



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Internet, Market and Society

Neeraj Kumar Rai

Assistant Professor

Govt. Girls Degree College, Dhindhui, Patti, Pratapgarh

Abstract: The Internet is unquestionably having a profound effect on many aspects of the social, cultural, economic, and legal systems of planet Earth. Indeed, advances in the Internet and in other global communications technologies make it possible to contemplate the development of a global information society. Such a society may offer many benefits to humankind, but constructing policies to enable and promote this information society presents significant challenges. This research paper is based on secondary sources.

Key Word: Internet, E-Commerce, Small Business, Digital Transformation

The digital economy present challenges on how we think about and implement competition policy. Policies aimed at ensuring a level playing field and fostering a dynamic and inclusive economy will therefore need to adjust to better reflect a growing reality. First, market concentration is especially high in markets with large returns to scale and network effects. Going digital can come with high capital expenditures, like setting up data centers and other digital infrastructure. But it also comes with the ability to reproduce digital offerings instantly and at low or zero marginal cost, implying large returns to scale and lower prices for consumers. When network effects are involved, the potential returns to scale are even greater.

The argument for bigger firms in these markets is that consumers are the biggest winners. Free digital services and a plethora of user data used to customize and cross-sell products help raise consumer welfare and offer greater choice. Small businesses and entrepreneurs also benefit, the argument goes. Digital giants like Amazon, Google, and Microsoft, among others, reduce startup costs for small firms by offering cloud services and open-source software, make it easier to reach distant markets through their platforms, and offer venture funding and financing. Due in part to the potential to scale up quickly, the threat of disruption is higher in the digital economy than in the past. Many argue that this threat strengthens competition among big firms as well as smaller firms who can unseat the giants. However, it is not so clear that these arguments for bigger firms always hold. Less than one percent of startups end up as \$1 billion companies and are often acquired or imitated by the giants along the way. In addition, industry lines are increasingly blurred as big firms leverage their user's data to offer a broader range of goods and services, providing more valuable data on spending habits, and, ultimately, reinforcing the competitive advantage of big firms across industries.

The digital economy that advantages larger firms is the growing importance of intangible capital. Unlike tangible capital like buildings and equipment, intangible capital is not physical. It consists of ideas, branding, business processes, software, supplier relationships, licensing agreements, and other immaterial assets that generate value for a firm. As digitization changes business models, firms are placing greater emphasis on intangibles. In the U.S., U.K., and some European economies, intangible investment already exceeds investment in tangibles. Haskel and Westlake argue that these properties help explain the rise of superstar firms, more mergers and acquisitions, and higher market concentration in industries with a larger share of intangible investment. In industries with greater intangible investment, small firms may have a harder time finding financing to invest and boost productivity. Small firms typically rely on bank lending that often require collateral from borrowers. But intangibles cannot offer physical collateral, are hard to measure, and, in the case of investments in knowledge and research and development, can easily be appropriated by others. These characteristics of intangibles make private equity financing more attractive for intangible-heavy firms, not only to undertake investments in assets where the cost is mostly sunk, but also to have an easier time protecting intellectual property when privately held. In addition, private equity financing and venture capital for small firms can be difficult to scale up. These difficulties are partly due to the importance of social relationships and the large role of public subsidies in supporting a vibrant venture capital industry, which takes a long time to develop. Large firms, on the other hand, can use their economies of scale (and buying power to acquire firms) to capture spillovers and exploit synergies. They also more easily attract capital.

Digital technology has two faces: information technology (IT) and communication technology (CT). IT represented by artificial intelligence (AI), robotics, and machine learning speeds up data processing, reduces the number of tasks, and generates concentration forces for economic activities. On the other hand, CT such as the internet and smartphones overcomes distance, makes communication and matching easier, encourages the division of labor, and yields dispersion forces. From the viewpoint of newly developed and developing countries, while the application of IT must be tried, the immediate focus must be placed on CT. The wave of CT has already arrived. Thanks to a drastic cost reduction in business-to-consumer (B-to-C) and consumer-to-consumer (C-to-C) matching, internet platforms and digital businesses have been mushrooming, including social media, e-commerce, and net-assisted transportation, matching services in lodging, e-payments, and fintech. We foresee the emergence of cross-border service outsourcing or the third unbundling. The usage of CT will also have strong implications for inclusiveness stipulated in the Sustainable Development Goals. Although platform providers require high-level human resources, platform users do not have to meet high skill qualifications. CT provides easier access to information, communication, and economic opportunities for a wide range of people. However, the policy regime for the governance of data is only at a nascent stage; it is underdeveloped and fragmented across countries. A fundamental problem is that the logic of economic justification for policies is not well established. Policies related to data flows and data-related businesses are overseen by various ministries and agencies, and coordination is often minimal.

There is a predecessor from which we can learn, i.e., free trade in goods. There are four kinds of policies that support free trade in goods. The first is policy that liberalizes and facilitates trade. Simple tariff removal is not enough to realize the smooth flow of goods. We need the removal of redundant non-tariff measures, the liberalization of trade-related services, and trade facilitation. The second is policy that corrects or cancels out distortion due to market failure. Market failure comes from the existence of externalities, the existence of public goods, economies of scale, imperfect competition, and incomplete information. We must identify where a market failure exists and apply appropriate policy, preferably the first-best policy. The third is policy that reconciles other value judgments with economic efficiency. GATT Article XX General Exceptions takes care of values such as public morals, life and health of humans, animals, and plants, and the protection of national treasures. The article specifies what sorts of exceptions are allowed and requests member countries to apply least trade-restrictive measures. The fourth is policy that incorporates imported goods and trade activities within the domestic policy regime. An example is the border tax in the European Union (EU), which is intended to adjust for the value added tax imposed on domestic producers. Drawing an analogy from free trade in goods, we set “free flow of data” based on the standard microeconomic theory as a starting point. The benchmark model is the microeconomic model under perfect competition in which the laissez-faire economy achieves the Pareto efficient equilibrium. The implication is that without market failure, the economy can achieve the highest

welfare. The flow of data is by nature almost frictionless, regardless of national borders. Once the internet connects us, data moves freely unless governments impose restrictions.

Nonetheless, many countries have concerns, in particular about the giant platform companies (GAFA: Google, Amazon.com, Facebook, Apple Inc.; and BAT: Baidu, Alibaba, Tencent), given their dominance in big data usage, possibly unfair trade practices, and moves to swallow potential future rivals (e.g., Facebook acquiring Whatsapp). The merger of Uber and Grab in their transport operations in Southeast Asian countries was also regarded as a possible factor for reducing competition. And the use of data to implement price discrimination practices to capture consumer surplus for corporate profits also has welfare implications since this tends to increase income disparities. Transactions between businesses and consumers tend to be characterized by asymmetric information; sellers are typically much more knowledgeable regarding goods and services they sell than buyers. In addition, once a problem occurs, businesses are in an advantageous position compared to individual consumers in dealing with the consequences. Such market failure is potentially more frequent and serious in e-commerce than with physical transactions and more difficult to remedy in cross-border e-commerce than in a domestic market context, not least because novel forms are enabled by exploitation of data – for example, websites tracking customers’ surfing history can “personalize” prices, substantially expanding the scope for first degree price discrimination.

The digital transformation raises both conventional issues related to IPR (the protection of IPR is foundational to knowledge-based business models) and novel ones related to data: e.g., the patentability of databases, ownership of data, secrecy of algorithms and source code. Privacy protection has become the most prominent concern in the digital economy; indeed, given the ubiquity of both state and corporate surveillance, the issues have even been regarded as touching on basic human rights. Policies must be designed so as to reconcile these values with economic efficiency. UNCTAD warns that many newly developed and developing countries have not yet established formal legal protection. The boundaries of privacy protection and the scope of data localization differ widely across countries. In particular, the three major data “realms” – the US, the EU, and China – have constructed quite different data protection regimes. Without a substantive effort for harmonizing the regulatory regimes, the digital world may become segmented. Mattoo and Meltzer pursue a desirable international policy framework by comparing the existing three types of policies to reconcile the free flow of data and privacy protection: unilateral development of national or regional regulation such as GDPR, international negotiation of trade disciplines such as CPTPP, and international cooperation involving regulators such as the EU-US Privacy Shield Agreement.¹⁷ Data protection issues have expanded beyond personal data. Massive business-related and other data including from Internet of Things (IoT) sources are starting to move across national borders. Redundant restrictions must be avoided.

Cyber security is one of the prime concerns for both the government and the private sector. Some countries, based on national security reasons, require disclosure of source code as condition for market access and/or “backdoor access” to proprietary and encrypted data, which creates risk of IPR leakage for companies. A portion of the cyber security issues relate specifically to critical national security interests; and given the international security divides, worldwide cooperation in depth may be inherently difficult to achieve, although a reasonable détente is an important goal to aim for. It will be highly important for some international norms to be established and implemented. Another aspect of cyber security, cross-border cyber-attacks on both government agencies and private companies for example, requires international collaboration for preparing and implementing counter-measures.

Conclusion: The establishment of an efficient supporting policy regime for the internet economy is urgent, particularly for newly developed and developing countries. The system of policies for the flow of data and data-related businesses must be neither too weak nor too strong.

References:

- Feldman, Noah. (2019) “Huawei and 5G: A case study in the future of free trade,” Bloomberg News, 19 February 2019.
- Financial Times. (2018) “The quest for a fairer way to tax the tech giants,” 30 October 2018.
- Gao, Henry. (2018) “Digital or Trade? The Contrasting Approaches of China and US to Digital Trade,” Journal of International Economic Law, 21
- Hufbauer, Gary Clyde and Wong, Yee. (2011) “Logistics Reform for Low-Value Shipments.” Policy Brief Number PB11-7, Peterson Institute for International Economics
- OECD. (2012) “Cybersecurity Policy Making at a Turning Point: Analysing a New Generation of National Cybersecurity Strategies for the Internet Economy.” Paris: OECD
- OECD. (2016) Consumer Protection in E-commerce: OECD Recommendation. Paris: OECD (<https://www.oecd.org/sti/consumer/ECommerce-Recommendation-2016.pdf>).

