4 Overview of handicrafts and e-commerce

The handicrafts market in the UK, Europe and globally covers a range of different sectors. Thus artisans (whether describing themselves as exponents of fair trade or otherwise) may produce hand-crafted or hand-finished products which fall into a number of commonly identified market sectors:[5]

Sector	**Examples**	**UK Market (2001 est)**
Giftware:		
Toys and games	Children's' wooden puzzles, Jigsaws Traditional toys and board games	£2,020m
Jewellery, watches and silverware	Earrings, necklaces, pendants Solid-silver and silver-plated ornamental ware and tableware	£1,865m
Ceramics	Traditional pottery Domestic tableware (eg dinner services)	£828m
Glassware	Hand-blown glass Glass ornaments, vases, figurines etc	£230m
Small leather goods	Wallets, purses, handbags, bags etc	£26m
Total Giftware:		**£4,969m**
Home Furnishings:		
Window Dressings	Ready-made curtains, accessories, blinds (fabric, wood, plastic, bamboo)	£1,790m
Bedding	Duvet covers, sheets, pillowcases, blankets etc	£1,580m
Bathroom textiles	Towels, bath mats etc	£580m
Cushions & covers	Cushions and covers	£250m
Table linen	Tablecloths, napkins etc	£40m
Total Home Furnishings:		**£4,240m**
Total giftware and furnishings		**£9,209m**

Figure 4 Handicrafts UK market sectors (est. 2001)

[5] These are the sectors used by Key Note Ltd (UK) in their range of market reports.

In addition handicraft products also fall into other sectors such as furniture, garden furniture, perfumes and cosmetics, clothing and miscellaneous items such as candles.

Key Note estimates that the UK markets for giftware and home furnishings will grow over 2001 to 2005 as follows:

	2001	2002	2003	2004	2005
Toys and games	2,020	2,070	2,130	2,190	2,245
Jewellery, watches and silverware	1,865	1,950	2,000	2,045	2,095
Ceramics	828	832	840	850	860
Glassware	230	235	241	247	252
Small leather goods	26	27	28	28	28
Total	**4,969**	**5,114**	**5,239**	**5,360**	**5,480**
% change year-on-year	*3.9*	*2.9*	*2.4*	*2.3*	*2.2*

Figure 5 Forecast giftware market by sector by value (£m at retail selling prices) 2001-2005

Source: Giftware 2001 Market Report, Key Note Ltd.

	2001	2002	2003	2004	2005
Window dressings	1,790	1,870	1,960	2,050	2,145
Bedding	1,580	1,640	1,700	1,765	1,832
Bathroom textiles	580	594	605	611	616
Cushions and covers	250	255	258	262	265
Table linen	40	41	42	42	42
Total	**4,240**	**4,400**	**4,565**	**4,730**	**4,900**
% change year-on-year	*4.1*	*3.8*	*3.8*	*3.6*	*3.6*

Figure 6 Forecast total UK market for home furnishings by sector by value at current prices (£m retail selling prices), 2001-2005

Source: Home Furnishings 2001, Key Note Ltd.

Overseas Trade Statistics show that £1,807.4 million of Giftware items and £379.7 million of Home Furnishings were imported to the UK from outside the EU in 1999.
Furniture (as itemised below) accounted for £645.4 million imports from outside the EU. In many cases the main exporters were less developed countries.

Sector	Intra-EU	Extra-EU	Total
Giftware (1999)			
Toys[6]	151.1	744.3	895.8
Jewellery	222.8	817.8	1040.6
China & Earthenware[7]	112.3	172.5	284.8
Glassware	95.4	57.4	152.8
Fancy leather goods[8]	3.5	15.4	18.9
Total Giftware:	**585.1**	**1807.4**	**2392.9**
Furniture (1999)			
Chairs (including cane and bamboo)[9]	254.6	180.5	435.1
Other wooden furniture	126.6	275.6	402.2
Metal furniture	57.9	105.9	163.8
Wooden bedroom furniture	50.5	63.5	114
Furniture of other materials (inc bamboo)	4.2	19.9	27.3
Total Furniture:	**493.8**	**645.4**	**1142.4**
Home Furnishings (2000)			
Bedding[10]	56.9	183.8	240.7
Table linen[11]	3.1	18.2	21.3
Toilet & Kitchen linen	29.5	96.4	125.9
Curtains & blinds[12]	14	55.6	69.6
Other furnishing articles	3.1	25.7	28.8
Total Home Furnishings:	**106.6**	**379.7**	**486.3**
Total imports	**1185.5**	**2832.5**	**4021.6**

Figure 7 UK Handicraft imports by value (£m)

Source: Overseas Trade Statistics/Key Note

[6] China, Hong Kong and Indonesia were the main non-EU exporters of traditional toys to the UK in 1999. *Giftware 2001*, Key Note.
[7] Principle non-EU exporters include the US, China, Japan, Thailand, Taiwan, Hong Kong, Vietnam and Malaysia. *Giftware 2001*, Key Note.
[8] The main non-EU sources of small leather goods were Thailand and China. *Giftware 2001*, Key Note.
[9] Indonesia was a principle exporter of chairs in 1999, especially cane and bamboo, and wooden-framed chairs. *Household Furniture 2000*, Key Note.
[10] India, the US, China and South Korea were the main importers of blankets into the UK. Almost 69% of the value of imported bedspreads from outside the EC was attributable to India. Other main sources of bed linen include Egypt, Pakistan, China, Bangladesh and Turkey. *Home Furnishings 2001*, Key Note.
[11] Egypt, India, China and Croatia were the main non-EC suppliers of table linen. *Home Furnishings 2001*, Key Note.
[12] Pakistan was the largest exporter of curtains to the UK, accounting for over 38% of the value of imports from outside the EC. *Home Furnishings 2001 Market Report*, Key Note

In analysing the global market for Giftware, Key Note draws attention to the US, German and Italian markets.

- 2001 is estimated to be the hardest year for retail sales in the **USA** since 1991. Sales of traditional toys represent over 75% of the total US toy industry, worth some $29.9bn in 1999. Imports of toys in 1999 were valued at over $14.6bn.

- **Germany**, with a population of 82 million, is the largest market in Europe for giftware, with a value of $16bn. Imports, particularly from China and the US, are increasing. '*It is anticipated that Germany will become, if it is not already, the European market leader when it comes to buying over the Internet*.' Favourite gift items for women are said to include perfume and cosmetics, jewellery and watches, leatherware and china; while men favour jewellery, watches and gourmet food.

- **Italy** is notable for having over 100,000 of its own handicrafts producers, many run by single craftsmen, in central and northern Italy, especially Tuscany. Domestic Italian demand for giftware is recovering after a recession that has lasted since the 1990s. Retailers sell around a billion gift items each year to consumers buying, on average, 20 gifts each. As in Germany, women tend to buy more items, but men will spend more.

From the perspective of Third World exporters, revenues from handicrafts can be significant. For example, in 1999/2000 India earned $1.68 bn in handicraft exports, including carpets.[13] Handicrafts exports from India grew overall by 12% between 1998/99 and 1999/00, with some sectors, such as embroidered and crocheted goods, growing by 31%.

> The general view of crafts and giftware is therefore that the markets are increasing at a relatively steady rate and hold reasonable prospects for growth in the future.

[13] Ministry of Textiles *Annual Report 2000/01*, Government of India http://texmin.nic.in/annualrep/ar01_c09.html . See Appendix 9.4.1 for export figures by sector for 1993-2000.

4.1 Overview of fair trade handicrafts

The fair trade craft movement began to take off in the late 1960s and throughout the 1970s, combining a growing number of Southern producer organisations, and Northern importers, wholesalers and specialist shops (described as 'World Shops'). These have been joined since 1988 by a number of fair trade labelling initiatives.

The four types of fair trade organisations play different roles in the supply chain between producers (artisans) and end consumers in the North.

Producers make a wide variety of handicrafts (including basketry, glassware, jewellery, musical instruments, textiles, wooden products etc) for export. Some also cultivate food products such as coffee, tea, cocoa, spices etc.

Exporting and importing organisations buy from producers, paying a 'fair price'. Importers may offer other supporting services: giving advice on product development (perhaps by providing consultancy from a Northern designer), providing skill or management training; or offering financial support (as grants or advance payments for goods in to help cash flow). Exporters then tend to sell to an importing ATO. HEED and ASHA are examples of intermediary exporting organisations.

Importers market their products via specialised retail shops ('World Shops'), through local groups and representatives, and in some cases by mail order catalogue. Many also use other channels such as supermarkets, retail chains, gift shops, organic and whole food shops etc.

EFTA estimates that fair trade products (mainly food) are available in 43,000 supermarkets throughout Europe. Many importers have their own campaigns to raise the profile of fair trade and to lobby for changes in international trade. EFTA identifies more than 100 fair trade importing organisations in Europe, with four having an annual turnover exceeding €10m: Gepa (Germany: €29.8m), Fair Trade Organisatie (Netherlands: €15.9m), Traidcraft (UK: €12.4m) and Oxfam Fair Trade (UK: €10.7m).

Oxfam (UK), for example, founded in 1943, first began marketing handicrafts from the South in 1964 as part of their Bridge programme, which became the Oxfam Fair Trade Company in 1996. In the early 1980s Oxfam was selling more than £1 million of products via their mail order catalogue. They continue to sell handicrafts today through their network of 850 charity shops in the UK, of which 320 stock fair trade products. Handicrafts today represent 70% of the turnover of the Oxfam Fair Trade Company[14] (turnover £8.8 million in 2000). However, Oxfam announced during the time of this study that they would dramatically change the way they source their crafts.

[14] Fair Trade in Europe 2001, EFTA p'59 http://www.eftafairtrade.org/pdf/FT_f&f_2001.pdf

World Shops specialise in fair trade products, and act as sources of local information. Most are run by local associations of dedicated people, with volunteers doing most of the work (an estimated 100,000 in Europe in 2000). In most countries World Shops are represented by national associations. There are more than 2,700 World Shops in Europe, with estimated sales of over €92m (2000).

Fair trade labelling organisations have been developed since 1988. They aim to expand the market for fair trade goods by bringing them into mainstream channels such as supermarkets. There are labelling initiatives in 14 European countries, with sales under fair trade labels totalling €210m (mainly food products).

Fair trade has been defined by FINE, a consortium of the four major European fair trade networks[15] as follows:

- **Fair trade is an alternative approach to conventional international trade. It is a trading partnership which aims for sustainable development of excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning.**

The goals of fair trade, say FINE, are:

1. **To improve the livelihoods and well being of producers by improving market access, strengthening producer organisations, paying a better price and providing continuity in the trading relationship.**

2. **To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.**

3. **To raise awareness among consumers of the negative effects on producers of international trade so that they can exercise their purchasing power positively**

4. **To set an example of partnership in trade through dialogue, transparency and respect.**

5. **To campaign for changes in the rules and practice of conventional international trade.**

6. **To protect human rights by promoting social justice, sound environmental practice and economic security.[16]**

[15] FINE represents FLO International (Fair trade Labelling Organisations), IFAT (International Federation for Alternative Trade), NEWS! (Network of European World Shops) and EFTA (European Fair Trade Association).
[16] FINE April 1999, as reported in *Fair Trade in Europe 2001*, EFTA

EFTA, the European Fair Trade Association, estimates that the total fair trade market in the UK was worth €69.6 million (euros) in 2000/01 (£43 million); and for Europe in excess of €260 million (£161 million). These figures include all fair trade products (both crafts and food products) sold through all alternative channels and supermarkets[17]. Although EFTA do not provide separate detailed figures for fair trade crafts, they estimate that non-food items are likely to represent half of the total fair trade sales.

Thus fair trade products represent a very small proportion of the overall market for handicrafts. In the UK alone, estimated fair trade craft sales of £21.5m currently represent just 0.2% of the total UK market for giftware and home furnishings (£9,209m).

Fairly-traded food products have been more successful at establishing a larger share of the market in some European countries. '*Although most figures still fall far short of the supposed market potential, they do reflect the future challenge for fair trade – the challenge of "going mainstream".*' EFTA estimates, for example, that fair trade labelled coffee has achieved a market share in 2000 of 1.5% in the UK, 2.7% in Netherlands and 3.0% in Switzerland, with fair trade labelled bananas achieving a 15.0% market share in Switzerland.

As specific sales data from Traidcraft indicates (see section 9.1.7), sales of fair trade food products are growing, whereas sales of crafts are generally static or in decline. Thus Oxfam Fair Trade Company has announced that as from the end of 2001 it will stop sourcing handicrafts directly from its current 18 producer groups, instead preferring to buy indirectly from importers such as Traidcraft. In a presentation to producers at the IFAT conference in Tanzania in June 2001, Oxfam reported that their fair trade craft business had '*never broken even*', and was an increasing cost to Oxfam (over £3 million in 2000).[18]

Organisations such as IFAT have themselves noted that fair trade importers helped to create the market for imported hand-made crafts throughout the 1970s and into the 1980s, but since then have found it hard to compete with commercial companies who are able to buy in significantly greater quantities, and with lower overheads and distribution costs. Third World producers who are committed as part of their fair trade criteria to paying wages above market rates have also found it increasingly difficult to compete with hand-finished machined products from China and South East Asia.

The general view of fair trade crafts is that while the giftware and craft market grows steadily, fair traded hand made crafts have lost ground. They represent a small share of the market, are rarely profitable to the ATO and have seen very little growth in the last decade.

---

[17] Fair Trade in Europe 2001, EFTA
[18] IFAT,2001.

4.1.1 Strengths, weaknesses, opportunities and threats

We can bring the analysis of the global gift and craft market together with the fair trade handicraft overview to be summarised as follows.

Strengths

- Some producers have made significant improvements in quality control and product development for the export market, winning commercial contracts
- Women – the most frequent purchasers of gifts in Europe and USA – have greater financial independence. They may buy more themselves, and also buy for others.

Weaknesses

- Handicrafts, unlike fair trade foods, are not repeat products
- Alternative Trading Organisations and fair trade importers have historically lost market share to commercial importers
- Expenditure is very seasonal (dominated by Christmas)
- World Shops generally lack professionalism[19]

Opportunities

- People in Western markets are living longer: increasing the number of gift-buying occasions. The 'grey market' (the over 50s) often have high disposable incomes.
- Internet and digital TV may provide new opportunities for sales
- Growing public awareness and interest in Europe and USA in ethical and fairly traded products

[19] Caserta identifies the main weakness of World Shops as lacking professional tools such as 'strategic planning, budget and financial control, ICT, tasks division, training, marketing techniques'. *Creating a fair trade partnership through a fair trade global communication system*, NEWS!, 2001.
http://www.citinv.it/equo/news/

Threats

- Global recession
- Stiff competition from China and SE Asia, where labour rates are very low
- Traditional giftware faces competition from ‘gift experiences’, where vouchers can be exchanged for activity days
- ATOs and importers are focusing on food products to increase sales (especially in mainstream outlets)

4.2 Introduction and overview to E-commerce

'*E-commerce involves the sale or purchase of goods or services over computer-mediated networks. These goods and services may be ordered over these networks, but payment for them and the ultimate delivery of the good/service may be conducted on or off-line.*'[20]

Some analysts define **e-commerce** as simple buying and selling over electronic networks; and use **e-business** to refer to this wider range of supporting business activities that can be conducted over such networks. This study will consider how the Internet and related technologies can be used to enhance the overall business activities of craft producers.

E-commerce can been divided into primarily three categories:

- **business to consumer** (B2C): where enterprises sell directly to the consumer, often cutting out ('disintermediating') wholesalers or 'bricks and mortar' retail outlets. B2C is the most commonly understood form of Internet business – as typified by the on-line retailers such as the bookseller and general retailer Amazon (www.amazon.com) ,whom some credit with 'inventing' e-commerce. The most successful B2C trading has been with standard products such as cds, books, software, downloadable music etc. Many high-profile companies, such as Amazon and Yahoo! however have yet to make a profit, even in the USA, where e-commerce is most advanced.[21]

- **business to business** (B2B): where enterprises use ICT[22] and the Internet to enhance the whole range of business to business activities. This includes procurement of raw materials and supplies, liaison with contractors and sales channels, servicing customers, collaborating with partners, integrated management of data and knowledge, etc. B2B activities can take place across both public networks (such as the Internet) and private systems. Because companies purchase in much greater quantities than consumers, B2B is expected to be the fastest growing sector of e-commerce, accounting for 80% by 2005.

- **business-to-government** (B2G): where businesses trade directly with government offices and agencies for public procurement (eg supplies for hospitals, schools and other government contracts).

---

[20] *E-commerce: accelerator of development?*, Policy Briefing Issue 14, Hubert Schmitz, John Humphrey, Robin Mansell and Daniel Pare, IDS (Institute of Development Studies, University of Sussex), September 2001.
http://www.ids.ac.uk/ids/bookshop/briefs/brief14.html

[21] See footnote 1.

[22] For how we are using the term ICT (Information and Communication Technology) in this study, see section 3.1.1.

Other electronic business relationships have also been identified as variants of the above. These include **consumer-to-consumer** (C2C) (on-line transactions between private individuals, such as consumers trading second hand goods using on-line trading exchanges and market places such as Ebay); and **consumer-to-business** (C2B) (involving, for example, reverse auctions where airlines compete to give consumers the best price on flights).

4.2.1 Some people are enthusiastic

Some commentators, such as Nicholas Negroponte, founder of *Wired* magazine and the MIT (Massachusetts Institute of Technology) Media Lab, see e-commerce and the Internet heralding a brave new digital world of increasing equality and global harmony:

'The caste system is an artifact of the world of atoms. Even dogs seem to know that on the Net.

Childhood and old age will be redefined. Children will become more active players, learning by doing and teaching, not just being seen and not heard. Retirement will disappear as a concept, and productive lives will be increased by all measures, most important those of self. Your achievements and contributions will come from their own value.

Sovereignty is about land. A lot of killing goes on for reasons that do not make sense in a world where landlords will be far less important than webmasters. We'll be drawing our lines in cyberspace, not in the sand. Already today, belonging to a digital culture binds people more strongly than the territorial adhesives of geography - if all parties are truly digital.'[23]

The leaders of the G8 nations share a fundamental optimism in the new opportunities of Information and Communication Technology and the digital age, as highlighted in the opening statement of the *Okinawa Charter on Global Information Society*:

'*Information and Communications Technology (**IT**) is one of the most potent forces in shaping the twenty-first century. Its revolutionary impact affects the way people live, learn and work and the way government interacts with civil society. **IT** is fast becoming a vital engine of growth for the world economy. It is also enabling many enterprising individuals, firms and communities, in all parts of the globe, to address economic and social challenges with greater efficiency and imagination. Enormous opportunities are there to be seized and shared by us all.*'[24]

[23] *Beyond Digital*, Wired magazine, December 1998. http://www.wired.com/wired/archive/6.12/negroponte.html
[24] The *Okinawa Charter on Global Information Society* (2000) is available at the Digital Opportunities Task (DOT) Force web site at http://www.dotforce.org/reports/it1.html

One hope of the digital economy is that e-commerce will equalise opportunities for small and medium sized enterprises (SMEs): by reducing costs of entry, and extending market reach (whether locally, nationally or globally). Thus the Internet brings a 'death of distance' as it: '*reduces the importance of physical distance and transportation costs as barriers to entry into international markets, making it possible for even small firms to market their products in a competitive manner'*.[25]

4.2.2 What is the reality?

Increasingly researchers have noted that the early optimistic predictions significantly underestimated the barriers facing SMEs in the developing world. Thus IDS (the UK Institute of Development Studies) summarises their briefing on E-commerce for development:

'*E-commerce holds out enormous promises for producers in poor countries: easier access to the markets of rich countries and higher incomes resulting from these new trading opportunities. Many studies and policy documents, however, have underestimated the obstacles to reaping these benefits. It is not just a matter of bridging the 'digital divide' that arises from poor telecom infrastructure and lack of computer-related skills. Only with improvements in the transport of material goods and in the institutional arrangements that facilitate trust can e-commerce accelerate economic development.*'[26]

The new global knowledge economy brings demand for new skills, resources and regulatory and policy environments. As UNIDO (the United Nations Industrial Development Organisation) observes:

'*rapid technology change requires stable long-term framework conditions, just as fast traffic requires good long-distance roads. A globalising electronic economy needs a stable long-term* global *environment for development, in terms of international law, standards, security, telecommunications structures etc'*.[27]

In the new knowledge economy, access to know-how, the speed with which knowledge grows and is communicated, and the increasing knowledge content of output are critical factors. UNIDO identifies the key factors of knowledge-based industry, as compared to classical industry, as below:

[25] *Development and international cooperation in the twenty-first century: the role of information technology in the context of a knowledge-based global economy*, UN-ECOSOC report of the Secretary General, E/2000/52, May 2000. http://www.un.org/documents/ecosoc/docs/2000/e2000-52.pdf

[26] *E-commerce: accelerator of development?*, Policy Briefing Issue 14, Hubert Schmitz, John Humphrey, Robin Mansell and Daniel Paré, IDS (Institute of Development Studies, University of Sussex), September 2001. http://www.ids.ac.uk/ids/bookshop/briefs/brief14.html

[27] *Electronic and Mobile Business for Industrial Development*, UNIDO and Ericsson, December 2000. http://www.unido.org/userfiles/PuffK/ericsson.pdf

Classical	Knowledge-Based
Energy-intensive	Information-intensive
Standardized	Customized
Stable product mix	Rapid changes in product mix
Automation	Systemization
Single firms, branches	Networks of firms, clusters
Centralization	Distributed intelligence
Specialized skills	Multi-skilling
Vocational training	Continuous training and re-training
Government control, planning and sometimes ownership	Government information, regulation, coordination and vision

Figure 8 Knowledge-based industry compared to classical industry

Source: *Electronic and Mobile Business for Industrial Development*, UNIDO and Ericsson, December 2000

Despite the hype that has surrounded the dramatic growth of the Internet and the so-called global knowledge economy, access to the necessary ICT (information and communication technology) is very unevenly distributed globally. Thus even digital utopians such as Jeremy Rifkin acknowledge the growing 'digital divide' between the connected and the disconnected:

'*Despite all the euphoria surrounding the communications revolution and the bold projections about a future wired world, the realities are that 65 per cent of the human population today have never made a single telephone call and 40 per cent have no access to electricity. There are more telephone lines in Manhattan than in all sub-Saharan Africa.*'[28]

However access to the Internet is growing rapidly in many developing countries, especially in urban areas and in countries which have deregulated telecommunications markets. The table below shows how the number of SMEs in the developing regions with an Internet connection, will rise by an estimated 500 per cent by 2005.

[28] *The age of access*, Jeremy Rifkin, Tarcher Putnam, 2000.

Internet Users	2000	2001	2002	2003	2004	2005
World	222.6	293.2	376.6	470.8	570.6	676.6
Large businesses	73.4	97.0	120.3	142.0	162.1	182.4
SMEs	11.6	18.0	25.8	34.1	43.4	53.1
North America	94.0	117.8	143.7	169.0	196.0	221.1
Large businesses	25.9	33.3	40.0	45.9	51.1	56.3
SMEs	6.5	9.7	13.4	17.1	21.1	25.0
South/Central America & Caribbean	7.9	11.6	16.9	23.7	31.4	40.2
Large businesses	4.6	6.7	9.2	11.8	14.4	17.0
SMEs	0.4	0.7	1.1	1.7	2.4	3.2
Western Europe	56.9	76.6	102.9	135.0	165.3	196.8
Large businesses	18.4	24.1	29.3	34.0	38.1	42.1
SMEs	2.3	3.7	5.5	7.3	9.4	11.6
Central & Eastern Europe	6.6	9.7	12.7	15.8	20.0	25.1
Large businesses	1.4	2.1	3.1	4.0	5.0	6.1
SMEs	0.1	0.1	0.2	0.3	0.5	0.6
Central Asia	6.0	9.2	14.3	21.6	31.7	44.8
Large businesses	2.3	3.4	5.1	7.0	9.1	11.3
SMEs	0.3	0.4	0.6	0.8	1.1	1.4
Asia Pacific	47.1	62.3	77.6	93.6	109.7	127.4
Large businesses	18.9	24.7	30.1	34.9	39.2	43.4
SMEs	1.9	3.1	4.6	6.2	8.1	10.1
Middle East & Africa	4.1	5.9	8.4	12.0	16.4	21.3
Large businesses	1.9	2.7	3.6	4.4	5.3	6.2
SMEs	0.2	0.3	0.5	0.6	0.8	1.1

Figure 9 Internet users, by type – projections for 2000-2005

Source: *Mobile E-commerce: Market Strategies*, John Davison, Ann Walsh and Duncan Brown, Ovum Ltd, London 2000.

Note: Central Asia includes the People's Republic of China and India. [29]

Projected e-commerce transactions show a ten-fold increase throughout the developing world:

E-Commerce Transactions	2000	2001	2002	2003	2004	2005
All e-commerce transactions						
World	247.2	393.2	623.7	990.9	1,574.2	2,503.8
North America	148.6	233.1	366.2	576.1	907.6	1,431.6
South/Central America & Caribbean	4.3	6.8	11.0	17.8	28.6	45.9
Western Europe	46.9	75.8	122.3	198.1	319.5	515.7
Central & Eastern Europe	1.9	3.0	4.8	7.7	12.3	19.8
Central Asia	5.7	9.1	14.7	23.6	38.2	61.9
Asia Pacific	37.4	61.4	98.4	157.5	251.7	402.7
Middle East & Africa	2.4	3.9	6.3	10.1	16.3	26.1
Business-to-business e-commerce transactions						
World	218.3	344.5	543.1	857.8	1,355.6	2,145.9
North America	124.8	194.9	304.7	477.2	748.6	1,176.4
South/Central America & Caribbean	4.2	6.7	10.7	17.1	27.3	43.5
Western Europe	44.1	70.2	112.0	178.9	285.2	455.4
Central & Eastern Europe	1.9	3.0	4.7	7.6	12.1	19.4
Central Asia	5.5	8.8	14.1	22.7	36.6	59.1
Asia Pacific	35.5	57.2	91.0	145.0	231.0	368.6
Middle East & Africa	2.3	3.7	5.8	9.3	14.8	23.5
Business-to-consumer e-commerce transactions						
World	28.9	48.7	80.6	133.2	218.6	357.9
North America	23.8	38.3	61.6	99.0	159.0	255.3
South/Central America & Caribbean	0.0	0.1	0.3	0.7	1.3	2.3
Western Europe	2.8	5.5	10.3	19.2	34.3	60.4
Central & Eastern Europe	0.0	0.0	0.0	0.1	0.2	0.4
Central Asia	0.2	0.3	0.5	0.9	1.6	2.8
Asia Pacific	1.9	4.2	7.3	12.5	20.7	34.0
Middle East & Africa	0.1	0.2	0.4	0.8	1.5	2.6

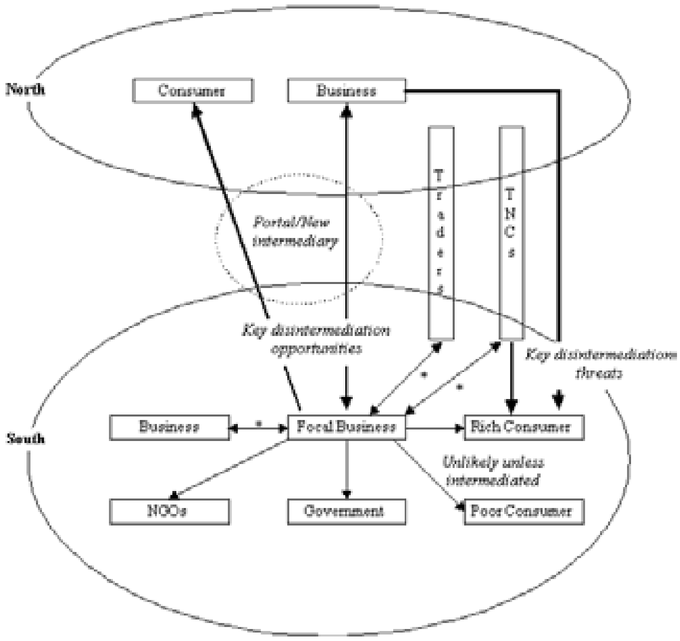
Figure 10 Projected e-commerce transactions, by region, 2000-2005 (US$ billions)

Source: *Global Telecoms and IP Markets*, Richard Kee, Ovum Ltd, London 2000. Note: In this table central Asia includes the People's Republic of China and India.

[29] See *Electronic and Mobile Business for Industrial Development*, UNIDO and Ericsson, December 2000. http://www.unido.org/userfiles/PuffK/ericsson.pdf

This growth of e-commerce will bring new ways in which businesses can organise themselves, and deal with one another. While initially this will have the greatest impact on international trade, diffusion of Internet and related technologies in local markets will bring about new relationships both regionally and locally. This will allow for new supply-chain models to emerge as some companies are 'disintermediated' (cut out of the new supply chains of the digital economy), while others will reinvent themselves in new forms and with new business relationships ('reintermediation').

The opportunities in e-commerce for disintermediation in international trade between North and South can be represented graphically as in Figure 11 below:



** - Northern model key growth areas; potential disintermediation opportunities*

Figure 11 North-South opportunities for disintermediation

Source: *Analysing E-commerce for Development*, Richard Heeks, IDPM, University of Manchester, 2000. http://idpm.man.ac.uk/idpm/diecomm.htm

Heeks notes that the main opportunities will lie with large, established companies. As recent experience of e-commerce in Europe and USA indicates, after an initial 'goldrush' of new enterprises, it is the existing major companies (in the case of B2C in the North, the known brands of established 'bricks and mortar' retailers) who have the resources to take advantage of the new economy to enhance their existing business operations. As some observers have noted, the recent history of e-commerce follows the pattern of previous introductions of new technology, such as the growth of the railway in the USA, where of hundreds of new companies who set up to exploit the new technology, only a handful survived.

In the specific context of handicrafts, the existing supply chains and opportunities for disintermediation in general via the Internet can be visualised as in Figure 12 below.

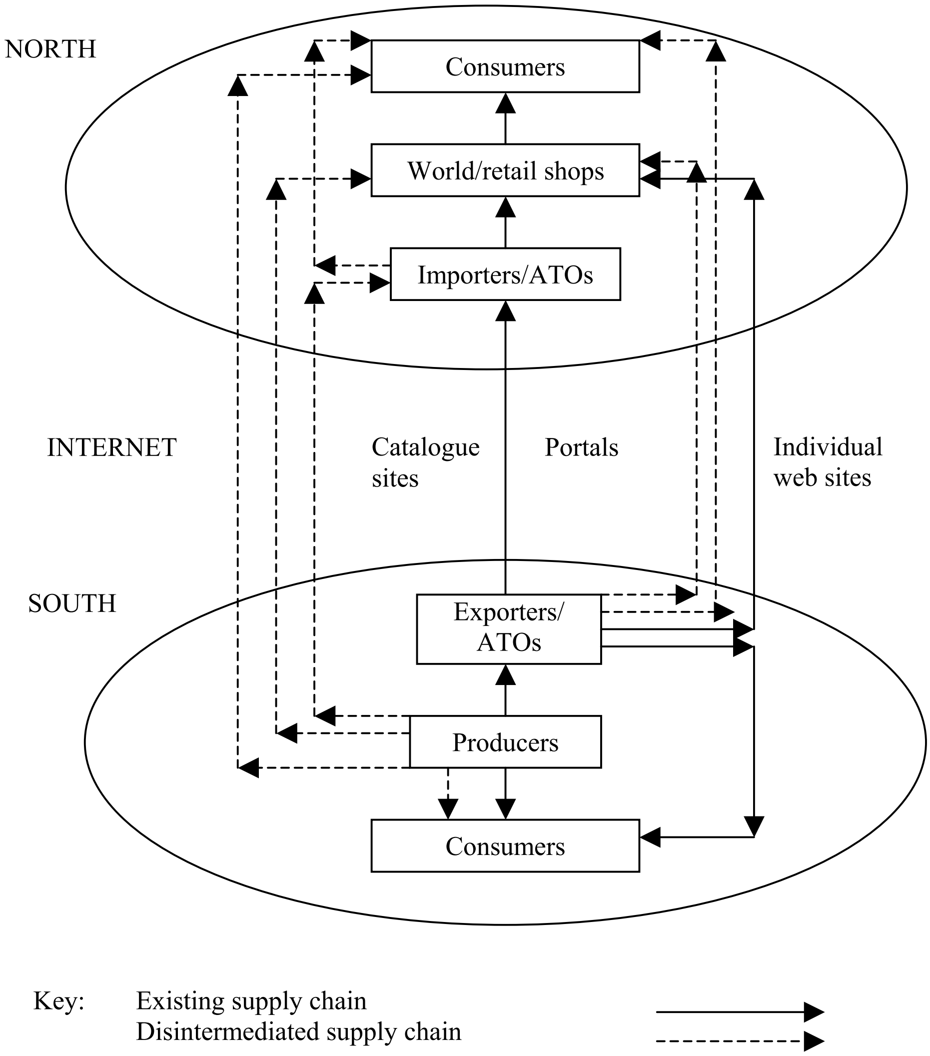


Figure 12 Disintermediation opportunities for crafts

4.3 E-commerce and SMEs

For these reasons the optimism and hype of e-commerce pundits needs to be tempered with a healthy degree of caution and scepticism. New opportunities do and will exist, but the existing (and significant) barriers and constraints facing SMEs in less developed countries remain.[30]

The early experience of B2B e-commerce in the USA and Europe has shown that it can help to reduce transaction costs, and remove inefficiencies in the supply chain – largely where the commodities or products are homogeneous or standard items, and where there is a large enough range of suppliers and buyers actively participating within the electronic network (whether public or private). However, as indicated by the bursting of the 'dot com' bubble in both the USA and Europe, many of the first wave of vertical portals (which bring together buyers and sellers in a defined market sector: such as steel, pharmaceuticals, automobile parts etc) failed since their target customers were unable or unwilling to connect and integrate their business systems at the required levels.

Thus many SMEs in Europe and the USA still grapple with effective implementations of email and simple sharing of knowledge and data internally; let alone supporting a comprehensive integration of stock, sales and marketing data, especially where these are tied into older legacy computer systems and databases. Many smaller businesses have held back, put off by the high risks and costs (time, money and energy) of entry or system upgrades, adopting a 'wait and see' attitude to find out if e-business can deliver measurable benefits to their enterprises. Often the most vocal proponents of e-business and the new knowledge economy have been major transnational enterprises, such as Cisco and others, who have sufficient market clout to ensure that suppliers and partners invest and participate at the required levels.

Although the benefits of B2B e-business for SMEs are likely to take longer to materialise than first predicted, over the medium term these will include:

- Expanding market reach through new, cost-effective marketing tools
- Generating lower prices for buyers
- Cutting the costs of buyers' operations
- Sharing of data and knowledge, more quickly and more cheaply, with staff, suppliers and partners

[30] To date, evidence of how poor communities have benefited from e-commerce is largely anecdotal. Thus UNDP quotes this account on its Info21 web site: '*An Internet connection set up in a Peruvian village helped the community establish a partnership with a company in New York and expand the market for their agricultural products. It resulted in a 5-time increase of income, from US$300 to US$1500 a month. Internet connectivity thus can provide an unparalleled opportunity to people in remote rural areas to expand their business activities beyond local confines to a global reach.*'
See: http://www.undp.org/info21/e-com/e1.html.

- The potential to integrate 'back office' operations (eg procurement, stock control, sales, marketing data) with more accurate reporting and forecasting

- The potential to capture sophisticated customer data and profiles, and identify market trends and opportunities more quickly

4.3.1 Strengths, weaknesses, opportunities and threats

Ultimately the economies of all developing countries will be affected in some way by global e-commerce and the advent of new electronic networks such as the current Internet. Thus decision makers in the so-called Third World face a number of macro-level issues if their nations are to be ready for e-commerce.

UNIDO (the United Nations Industrial Development Organisation) and the global telecommunications company Ericsson published the following SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) to help the leaders and key decision-makers in developing countries prepare for e-commerce.[31]

STRENGTHS

- Low labor costs
- Possibility of skipping a development stage (limited vested interests in existing industrial/technological structures)
- In a number of countries: education levels, awareness/attitudes
- National products and culture as unique resources

WEAKNESSES

- Low education levels
- Limited understanding of ICT/EMC role in development
- Low incomes -> limited internal market and access to ICT
- Firms: inadequate management, info bottlenecks, low competitiveness of products
- Infrastructure bottlenecks (telecom and transport)
- Lack of security for EMB
- Inadequate financial systems
- Legal and regulatory obstacles to private business and international trade
- In some countries: political instability

OPPORTUNITIES

- Instant access to worldwide information
- Technology transfer and growth of ICT industries
- Penetration of developed country markets with goods and services
- Internal B2B, B2G and B2C markets
- Rapid expansion of supply/value added chains
- Bypassing middlemen
- New markets for local products and culture
- In-country networking among firms

THREATS

- Exclusion of economically and socially disadvantaged groups
- Gains appropriated by developed country industries, emigration of ICT skills
- Further concentration of trade in the developed world
- Penetration of domestic markets by foreign firms
- Dissolution of existing supply chains, greater dependence on transnationals
- Established internet service providers as new power brokers
- Swamping with foreign culture and products

Figure 13 E-commerce SWOT analysis

Note: EMB is Electronic and Mobile Business: '*the conduct of business on the (mobile) Internet, not only buying and selling but also servicing customers and collaborating with partners*'. EMC is Electronic and Mobile Commerce.

---

31 *Electronic and Mobile Business for Industrial Development*, UNIDO and Ericsson, December 2000. http://www.unido.org/userfiles/PuffK/ericsson.pdf

At a macro level, developing countries also face other threats and barriers posed by e-commerce and the increasing diffusion of the Internet and related technologies. These include, for example:

- Risk of diversion of resources and attention away from existing poverty-reduction strategies (eg critics have observed that village primary schools in remote locations need exercise books, teachers and basic infrastructure, such as basic buildings, before they need PCs and Internet access).

- Diffusion of ICT may bring new forms of dependency on proprietary software, systems and hardware.

- Information technology requires literacy – in the poorest countries over half of adults are illiterate. About 80% of the Internet is in English, and there is still a vast need for contextualised local-language content.

- Additional barriers are related to gender and age. In Latin America only 38% of computer and Internet users are women; in many parts of the world, where access to ICT is rare, older people may be left out entirely.

- E-commerce may help SMEs in developing countries market their goods and services internationally, nationally and locally – but SMEs still face challenges of management, distribution, secure payment, trust, availability of effective redress and issues relating to the security and privacy of personal data of customers (see section 6.1.6).

- In an increasingly connected world, SMEs and communities may need to safeguard their intellectual property rights. Transnational corporations like Monsanto and others are already patenting genes and seeds as intellectual property, giving them potentially enormous control over seed stocks in the future[32].

[32] This follows a landmark ruling by the US Patent and Trademark Office (PTO) in 1987 that '*the components of living creatures – genes, chromosomes, cells and tissues – are patentable and can be treated as the intellectual property of whoever first isolates their properties, describes their functions, and finds useful applications for them in the marketplace*.' *The Age of Access*, Jeremy Rifkin, 2000. Rifkin notes that '*the elimination of the widespread ownership of the seeds of life and their concentration in the hands of a few companies mark a turning point in the history of agriculture*'.

Successful adaptation to e-commerce opportunities requires governments to provide SMEs with more than access to ICT, but to tackle a number of business environmental factors. The information and technology consultants McConnell International in 2000 conducted a comprehensive survey of the 'e-readiness' of 42 (mostly developing) countries, structured around five issues:

- **E-leadership** (eg government policies to promote ICT access for all social groups, partnerships with businesses etc)

- **Connectivity** (basic infrastructure such as telecoms, electricity, transport, Internet access)

- **Information security** (intellectual property rights, data security, privacy etc)

- **Human capital** (culture of information sharing, broad-based human resource development for a knowledge-based society)

- **E-commerce climate** (investment climate, availability of efficient e-business services, transparent legal framework, political stability, sound financial sector)

The survey found that of country groups as a whole, Central and Eastern Europe and Latin America were closest to e-readiness. Asian countries in the survey were very mixed in their preparedness: with only Malaysia, India and China having created adequate (if not optimal) conditions for e-commerce. The survey also identified how Sub-Saharan Africa faces not only very major problems of connectivity, but also other barriers such as lack of information security, inadequate education levels, unfavourable business climates and a lack of e-leadership among both business and political leaders.[33]

A graphic summary of the McConnell survey of global e-readiness (August 2000) is given in Appendix 9.4.2. An updated survey (May 2001) is available from
http://www.mcconnellinternational.com/ereadiness/report.cfm

[33] *Risk E-business: Seizing the opportunity of global e-readiness*, McConnell International, August 2000, available from http://www.mcconnellinternational.com/ereadiness/report.cfm.

4.4 Conclusions

No one can accurately predict how new technologies will be used by people (the unexpected explosion in SMS messaging is a case in point). However, the above overview suggests that there are considerable challenges that have to be overcome before B2C e-commerce is considered the norm. Every suggestion seems to be that the new opportunities of retail e-commerce will best be exploited by existing established 'bricks and mortar' companies. There are new opportunities for SMEs but they are in the back office operation rather than in market penetration.

- E-commerce is growing rapidly, especially B2B (business to business).
- This presents new opportunities and challenges to SMEs in developing countries, especially those in urban areas and where deregulated telecommunications markets bring rapid diffusion of affordable Internet access.
- Opportunities for disintermediation in international trade will largely favour existing, transnational corporations; though there will be limited opportunities for Southern SMEs as producers.
- Over the medium term e-business will bring significant enhancements to SMEs who are able and willing to integrate their back office operations.