

DEVELOPMENT OF DIGITAL ECONOMY AND ITS PROSPECTS

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Abstract

This article discusses the role of the digital economy in the global economy and gives suggestions for improving this type of economy.

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The digital economy is the economic activity that results from billions of everyday online connections among people, businesses, devices, data, and processes. The backbone of the digital economy is hyper connectivity which means growing interconnectedness of people, organizations, and machines that results from the Internet, mobile technology and the internet of things (IoT).

Digital economy is one collective term for all economic transactions that occur on the internet. It is also known as the Web Economy or the Internet Economy. With the advent of technology and the process of globalization, the digital and traditional economies are merging into one. Let us learn more about this concept of digital economy.

The digital economy is taking shape and undermining conventional notions about how businesses are structured; how firms interact; and how consumers obtain services, information, and goods. Professor Walter Brenner of the University of St. Gallen in Switzerland states: "The aggressive use of data is transforming business models, facilitating new products and services, creating new processes, generating greater utility, and ushering in a new culture of management."

Recently, TechCrunch, a digital economy news site, noted, "Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world's largest accommodation provider, owns no real estate... Something interesting is happening." What is it about these companies that allows them to re-imagine the traditional boundaries and value proposition of their industry? What can these young companies teach you about leading a digital transformation in your industry? How will you adapt to the emerging fluidity found in traditional roles?

The definition of Digital Economy (or similar concepts) is not harmonized across governments, businesses, and international organizations. According to the OECD, the Digital Economy can be defined in three different approaches:

Bottom-up approach: characterizing industries' and firms' output or production processes to decide whether they should be included in the Digital Economy, Top-down or trend-based approach: first identifying the key trends driving the digital transformation and then analyzing the extent to which these are reflected in the real economy, flexible or tiered approach: breaking the Digital Economy into core and non-core components, and thereby finding a compromise between adaptability and the need to

arrive at some common ground on the meaning of the term.

Digital economy is defined as an economy that focuses on digital technologies, i.e. it is based on digital and computing technologies. It essentially covers all business, economic, social, cultural etc. activities that are supported by the web and other digital communication technologies.

The term was first coined in a book “The Digital Economy: Promise and Peril in the Age of Networked Intelligence” by author Don Tapscott in 1995.

There are three main components of this economy, namely,

- e-business
- e-business infrastructure
- e-commerce

In the last 15 years, we have seen the tremendous growth of digital platforms and their influence on our lives. Now consumers are influenced by things they see on social media (Facebook, Twitter, Instagram) and other such popular websites (youtube etc).

So this economy is a way to exploit this opportunity. Now it is integrated into every aspect of the user’s life – healthcare, education, banking, entertainment etc.

1. Promotes Use of the Internet

If you think about it, most of your daily work can today be done on the internet. The massive growth of technology and the internet that began in the USA is now a worldwide network. So there is a dramatic rise in the investment on all things related – hardware, technological research, software, services, digital communication etc. And so this economy has ensured that the internet is here to stay and so are web-based businesses.

2. Rise in E-Commerce

The businesses that adapted and adopted the internet and embraced online business in the last decade have flourished. The digital economy has pushed the e-commerce sector into overdrive. Not just direct selling but buying, distribution, marketing, creating, selling have all become easier due to the digital economy.

3. Digital Goods and Services

Gone are the days of Movie DVD and Music CD’s or records. Now, these goods are available to us digitally. There is no need for any tangible products anymore. Same is true for services like banking, insurance etc. There is no need to visit your bank if you can do every transaction online. So certain goods and services have been completely digitized in this digital economy.

4. Transparency

Most transactions and their payment in the digital economy happen online. Cash transactions are becoming rare. This helps reduce the black money and corruption in the market and make the economy more transparent. In fact, during the demonetization, the government made a push for online transactions to promote the web economy.

The digital economy has been getting a lot of attention, with increasingly strong headlines offering apocalyptic as well as breathtakingly exciting scenarios. Some warn of job losses due to automation, some wonder at the things digital technology can do. And then there’s real scepticism about whether this will translate into delivering to people who need it most.

With all of this discussion, however, there is seldom an explanation of what the digital economy actually is. What makes it different from the traditional economy? Why we should care about it? The

digital economy is a term that captures the impact of digital technology on patterns of production and consumption. This includes how goods and services are marketed, traded and paid for. The term evolved from the 1990s, when the focus was on the impact of the internet on the economy. This was extended to include the emergence of new types of digitally-oriented firms and the production of new technologies.

Today the term encompasses a dizzying array of technologies and their application. This includes artificial intelligence, the internet of things, augmented and virtual reality, cloud computing, block chain, robotics and autonomous vehicles. The digital economy is now recognized to include all parts of the economy that exploit technological change that leads to markets, business models and day-to-day operations being transformed. So it covers everything from traditional technology, media and telecoms sectors through to new digital sectors. These include e-commerce, digital banking, and even “traditional” sectors like agriculture or mining or manufacturing that are being affected by the application of emerging technologies.

Understanding these dynamics has become non-negotiable. The digital economy will, soon, become the ordinary economy as the uptake – and application – of digital technologies in every sector in the world grows.

At the center of the digital economy is a ‘digital core’. This includes the providers of physical technologies like semiconductors and processors, the devices they enable like computers and smartphones, the software and algorithms which run on them, and the enabling infrastructure these devices use like the internet and telecoms networks.

This is followed by ‘digital providers’. These are the parties that use these technologies to provide digital products and services like mobile payments, e-commerce platforms or machine learning solutions. Lastly, there are the ‘digital applications’. This covers organizations that use the products and services of digital providers to transform the way they go about their business. Examples include virtual banks, digital media, and e-government services.

A concrete example helps paint the pictures. Consider a typical agriculture value chain: a smallholder farmer needs inputs (like financing) to produce and then sell crops to, say, processors or directly to consumers. Today smallholders can obtain financing through their mobile phones from digital financial services providers rather than physically visiting a bank. These digital financial services are able to assess the risk of lending to the farmer by building a profile using AI algorithms in conjunction with alternative data sets, such as mobile phone usage or satellite farm imagery.

Digital versus traditional

So what makes the digital economy different to the traditional economy?

Firstly, digital technologies allow firms to do their business differently as well as more efficiently and cost-effectively. They also open up a host of new possibilities. Take navigation apps. No team of people would ever be able to provide real time, traffic-aware navigation in the way that smartphone apps do. This means that products and services can be offered to more consumers, particularly those who couldn’t be served before.

Secondly, these effects are giving rise to entirely new market structures that remove, among other things, transaction costs in traditional markets. The best example of this is the rise of digital platforms such as Amazon, Uber and Airbnb. These companies connect market participants together in a virtual world. They reveal optimal prices and generate trust between strangers in new ways.

Lastly, the digital economy is fuelled by – and generates – enormous amounts of data. Traditionally when we made purchases in a brick-and-mortar store using cash, no-one was keeping an account of our personal consumption or financial transactions on a large scale. Now, ordering online and paying electronically means that many of our consumption and financial transactions generate electronic data

which is recorded and held by someone.

The collation and analysis of this data provides enormous opportunities – and risks – to transform how a range of economic activities are performed.

The digital economy is with us. Yet the boundaries between digital and traditional are blurring as technological change permeates every facet of modern life. We all need to understand the nature of this change to be able to respond at every level: society, corporate and personal.

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