

Encouraging Economic Growth in the Digital Age

A POLICY CHECKLIST FOR THE GLOBAL DIGITAL ECONOMY

The Internet is changing the way that individuals launch businesses, established companies function, and economies grow. Connected technologies are altering the behavior and priorities of large companies while facilitating the formation of global networks and platforms that increasingly enable small businesses, individual entrepreneurs, and organizations to engage in the international marketplace.

The National Foreign Trade Council and its member companies developed this checklist of policies essential for the global digital economy to function. These policies are crucial for the broad range of businesses and entrepreneurs that rely on the Internet.

Global business in the digital age

An open, reliable and secure global digital economy is critical for a broad range of stakeholders from manufacturers, farmers, content creators and service suppliers to startup, development and university communities.

One often underappreciated effect of the Internet is the extent to which it has transformed the basic means of manufacturing and research. Digital technologies have dramatically altered the ways that businesses, workers and researchers collaborate, analyze and transact across geographies and institutions. Collaborative innovation – both within companies via research facilities located around the world and with outside partners through open innovation processes – relies fundamentally on reliable access to an open and secure Internet as well as effective frameworks to protect intellectual property assets.

Today, large companies engage small firms, entrepreneurs and universities in relationships across their supply chains and research platforms. Meanwhile, the Industrial Internet is enabling manufacturers of everything from refrigerators to cars to jet engines to improve efficiency, make their products more useful, and enhance customer experiences.

In addition, the Internet has accelerated the ability for financial services companies, retailers, logistics providers and other service providers to iterate and develop new products for customers – from mobile banking in remote areas of the world to one-click global retail – which facilitate transactions on and offline.

Internet-enabled technologies are also giving farmers around the world tools to understand demand better, improve efficiency, and expand access to markets for individuals in some of the most remote parts of the world.

Underpinning much of this is the promise of data analytics, as organizations begin to use data to develop insights that create new services and address global challenges. Analyzing data holds promise for everything from conserving natural resources to preventing infections in children.



Established in 1914, the National Foreign Trade Council advocates for an open, rules-based trading system on behalf of its member companies.

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Democratizing access to the global marketplace

Digital technologies are democratizing access to the global economy by improving visibility and trust for thousands of small businesses, individual entrepreneurs, and organizations around the world. Today, even very small or early stage companies and groups can thrive globally in a way that would have been impossible just a few years ago.

Online commercial platforms and payments systems are helping small businesses and startups to participate more effectively in foreign markets. Entrepreneurs can turn to global microfinancing platforms, where projects with popular appeal can receive financing in small increments from individual backers and help jumpstart fledgling enterprises. Workers have access to a broad array of training resources to keep up with the technology revolution, allowing them to continually upgrade their skill sets to satisfy the ever-growing demand for specialized labor.

The U.S. International Trade Commission found that as much as one-fourth of total online sales were made by small and medium-sized enterprises (SMEs). McKinsey has found that SMEs that heavily rely on the Web create two times as many jobs as those who do not and brought in two times as much revenue through exports as a percent of total sales. In another study, McKinsey reports that 90% of commercial sellers using the eBay Marketplace export to other countries vs. less than 25% of traditional small businesses. Data from eBay demonstrates that on average, digitally-engaged business improve their market share, are more likely to survive, and export more frequently and to a larger number of countries than traditional businesses.

Improving economic growth

Taken together, the economic impact of the global digital economy is significant and growing.

In the United States, according to the U.S. International Trade Commission, digitally-enabled trade has increased GDP by more than more than 3 percent, boosted average real wages by up to 5 percent, and contributed to a bump of up to 1.8 percent in employment. Firms in digitally-intensive industries sold over \$900 billion in 2012 including over \$200 billion in exports. Small and medium enterprises in digitally-intensive industries sold over \$225 billion of that, or approximately one quarter of sales.

Developing countries have the most to gain from improving access to the global digital marketplace. While the impact of the Internet in emerging markets is already significant, the potential that the global digital marketplace holds to improve economic growth is sizeable. Internet users in developing countries increased by more than 300 percent between 2004 and 2013, and many entrepreneurs and businesses are flourishing globally via the Internet.

Over the next decade, major growth in Internet users and in GDP gains from the Internet are expected to occur in developing countries. As digital and physical infrastructure improves, as smartphones are more widely adopted, and as literacy and comfort with the Internet increase, the economic benefits of the Internet for emerging countries will continue to rise.

McKinsey notes that countries that are connected more intensively to the global economy see GDP growth of up to 40 percent more than less connected countries. There is a tax on unplugging from the global economy and that penalty is growing.

A public policy framework to support access to the global digital economy

Effective participation in the global marketplace relies on an underlying public policy framework that facilitates the movement of digital information as well as the services and physical goods that the digital economy enables.

While the Internet largely developed as an open, decentralized platform free from heavy regulation, governments increasingly seem eager to impose barriers on the digital economy that mirror trade barriers of a different era. The desire to regulate may be well-intentioned, but must balance the need to protect legitimate public interests with the imperative to maintain and support an open, reliable, secure and global digital economy.

Governments should maintain policy frameworks that promote innovation and enable access to the global digital marketplace, which serves as a gateway to trade in physical goods and services and accelerates economic development and inclusion. Such a framework should:

1

Ensure open global flows of information while regulating appropriately for the public good

- A. Avoid regulations that discriminate based on the origin of information or nationality of the service provider to ensure that businesses can provide information and communications technology services – on which much of the digital economy depends – on a cross-border, non-discriminatory basis.
- B. Ensure a default of openness in information flows; do not require that data be stored locally; do not require the use Information Technology infrastructure in a particular location.
- C. Maintain appropriate protections for Internet intermediaries.
- D. Craft data privacy, security, and other national regulations that impact the digital economy in ways that regulate appropriately in the interest of the public good without hindering access to the global digital marketplace, being more trade restrictive than necessary, or creating unnecessarily divergent or conflicting rules.

2

Encourage access to the Internet and communications infrastructure

- A. Support appropriate rules to promote access to and use of public telecommunications networks and services and use of the Internet.
- B. Provide duty-free treatment for information and communication technologies that underlie the ability of the digital economy to function.
- C. Promote broadband deployment, particularly in rural regions, including by removing barriers to construction of new broadband networks and making physical infrastructure available.
- D. Adopt spectrum policies that promote innovation in the wireless sector, including both licensed and unlicensed access.
- E. Enable SIM and data portability through appropriate legal frameworks.

3 Enable access to financial services

- A. Remove regulatory hurdles to branchless banking.
- B. Acknowledge regulatory differences between different types of financial services.
- C. Pursue a harmonized regulatory framework for electronic payments modernize the national payments infrastructure to enable fast (same day or real time) settlement of consumer payments.
- D. Establish appropriate legal frameworks for crowdfunding.
- E. Implement a risk-based approach to any "know your customer" requirements.

4 Facilitate physical trade lanes

- A. Improve customs procedures, including by digitizing customs forms and procedures.
- B. Maximize market access for transportation and logistics services providers.
- C. Raise *de minimis* levels to facilitate small package shipments.
- D. Improve market access for goods.

5 Maintain effective intellectual property frameworks and protections

- A. Modernize IP frameworks to protect trade secrets and other forms of IP that are subject to greater theft in the digital age and seek to avoid policies that lead to increased public exposure of such IP through practices such as privacy impact assessments.
- B. Effectively protect copyrights while permitting the digital economy to flourish by promoting a high-standard and balanced copyright framework consistent with that which is recognized in U.S. law.

6 Encourage the development of a highly-skilled workforce

- A. Maximize avenues for welcoming students, entrepreneurs and highly-skilled workers through effective and open visa, immigration and border policies and procedures.
- B. Shift educational polices to focus on Science, Technology, Engineering, and Math.
- C. Revise workforce education programs to focus on digital technologies.

7 Set responsible tax policies that encourage growth of the digital economy

- A. Maintain moratorium on Internet duties.
- B. Set responsible and non-discriminatory tax policy for the treatment of all businesses using the Internet so that expanded cross-border digital operations are not used as an opportunity for governments to expand their extraterritorial tax reach over businesses that operate outside of their border; do not impose "data taxes."
- C. Refrain from tax discrimination treatment on intangible property.

8 Improve the global investment framework

- A. Refrain from imposing restrictive or discriminatory investment policies or forced localization measures.
- B. Strengthen investor protections and improve and harmonize frameworks governing investment.

9 Capture the impact of Internet enablement

- A. Prioritize the inclusion of the digital economy in macro and micro economic analysis.
- B. Reevaluate and refine economic indicators to capture value-add of the Internet.
- C. Improve understanding and information gathering of technology-enabled manufacturing sales, and the extent to which large-scale manufacturing relies on e-commerce.

10 Orient government services and policies towards a broader set of stakeholders

- A. Orient export promotion services such as trade missions and market research towards young and micro enterprises, which are participating in the global marketplace in the digital age.
- B. Improve outreach to startups and small businesses, who may not be aware of the services that governments provide or the impact of changes in public policies on their ability to operate internationally.
- C. Understand the extent to which a broad set of stakeholders are engaging in the global marketplace, and assess the effect of regulations that impact the digital economy on those stakeholders.

Towards a more integrated global digital economy

Public policymakers must be vigilant in maintaining a framework that enables access to the global digital economy. Global bodies such as the World Trade Organization (WTO) and Organization for Economic Cooperation and Development, regional forums such as the Asia Pacific Economic Cooperation forum, international financial institutions and regional trade groupings can also help ensure that rules and regulations are compatible across economies, and support the participation of businesses and entrepreneurs in the global marketplace. These institutions can also help develop better tools to measure economic statistics and monitor government policies, and coordinate regulation and standard-setting across issues such as privacy and cyber security.