

Leveraging the power of the digital economy to fast-track development in southern Africa

Many of the technological advances that have gripped the world's attention in recent years are nothing short of amazing - not only because of the novelty and convenience that they bring but because of the speed with which they are lapped up by a seemingly insatiable market. The massive growth in the mobile phone sector, for example, particularly in developing countries, signals the new imperative to be 'connected' at all times. Traditional economic systems are increasingly giving way to the 'digital economy', which can be described as the worldwide network of economic activities enabled by information and communication technologies (ICTs). Very little economic activity these days is even possible without some digital element or intervention, and so more and more people are saying that the digital economy *IS* the economy.

The potential of the digital economy to drive development in southern Africa was one of the main themes at a two-day workshop convened by the **International Centre for Trade and Sustainable Development (ICTSD)** in Stellenbosch, South Africa from 22-23 March 2017. Titled '**Leveraging Services and Digital Potential for Inclusive Economic Growth**', the workshop brought together policymakers, sector specialists, academics and development consultants to exchange views on the problems that regional economies face in their quest to become more digitally responsive and competitive. Internet access is the lifeblood of the digital economy, and while there are signs that the internet is becoming more accessible and affordable in southern African countries, there are still large numbers of people (mainly in the rural areas) who are excluded from digital developments and benefits. This digital divide simply reinforces the economic divisions that already exist.

'Digital' has strong connotations of intangibility and is therefore frequently associated with services that have no physical character, such as apps like Twitter, Facebook and Uber. Yet there are innumerable tangible goods that are 'digitally enabled'. That is, they have digital components, like motor vehicles with digital controls and diagnostic tools. Digitally enabled goods are also those that are traditional in every other sense except that they are purchased online, such as books, clothing and homeware products.

"The digital economy is different from how we traditionally view the global trading system," said **Andrew Crosby, MD of the ICTSD**. "It's less about defending one's territory and erecting barriers and more about collaborating with others in the area of policies and regulations." He went on to say that the digital economy needs an enabling environment to function optimally, with key enablers including a strong ICT policy and regulatory framework, ICT-related skills at the decision-making and user level, healthy levels of competition, sound physical infrastructure and distribution networks, business-friendly rules and procedures, and a commitment to regional integration. In a nutshell, the enabling environment should encourage new businesses to be established, existing businesses to thrive and grow, and broad socio-economic goals (e.g. inclusive job growth and poverty alleviation) to be met.

"The digital economy is blurring the lines between the trade in goods and services," said **Prof Sonja Grater, a senior lecturer and researcher at the North-West University**. "It is creating opportunities for producers and service providers to work together to deliver more balanced solutions to changing customer requirements. It is also giving more people – especially SMEs with limited resources and

women with family responsibilities – the opportunity to engage in regional or international trade because they have more flexible and cost-effective options for communicating and transacting.”

Despite these benefits, the pervasiveness of internet usage in both goods and service sectors has unleashed new uncertainties and risks, from unscrupulous ‘data mining’ and cyber-attacks to identity theft. The rapidly accelerating digital economy is also raising new questions about the contractual process, intellectual property rights, competition, consumer protection, business ethics and the wellbeing of the environment – all of which are proving challenging to policymakers and business people who have been used to operating in more stable and clearly defined sectors.

“Digitisation is widely acknowledged to be a disruptive force,’ said **Ali Parry, an extraordinary research scientist at the North-West University**. “But it also has the potential to be a catalyst for positive change in southern Africa – particularly in the high-demand areas of transport, finance and tourism.” Ali added that appropriate regulation can help to ensure that there is efficient ICT and physical infrastructure to support a digitally enabled society, that data is not abused, that telecommunication networks function effectively, that internet access is widely available at an affordable price, that competition is fair and that all relevant stakeholders are able to contribute to the policy formulation process.” These outcomes help countries to diversify their exports and enhance their trade readiness.

Regulation, though, can manifest in onerous and costly procedures and/or have a protectionist effect in those areas that would benefit from a more open trade environment. Licensing procedures, operating standards, limitations on foreign investment, data controls and rules of origin all have the potential to act as barriers to trade and negatively impact countries’ economic prospects. Furthermore, the rate at which new technological products and services are hitting the market is outpacing the laws designed to manage them.

Dr Marié-Luce Kühn, an extraordinary research scientist at the North-West University, commented: “Today we have taxi companies that do not own their own vehicles, banks that have taken money out of banking, the highly profitable Airbnb that does not own real estate, and traditionally hands-on services, such as healthcare, going mobile. These are all examples of how business sets the pace while regulation follows.” Thus, if governments and their strategic partners are to leverage digital developments in an optimal fashion, they need to factor into their strategies more responsive and efficient consultative and policymaking processes.

Various studies show that the southern African region trails behind other parts of the world in terms of its digital readiness. This is exacerbated by generally poor physical infrastructure, which is a serious deterrent to e-commerce, the unequal rollout of ICT networks in less dense, rural areas, and the high cost of digital connectivity. Another problem is that regional integration efforts have been relatively weak, with the result that countries’ trade rules and regulations, ICT standards, etc. are not harmonised and the potential of regional value chains is not being exploited.

Digitally rich innovation is an unstoppable force in the world. Therefore, governments and business communities throughout southern Africa have no choice but to continuously adapt their operational models to leverage the power of ICTs. Urgent policy imperatives include ensuring that ICT and

management/financial skills gaps are filled and that the business (and especially the investment) climate is greatly improved through simplified legislation and active support from other, complementary sectors, such as finance, energy and transport.

Achieving a stable and productive society with plenty of jobs to go around is the ultimate aim of responsible policymakers. Tackling high unemployment is an ongoing challenge in southern Africa, with the evolving digital economy often posing more of a threat than an opportunity. “Disruption is inevitable,” said **Dr Kühn**. “Digital technologies are already disrupting established career paths, jettisoning entire sets of skills and calling for new ones. Therefore, finding the right balance between competition, on the one hand, and employment and social protection policies, on the other, is becoming increasingly important.”

The ICTSD will be holding further workshops and engaging closely with its networks in South Africa and other countries in the region with a view to arriving at policy recommendations on how the digital economy can best be used to unite rather than divide the countries of southern Africa.

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