

T20 Taskforce 2020
TRADE, INVESTMENT, AND GROWTH
Policy Brief 4
***IMPACT OF DIGITAL TECHNOLOGIES AND THE FOURTH INDUSTRIAL
REVOLUTION ON TRADE IN SERVICES***

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We all know we are in the early stages of a major technological transformation. We call it the 4th Industrial Revolution.

It is driven by digital technologies: 3D printing, artificial intelligence, cloud computing, 5G, and the Internet-of-Things. These technologies are dramatically cutting trade costs for digital delivery - and putting trade in services on a stronger growth path than trade in goods.

Throughout economic history, such periods of deep technological change, and resulting structural shifts, have ultimately delivered the biggest most prolonged global growth stories.

With the right policy choices, designed to connect our digital economies and enable businesses to inter-operate, this new wave of deep innovation is offering us all our single best shared and immediate chance for productivity gain, economic growth and rising living standards.

Nothing could be more important in 2020 - a year of marked economic discontinuity with trade and investment in general retreat and many of our economies in serious recession.

What 2020 has not witnessed, however, is any slowing in the pace of digitalization. On the contrary. The Health pandemic has seen an intensive shift to digital. We are all more aware of it now. We are not meeting face-to-face today. But we ARE still meeting. It's exciting. And there will be no going back.

But the G20 needs to manage the transition. G20 Leaders need to implement best practice policy and regulatory settings that

allow trade to flourish while attaining domestic public policy objectives.

We make 8 high priority recommendations. I don't have time to go into them all in detail. I will just give you a quick taste of them and hope you enjoy reading the paper itself.

They fall into 4 general clusters.

1. The first set of issues clusters around updating the rules for digital trade.

There are several aspects to this.

We need to recognize that cross-border data flows fall under the definition of trade. And we need to introduce disciplines enabling freedom of cross-border data flows.

Digitally enabled services are dependent on inputs of data and trade in digital services is dependent on cross border data flows. Access to data is a key driver of firm level competitiveness, especially for SMEs. Whether motivated by cybersecurity or privacy considerations, consumer rights, regulatory oversight or digital industrial policy, restrictions on cross-border data flows impact negatively on productivity and trade. Data localization requirements have an especially adverse effect. Currently, out there in the international marketplace, it's a "regulatory jungle". The emerging digital economy is in danger of fragmenting rather than globalizing. We really need a coherent common framework on data flows.

We need all G20 members to join the WTO negotiations on E Commerce. As observers if not as full participants.

We need improved market access for digital delivery of-services

WTO members have made relatively fewer commitments to liberalization of mode 1 compared with commitments made for other modes of services supply.

We need to Uphold the WTO moratorium on customs duties on e-transmissions

We spend some time in the paper looking at the practical difficulties and economic inefficiencies of levying tariffs on electronic transmissions.

We argue that Value-added (VAT) or sales taxes offer vastly more efficient, practical, and equitable ways of raising revenue. We call on the G20 to commission a joint study.

2. The second cluster of recommendations relate to the increased need for regulatory cooperation

We call on all G20 members to adopt principles for domestic regulation of services

Essentially to avoid inefficiencies that raise trade costs for services providers, especially for SMEs. Efficient, non-discriminatory services regulation can drive technology diffusion, helping local firms participate in the Fourth Industrial Revolution.

G20 members should agree to establish regular mechanisms for regulatory cooperation aimed at reducing services trade costs. **We draw attention to the APEC Non-Binding Principles for Domestic Regulation of the Services Sector in 2019. And in the WTO, we argue that all G20 members should signal support for the emerging Reference Paper on Services Domestic Regulation and willingness to bind the associated commitments in their GATS schedules.**

We call on the G20 to work towards interoperability of data privacy approaches.

The discussion around global data governance and privacy concerns has been building for some time of course, notably with Japan's initiative for "data free flow with trust" at the 2019 G20 meeting. But it is still the hardest issue.

We argue that Interoperable privacy regulations are a more realistic goal than harmonized regulations.

Interoperability starts with domestic policymakers ensuring their legal frameworks clarify that firms with a legal nexus in their jurisdiction are responsible for managing data in a certain way, wherever the data are transferred and stored. A country's data-protection rules thereby travel with the data. **Potential models of how to proceed are the OECD Privacy Principles and the APEC Cross-Border Privacy Regime.**

3. In the third cluster, we look beyond trade governance and focus on the need to boost digital aid-for-trade

We argue that Improved information and communications technology (ICT) infrastructure, accessible and affordable Internet connectivity, digital skills and literacy, and a supportive regulatory framework should be priority G20 goals for digital development strategies and digital aid-for-trade (Aft).

We propose **five key principles** to ensure productive Aft. First, digital project assessments should be holistic within a broad country- or sector-specific analysis and digital development strategy. Second, they should have clear governance structures with local leadership, including public and private participation, and be coordinated and targeted at key bottlenecks. Third, projects should embrace digital trade by using existing digital goods and services rather than focusing on high-risk project-specific innovations. Fourth, development agencies should collaborate to develop

digital development templates for different sectors to help expedite assessments and strategy formulation. Finally, projects should focus on building infrastructure for digital connectivity, both physical and institutional.

4. Finally, a set of issues we all need to handle back in our domestic economies, but not in a collaborative rather than an inward-turning manner

We focus on ways of upskilling the workforce

G20 members should urgently prioritize improving human capital formation through **education reform, including greater openness to trade and investment in education** services.

We also focus on ways of stimulating digital innovation

The G20 should promote a **more entrepreneurial** orientation to our national innovation systems and **greater collaboration among national innovation ecosystems**. The G20 should establish guiding principles for associated knowledge exchanges. Value co-creation between national innovation ecosystems could help them strengthen digital job creation and help economies catch up with Fourth Industrial Revolution opportunities.