph.D. in computer science. Revenues last year totalled \$50,000.

To a large extent these and other business opportunities – including tourism, online commodity trading and teleservicing – may remain just that, owing to the limited capacity in developing countries for online secure payments and the lack of adequate

¹ The **E-Commerce and Development Report 2001** (Sales No. E.01.II.D.30, ISBN 92-1-112541-3) may be obtained at the list price of US\$ 40, and at a special price of US\$ 15 in developing countries and economies in transition, from www.un.org/publications; United Nations Publications, Sales Section, Palais des Nations, CH-1211 Geneva 10, Switzerland, tel: +41 22 907 2606/2613, fax: +41 22 917 0027, e-mail: unpubli@unog.ch; or United Nations Publications, Two UN Plaza, Room DC2-853, New York, NY 10017, USA, tel: +1 212 963 83 02 or +1 800 253 96 46, fax: +1 212 963 34 89, e-mail: publications@un.org

trade-supporting services, such as insurance, transport and business information. But the Internet can help developing countries get around some of the difficulties. It increases their access to new, better-quality suppliers and can put them on a better competitive footing. For smaller players, it is especially helpful because it tends to reduce economies of scale and lowers fixed costs, the Report says.

With communication made so easy by the Internet, new opportunities are also emerging for outsourcing in developing countries. The proliferation of Internet cafés and mobile phones in parts of the developing world where there is neither fixed-line phone service nor even a steady supply of electricity points to the enormous role e-commerce can play as a catalyst for development. And the benefits extend far beyond the more immediate profits made by local entrepreneurs to encompass the potential for much broader and longer-lasting improvements in education, health and employment in poor countries.

Teleservicing: great potential for LDCs

In Bangladesh, one of the world's 49 least developed countries (LDCs), Technosoft Transcription transcribes audio patient record files for medical practitioners in the United States. The two-year-old company employs 21 people with a knowledge of medical terminology, computer and typing skills and an understanding of American culture and practices. It uses a marketing organization in the US to secure its contracts and is currently the only company in Bangladesh to contract directly with US clients; other companies obtain subcontracts from India. Clients send their voice files, containing dictations of patient records, to a server in the US, which Technosoft then downloads, promising a 24-hour turnaround time. The company expects to earn \$200,000 this year, while Bangladesh estimates that by 2008, it could earn up to \$300 million a year in this sector.

An offline teleservicing operation in Ghana, meanwhile, has just landed a contract to process claims for a US insurance company that will eventually create 4,000 jobs. And at Café Informatique in Togo, the physical location of a facility carrying out an "on- or off-line" teleservice is no longer a barrier: the company's 60 permanent employees conduct telemarketing, data scrubbing and translation for clients as far away as Geneva.

For LDC enterprises, the potential in such offline teleservicing – transcription services, data input, software development, remote access server maintenance, web development, database creation, digitization of old documents (e.g. blueprints), translations and editing – is "unlimited", says the UNCTAD report. This is mainly because of the huge difference in wages between LDCs (as low as \$20 a month, but around \$500 for highly qualified individuals) and developed countries (ranging from \$2,000 to \$10,000 a month for similar activities). In addition, offline teleservicing is well suited to LDC environments, where online teleservicing might be problematic because of less reliable telecommunications infrastructure and regulatory restrictions, notes the Report. It describes the findings of an UNCTAD survey in 10 LDCs of 16 enterprises already engaged in e-commerce and identifies sectors where e-commerce could create new opportunities. Key among them is the chance to diversify into sectors that rely less on transport. In many LDCs and landlocked countries, such costs can amount to up to 40% of total export costs; tapping into e-commerce enables them to reduce the economic significance of distances.

In developing countries in general, the Report contends, a pivotal role will be played by business-to-business (B2B) e-marketplaces. These countries have so far accounted for a negligible share of such transactions, but opportunities exist for them

in sectors where they already have a significant presence, such as travel/tourism and primary commodity marketing. More than 80% of e-commerce transactions in the coming years will be those between businesses, and this percentage will be even higher in LDCs – particularly if international business is involved, as local B2B e-commerce is unlikely to reach any significant levels in the least developed countries themselves.

There are other challenges, of course – some of them having nothing to do with the lack of infrastructure or with IT skills, legislation, payment methods and financial resources. As the Report explains, “The most serious problem for LDC enterprises as they embark on e-commerce is not technology but the need to change their business culture and practices.” This is because in the digital economy, information flows more quickly and in more directions; decision-making thus becomes less centralized, and workers need to be able (and feel empowered) to perform a wider range of tasks. “This represents a serious challenge for many developing countries and economies in transition, where traditional notions of authority and hierarchy may be more deeply entrenched....Competitiveness in the digital economy requires a workforce that is equipped with the skills to master change rather than to undergo it.”

The promise of e-tourism

But competent, modern digital workforces in developing countries have long since begun acquiring a competitive advantage in one sector of e-commerce: tourism, which at the point of sale is little more than an information product. Tourism and its Internet incarnation, often called “e-tourism”, is one of the fastest-growing e-commerce sectors. Last year, online travel bookings in the US and Europe nearly doubled, to \$15.5 billion, and now exceed online software and hardware purchases – previously the leading category in consumer e-commerce. Of the \$64 billion in developed-country 1999 e-commerce sales, travel, transport and hotel reservations as a group represented the largest category, accounting for 38.5%.

Tourism and e-tourism are also important for developing countries, generating employment and foreign currency earnings. According to UNCTAD estimates, tourism represents at least half of all e-commerce in these countries and is the single most important e-commerce sector. Developing countries already have a growing share in the international tourism market, accounting for 29% of all international tourism receipts in 1999. However, at 3% their share in the online market, which includes international and domestic travel, is much smaller, ranging from \$0.4-to-\$0.5 billion, says UNCTAD. Their share is potentially worth \$5 billion, but their current ability to acquire more than 10% of this amount is limited – mainly because they lack computer and Internet penetration and online credit card payment facilities. Stories abound about companies setting up offices in offshore or developed country destinations and performing quasi-legal hot-wiring of credit card swipe boxes to accept remote input of credit card information from a web page, in cases where domestic banks cannot provide Internet merchant credit card accounts. These tourism companies thus circumvent the local financial system and prevent the influx of earnings and foreign currency that would otherwise have made their way into the local economy.

But the fact that most tourism consumers come from developed countries with modern ICT and financial infrastructures lessens the impediments faced by destinations in the developing world in securing online tourism bookings.

Destination marketing organizations – which often comprise partnerships among various tourism suppliers (airlines, hotels, attractions, tour operators) and government tourism boards – are a growing force in the travel industry worldwide,

online and off, helping destinations to promote their “information products” and acquire market presence and clients. They can be crucial for the success of e-tourism endeavours in developing countries, helping the national tourism industry to bypass such intermediaries as wholesalers and distributors and compete in the online market; they can even become national portals for prospective tourists. Such portals would have to provide links and information and respond to the online transaction needs of consumers in developed countries, but this requires extensive B2B partnerships.

Two examples of e-tourism in developing countries that successfully exploit such partnerships are Asiatravelmart.com and Lakbay.Net.

Asiatravelmart.com, which bills itself as “Asia’s number-one online travel marketplace”, plays a dual role as an operator of an Internet travel reservation system and as a clearinghouse for secure e-commerce payment, collecting funds from buyers on behalf of suppliers. Individuals and corporate customers from around the world can interact with 43,000 travel suppliers and travel agents from 200 countries providing 110,000 wholesale products.

Kalakbayan Travel Systems Inc. has created Lakbay.Net, an Internet-based national travel reservation system that aims to provide travellers with accurate Philippine travel information and easy-to-use reservation and payment facilities. Its e-business model brings together a website for business-to-consumer (B2C) commerce; a B2B portal for tourism producers; e-services for the business community, consisting of a booking system and e-payment facilities; and offline marketing through a dedicated television channel, Lakbay TV. Lakbay is pioneering the concept of “appro-tech” – using technology that is appropriate for the competence of each individual network member, including short message service (SMS), e-mail and offline communication technologies.

E-commerce in China: WTO accession to boost a “promising market”

China has a huge potential for e-commerce, as the government realizes. The improvement of ICT infrastructure overall has been one of its major objectives, part of the national development strategy aimed at expanding the economy and increasing foreign investment. The policy has paid off: China boasted \$9.33 billion in e-commerce transactions last year, 90% of them in B2B, with 800 online shopping sites, 300 Internet service providers and 1,000 portals. Between 1997 and 2000, the number of Internet users doubled every six months; as of last January, the figure was 22.5 million, with faster growth than in India, Malaysia and Thailand. And between 1996 and 2000, the number of Chinese mobile subscribers soared as well, at an annual average rate of 88%.

The overall reach of both Internet and mobile phones is still relatively small, however: only 2% of the population is connected to the Internet, and only 6.7% have mobile phones. “E-commerce is still in its infancy”, says the UNCTAD e-commerce report, with transactions representing only 0.87% of GDP (as opposed to 2.4% in the US, for example). Further growth depends on the removal of a number of constraints, most of them typical of the problems facing developing countries in general. These include high Internet access costs, restrictions on Internet services, lack of a nationwide credit card system, slow and uncertain delivery, network insecurity, and lack of awareness of the benefits of e-commerce and of possible e-commerce strategies.

Nonetheless, the outlook for Chinese e-commerce is good, especially given its accession to the WTO, where its commitments to liberalization in the telecommunication and financial services sectors “will spur e-commerce

development”, UNCTAD predicts in today’s report. “China’s entry into the WTO ... will open the market for foreign investment and create a competitive environment that should bring down the access cost and improve service quality. It will also provide Chinese enterprises with opportunities for cooperation, leading to faster adoption of e-commerce practice.” In value-added telecommunications services, including the Internet and e-commerce, China’s big market is “attractive and promising”, says the Report, noting that the role of the private sector will also grow, allowing the country to become “a key player in e-commerce, matching its success in international trade”.

The economic benefits of ICT and e-commerce for developing countries are undisputed, and if these countries manage to keep pace with developed countries the benefits will be even greater, extending beyond economic output and exports to such areas as health care delivery and telemedicine, distance learning, public sector administration (such as computerized voting) and employment generation.

The UNCTAD report sounds a cautionary note: “Neither computers nor the Internet, by themselves, can make a country or a company radically more productive.” At the same time, however, its basic message is optimistic:

“It is because the Internet revolution is relevant not just to the high-tech, information-intensive sectors but also to the whole organization of economic life that its positive effects are spilling over more quickly into most sectors of the economy and that developing countries stand a better chance of sharing in its benefits earlier than in previous technological revolutions.”

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This press release can also be found on the Internet at the following address:
<http://www.unctad.org/en/press/pressref.htm>

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