A photograph of a panel discussion at Africa eCommerce Week 2018. Three individuals are seated on a stage. A man in a dark suit and red tie is speaking, gesturing with his hands. To his left, a woman with dark hair and glasses, wearing a colorful patterned top, listens attentively. To his right, another man is partially visible, looking down. The background features large, stylized text that reads "Africa eCommerce Week".

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**Speakers** at the High-level Dialogue on Trade and the Digital  
Economy in Africa panel during Africa eCommerce Week 2018  
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# Digitization and the Future of Trade

## A Conversation with Martin Labbé

Interviewed by FSR Staff

**Fletcher Security Review:** Digitization has been making big waves in the global economy and technology is more relevant than ever. Cross border e-commerce has become a key element of global economic activity and new business models are dependent on movement of data across borders. In other words, “Digital Trade” is shaping the fourth industrial revolution. The International Trade Centre (ITC) has been playing an important role in ensuring that the developing world reaps all the benefits of this growing trend. Could you talk a little bit about the ITC’s work in this area and give us a background of trends in digital trade from the organization’s lens?

**Martin Labbé:** The International Trade Centre (ITC) is an agency set up jointly by the United Nations (UN) and the World Trade Organization (WTO) and its key objective is to provide countries with trade-related technical assistance. We work with small and medium

enterprises (SMEs), national chambers of commerce, export promotion agencies, and ministries of trade in developing countries. We primarily work in Africa but also to some extent in South Asia, the Pacific, and the Caribbean. Historically, we have been engaged in supporting the development of exports in such sectors as agriculture, handicrafts, and tourism.

In 2005, we started getting engaged in several projects on information and communication technologies (ICT) for development. These were the days when we saw the first wave of tech infrastructure being rolled out in Africa. Mobile penetration in Africa was growing, albeit at a small level. We saw a lot of potential in using mobile technologies to enable farmers, SMEs, and women-led businesses to transact. A lot of these projects never went beyond the pilot phase because of a lack of financial capacities or of people on the ground to turn them into successful, sustainable initiatives.



Executive Director of the ITC Arancha González (center) speaks at a WTO conference (World Trade Organization / CC BY-SA 4.0)





Jumia presents at the 2017 Web Summit (Stephen McCarthy / CC BY 4.0)

After that, we started to explore other possibilities for making Africa more tech-savvy. In 2010, our focus shifted to supporting the information technology (IT) sector in developing countries with the belief that they will be better at supporting the digitization in their countries. We did projects in Bangladesh, Kenya, Uganda, and Sri Lanka, some of which are still ongoing. Our key objective was to develop a new kind of exports – exports that would be happening not in containers and parcels, but through data and fiber optic cables; all of which today are a big part of the digital trade phenomena.

Around 2015, we saw another wave of tech-entrepreneurs and start-ups in the Silicon Valley and other advanced ecosystems, smaller and more fragile than SMEs, yet, with a potential to bring about change at a much larger scale than traditional SMEs could have. Commonly referred to as “unicorns,” these start-ups like Spotify and Facebook were very successful in advanced countries, while their growth in Africa has been limited. The very few unicorns that have been able to scale up in the region are in fact non-indigenous companies. For instance, the largest player in the region, *Jumia*, was initiated by Rocket Internet, a German venture firm. As an e-commerce company, *Jumia* was first setup in Ni-

geria and then spread across the continent. It has been extremely successful in a variety of businesses: from delivery of consumer goods to meal delivery. We have also seen other investments coming in from Europe and elsewhere.

These three waves trace the trends in digital trade from ITC’s lens: what ITC is interested in and supports through its projects.

**FSR:** It seems like the African region is at a significant disadvantage when compared to advanced countries and this points to a growing “digital divide.” Further, this digital divide seems to exist not only among countries, but also within countries, i.e. between big and small companies. Is it fair to say that as global trade becomes more digitized, there will be “losers” and “winners”? What are the international community and the national governments doing to create a level playing field? And how do you think this problem can be solved?

**ML:** Overall, digital trade is growing rapidly and there certainly are a number of African success stories in say, financial technology. For instance, *Cellulant* in Kenya and other relatively small firms that we are working with, like *XENTE* in Rwanda and *Intouch* in Senegal.



These are the firms that are contributing directly in development of digital trade in Africa and are indeed “winners.” But then there are smaller players that are really struggling. Poor connectivity, problems with energy supply and fragmented markets are some of the factors creating the “losers” in Africa.

Digital trade has moved so rapidly that governments are struggling to catch up. It is often also noted that governments are not putting in place favorable regulations. For instance, some countries have been keen on imposing a tax on mobile money and social media. Such measures are counterproductive and slow down the growth of the digital economy. While this does not affect the larger international players directly, it certainly hurts the smaller businesses who don’t have the same deep pockets to go through this difficult period.

But the situation is not so bad. In a welcome move by the WTO, over 70 countries have recently decided to resume work on e-commerce—an indication that the issue is being prioritized. Another interesting trend we see is the emergence of tech startups trying to make a social impact. A tech startup in Senegal, for instance, is providing a platform for fisherman to sell their fish directly to restaurants and private customers instead of selling it

to middlemen. This is an intermediation dream that we have always sought to achieve. Yet again, scaling up is difficult. The key challenge is limited access to funding. This is not about access to finance or banks (this only matters for large firms), but about access to business angels and venture capital. There is almost no African venture capital. There is a lot of global venture capital and only 1 percent of it is going into Africa. As such, these startups struggle to survive and scale. At ITC, we are trying to facilitate this through deployment of angel networks in the region. In Gambia for instance, we are putting in place a business angel network together with the African Business Network. The idea is to replicate good practices coming from all African countries, in order to ensure that these entrepreneurs have access to capital and are able to become sustainable businesses, quickly. The need is to address the issue and to facilitate investments in good teams of entrepreneurs that have the potential of becoming sustainable enterprises. This is how you reduce the number of losers.

**FSR:** Could you give us a little bit of perspective on what these small businesses and budding startups that you engage with have to say about the issues they are struggling with, specifically in the context of government support?



**ML:** Recently, we had a group of startups joining our executive director in Nairobi at the e-commerce week organized by UNCTAD. We asked them if there was anything they wanted us to share with their governments. The e-commerce startups provided us a comprehensive list of challenges they face. The key issues were those related to high cost of internet services/data, poor Infrastructure like road transport, unreliable electricity supply, and unreliable postal services that make online shopping significantly more difficult and less affordable. What also bothered them were data security and mistrust issues. For instance, in countries like Uganda and Nigeria people are very familiar with online scams and hesitate to provide their financial and other personal information online. Another issue raised was with respect to the challenge of including the digitally illiterate people who struggle to interact directly with businesses online. In addition, a large segment of the African population is unbanked. E-commerce businesses often have to set up country-specific sites because of payment issues.

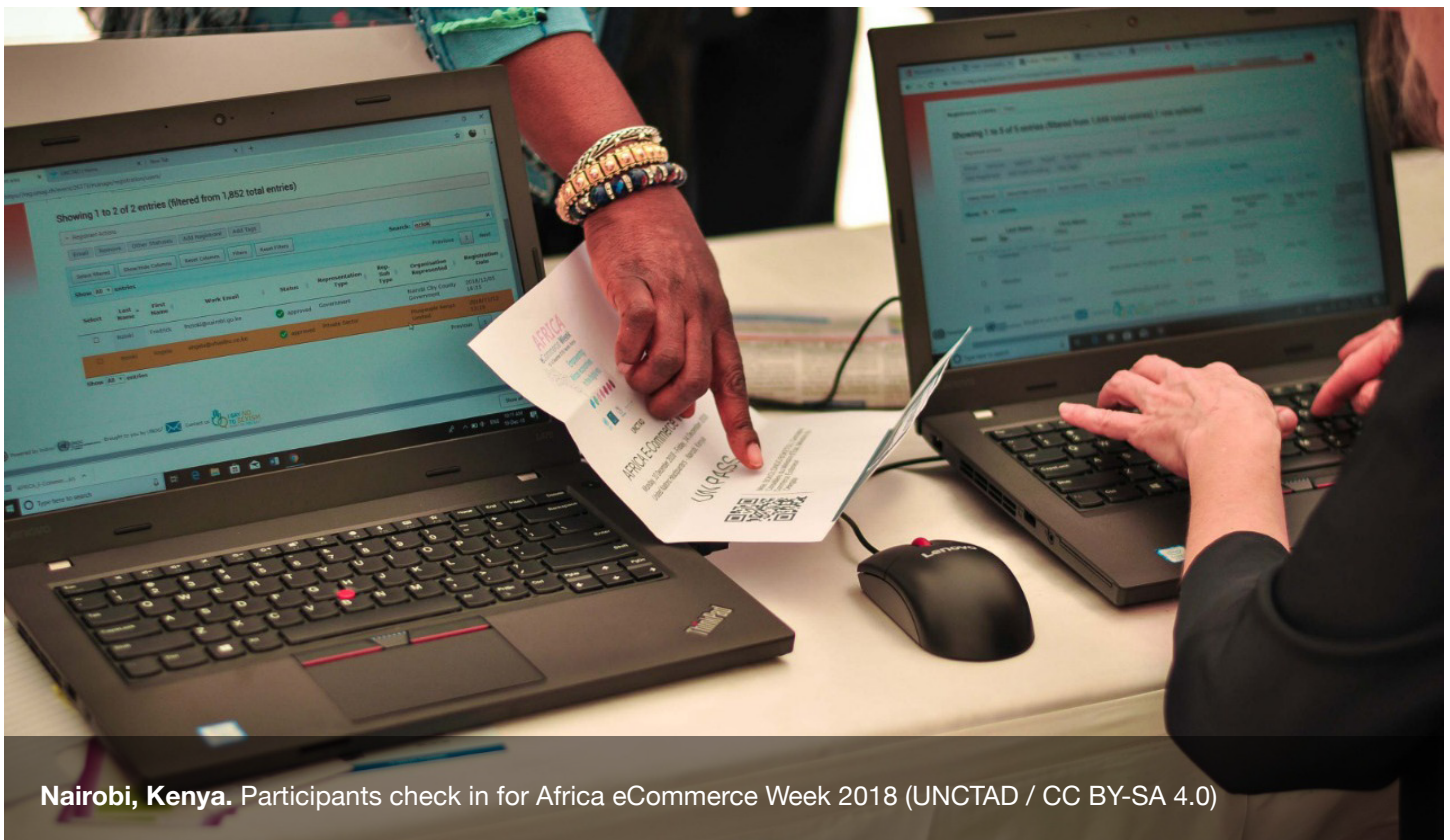
The non-e-commerce startups complained that most start-ups and SMEs were drowning in taxes even before they could grow, if they play by the book. The Ugan-

dan government has for instance recently implemented taxes on social media — USD 20/year — and mobile money — a 1 percent tax on transactions. Small businesses having to pay taxes on top of data at a very high cost is a real issue. Further, tax holidays which are given to foreign businesses in Uganda are not given to local businesses.

To conclude, these startups said that it was very hard to work with the government, given that its terms and conditions favored larger corporations. And then, there is the issue of corruption, closely tied to the failure of regulatory policies.

**FSR:** When you carry out projects in developing countries, are the governments receptive and open?

**ML:** Being a UN organization, it is very important for us to engage with the governments. We are not there to alienate the government, nor are we there to teach lessons. But we have to be wary that we are talking about new age, cutting-edge issues here at a point where these countries still have a wide range of pressing issues to deal with. Some of these countries have seen their populations double in the last ten years. They are facing massive infrastructure problems and high levels of un-



Nairobi, Kenya. Participants check in for Africa eCommerce Week 2018 (UNCTAD / CC BY-SA 4.0)

employment. So talking about digitization may not be at the very top of their priorities. Yet, there are African countries that are taking a lead on this. Rwanda for instance, even as a Least Developed Country, has been extremely proactive in developing its digital economy. They have a very well structured and articulate approach for development of their tech sector and all government players are actively involved in supporting emerging entrepreneurs. This is what is also required in the rest of Africa—having a systemic approach to build the right infrastructure. For this to materialize, a number of players will need to come together. If there are tech startups and hubs but the government is not engaged, banks are not playing their role, there is no alternative funding source or academia is looking elsewhere—the ecosystem will be dysfunctional.

**FSR:** What about the emerging economies like China or India? Where do they stand in this digital trade architecture?

**ML:** The situation is totally different in India and China. India has been able to turn its IT and business process outsourcing (BPO) business into a USD 100 billion revenue stream. They have been able to build massive companies like Tata Consultancy, WIPRO, Cognizant, and others that have become extremely successful. China is another great example. It started primarily with the exports of hardware and then brands like Huawei and Xiaomi became market leaders and world number one handset manufacturers. Today, China is leading not just the hardware side of the business, but also leading innovation. So, it is a totally different scenario in the large emerging economies. Scale has been really important: it has pushed countries like China into a virtuous circle, whereas the lack of scale in Africa pushes those companies in a vicious cycle as they continue to struggle to increase their footprint. We are trying to fix this through private-public dialogues as well as by working

with intermediaries.

**FSR:** In the larger scheme of things, where do you think Africa stands and how long a road is left to travel to reach where it ought to be, given all the complications you talk about?

**ML:** In 2005, the mobile penetration rate was below 30 percent, restricted largely to voice and SMS and maybe broadcast of information, but that is it. Since then, within so little time, we have been able to get to 100 percent penetration in many African countries. We have seen infrastructure being rolled out, the cost of data going down, and more and more people having access to smartphones for a cost as little as USD 50 which was a cost of a simple feature phone back in 2005. So there have been really massive, encouraging changes. Many countries like South Africa, Kenya, Uganda, Senegal, Ivory Coast, and Nigeria are taking advantage of opportunities in Sub-Saharan Africa. Further, policy efforts are being made at the continent level to improve the free flow of people and merchandise across African countries. There is a willingness to follow the example of what is happening in Europe and elsewhere in the world. The recently concluded Continental Free Trade Agreement is a great example of this. New technology continues to roll out and an increasing number of players are deploying faster and ever more powerful technologies on the continent. There are investments being made to support tech entrepreneurship. These are all positive trends that make me really optimistic. If the governments continue with their integration efforts to create a single African market, there will also be a single digital African market. Once the desired framework is put into place, entrepreneurs will independently navigate the space. I would say, in the next five years, we will have travelled a great distance. We are in fact just at the beginning of a very positive trend.

## Martin Labbé

Martin Labbé is the Tech-Sector Development Coordinator at the International Trade Centre and the Program Manager for Netherlands Trust Fund IV (NTF IV), a USD 10 million Export Sector Competitiveness Program. He manages NTF IV Uganda and NT IV Senegal tech-sector development projects, working closely with IT sector associations & tech hubs, SMEs and tech startups to support the internationalization of the local digital economy. He has been actively involved in designing and managing several online and offline B2B business-development and marketing activities in developing countries and transition economies as well as training small- and medium-sized enterprises (SME) on technology and trade, with a focus on e-commerce.