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ijrset@gmail.com

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Rise of Digital Trade and Its Implications for Global Economic Policies and International Business

Prof. Anjila Gupta

Professor, Department of Economics, Indira Gandhi National Open University, Maidan Garhi, New Delhi, India

ABSTRACT: The digital transformation has reduced the costs of engaging in international trade, facilitated the co-ordination of global value chains (GVCs), helped diffuse ideas and technologies, and connected a greater number of businesses and consumers globally. But even though it has never been easier to engage in international trade, the adoption of new business models has given rise to more complex international trade transactions and policy issues.

In today's fast-paced and interconnected world, governments are facing new regulatory challenges, not just in managing issues arising from digital disruption, but also in ensuring that the opportunities and benefits from digital trade can be realised and shared inclusively.

KEYWORDS: digital, trade, global, economy, international, business

I. INTRODUCTION

While there is no single recognised and accepted definition of digital trade, there is a growing consensus that it encompasses digitally-enabled transactions of trade in goods and services that can either be digitally or physically delivered, and that involve consumers, firms, and governments. That is, while all forms of digital trade are enabled by digital technologies, not all digital trade is digitally delivered. For instance, digital trade also involves digitally enabled but physically delivered trade in goods and services such as the purchase of a book through an on-line marketplace, or booking a stay in an apartment through a matching application.[1,2,3]

Underpinning digital trade is the movement of data. Data is not only a means of production, it is also an asset that can itself be traded, and a means through which GVCs are organised and services delivered. It also underpins physical trade less directly by enabling implementation of trade facilitation. Data is also at the core of new and rapidly growing service supply models such as cloud computing, the Internet of Things (IoT), and additive manufacturing.

Digitalisation increases the scale, scope and speed of trade. It allows firms to bring new products and services to a larger number of digitally-connected customers across the globe. It also enables firms, notably smaller ones, to use new and innovative digital tools to overcome barriers to growth, helping facilitate payments, enabling collaboration, avoiding investment in fixed assets through the use of cloud-based services, and using alternative funding mechanisms such as crowdfunding.

Digitalisation is also changing how we trade goods. For example, the growth of online platforms has led to a rising number of small packages being sold across international borders. This is giving rise to a range of issues for policy-makers, ranging from the physical management of parcel trade, through to the implications for risk management (such as in relation to counterfeit goods or biosecurity standards), and revenue implications in relation to collection of taxes and tariffs.

At the same time, new technologies and business models are changing how services are produced and supplied, blurring already grey distinctions between goods and services and modes of delivery and introducing new combinations of goods and services. A smart fridge requires market access not only for the good, but also for the embedded service. And an article produced by 3D printing, for example, may cross a border as a design service, but becomes a good at the moment of its consumption. Together, these issues pose new challenges for the way international trade and investment policy is made.

Rapid technological developments also facilitate the rise of services in international cross-border trade. Information and communication technology services form the backbone of digital trade, providing the necessary network infrastructure



and underpinning the digitisation of other types of services. New technologies have also facilitated the rise of digitally enabled services that are supported by a range of new services building on data-driven innovative solutions such as cloud computing.

In the world of digitalisation, old trade issues may have new consequences – such as the impacts of cumbersome border procedures on parcel trade, or restrictions on newly tradable services – and new issues for trade policy are emerging, such as differing regulations among nations in relation to data flows. Further understanding of the nature and extent of these changes is needed to help policy makers create an environment that nurtures innovation and promotes digital trade in goods and services.

These changes are taking place at unprecedented speed. With growing interconnectedness and greater demand for just-in-time delivery, trade needs to be faster and more reliable than ever before.

For services, this means being able to deliver more rapidly and 'on demand', often 24/7, so that consumers can have instant access to the services they need when they need them. For goods, this means using digital solutions for trade facilitation, helping goods move faster across borders.

However, there is also a growing discussion about whether there is a need to update or clarify existing trade rules and commitments. Trade rules are traditionally predicated on identifying whether products are goods or services and the borders they cross. But, in the digital era, these distinctions may not always be clear cut. Firms are now increasingly able to flexibly operate from different locations and to bundle goods with services, making it difficult to identify the particular trade rules that apply to specific transactions.

The OECD's work on digital[4,5,6] trade aims to contribute to ongoing debates by helping policymakers better identify and respond to emerging challenges arising from digitalisation. This includes analysis on issues from defining and measuring digital trade, through what market openness means in the digital era, including in relation to services restrictiveness, to the implications of specific issues – such as data flow regulation, or new technologies such as 3D printing – for trade policy. The organisation's Going Digital Initiative in turn seeks to develop knowledge on digital transformation across topics to build a coherent and comprehensive policy approach to digital transformation.

II. DISCUSSION

The transformative effects of digital trade on developing economies are explored in a report just published by the WTO in cooperation with the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD) and the World Bank. "Digital Trade for Development" also emphasizes the pivotal role of international cooperation in helping developing economies seize the opportunities of digital trade and tackle the related challenges.

Digitally delivered services have experienced rapid growth

Digital trade, encompassing all trade that is digitally ordered and/or delivered, is radically changing the global economy.

One of the most striking trends in this digital era is the rapid growth of digitally delivered services, which have experienced a nearly fourfold increase in value since 2005, significantly outpacing the growth of goods and other services exports (see Figure 1).

In 2020, digitally delivered services accounted for 54 per cent of total services exports. This surge is creating new opportunities for various players in the global market, including micro, small and medium-sized enterprises (MSMEs).

While developed economies are the main exporters of digitally delivered services, developing economies, including in Africa, are increasingly exporting such services. That said, least-developed countries (LDCs) continue to experience slower growth in digitally delivered services exports.

Digital infrastructure and skills are essential for digital trade

Access to fast, affordable and reliable digital infrastructure as well as access to training in the skills necessary to utilize digital technologies are pivotal to enable economies to engage in and benefit from digital trade.



Significant progress has been made in increasing access to the internet, with about 67 per cent of the world's population - totalling approximately 5.4 billion people — currently having internet access. However, one-third of the global population, primarily in low-income and lower-middle-income economies, still remains offline.

Trade policy can contribute to building a more rapid, cost-effective and dynamic digital infrastructure. This can be achieved, for instance, by addressing high tariffs on imports of information and communications technology (ICT) equipment, restrictive import policies and limited competition in telecommunications services.

An enabling regulatory environment is key for facilitating digital trade

Governments play a critical role in ensuring that the regulatory and policy environment for digital trade is predictable and interoperable, and in contributing to the development of digital infrastructure and skills.

Governments can contribute, for example, to facilitating remote transactions, enhancing trust in digital markets, promoting affordable internet access and establishing a balanced approach to data flow regulation. Appropriate safeguards for digital trade also need to be provided by ensuring data privacy, consumer protection and cybersecurity.

Recent WTO analysis finds that when a strong regulatory environment for digitally delivered services is put in place, the reduction in trade costs due to the effect of improved digital connectivity more than doubles in middle- and low-income economies.

Bridging the digital divide is an [7,8,9]imperative to foster digital trade

If economies are to harness the full benefits of digital trade, it is not only domestic efforts that are essential but also international cooperation.

International financial and technical support are necessary to build capacity in developing economies so that they can improve connectivity and skills and regulate areas relevant to digital trade. Initiatives such as the WTO-led Aid for Trade, the UNCTAD-led eTrade for all and the World Bank-led Digital Advisory and Trade Assistance (DATA) Fund are significant steps in this direction.

It is also essential to improve data collection as the availability of official statistics on digital trade is currently limited. The WTO is contributing to this effort, most recently through the launch of a new dataset on digitally delivered services.

Digital trade governance is expanding

The governance of digital trade-related issues has seen progress primarily through bilateral and regional trade agreements. By the end of 2020, 116 such agreements included digital trade provisions. As yet, few LDCs are party to these agreements.

In addition, discussions on digital trade are taking place in the WTO, including under the Work Programme on E-Commerce. Also, 90 WTO members, including many developing economies, are working under the Joint Statement Initiative on E-commerce to negotiate specific rules on digital trade-related issues.

WTO moratorium on customs duties and its revenue implications

The WTO moratorium on the imposition of customs duties on electronic transmissions, in place since 1998, is currently a focal point of discussion at the WTO.

The moratorium is the only WTO provision explicitly applying to e-commerce. In June 2020, WTO members agreed to extend it “until the 13th WTO Ministerial Conference or 31 March 2020”.

However, there are divergent views on renewing the moratorium. Some members have expressed concerns that there is a lack of clarity regarding the scope and definition of the moratorium. There are also concerns about the opportunity costs of the moratorium, which include potential foregone customs revenue and the desire of individual economies to maintain a policy space amid rapid technological changes.

The impact of the moratorium on government revenue is estimated to be, on average, less than 0.33 per cent of overall government revenue in developing economies (see Table 1), with higher estimates for a handful of economies.



In addition, although tariffs and value-added tax (VAT) are not mutually exclusive, non-discriminatory domestic taxes like VAT are a less trade-distortive way to collect revenue from digital trade than tariffs or customs duties. Recent studies suggest that, if there were appropriate investment in tax administration capacities, VAT from taxing electronic transmissions could generate higher revenue for governments than customs duties at current rates.

Imposing customs duties on electronic transmissions would ultimately reduce digital trade. It would therefore also reduce its benefits, particularly for those who stand to gain the most from digital trade, such as MSMEs and firms owned by women.

The regulatory ecosystem for digital trade includes data flows, competition and consumer protection. Aside from trade rules, regulatory issues such as cross-border data flows, competition and consumer protection require global solutions. A balanced approach to global data governance is needed to ensure that data flows across borders as freely as possible and that public policy concerns are addressed. Effective regulation of digital markets to manage anti-competitive behaviours and market power is crucial. To build trust in the digital economy, adequate legal frameworks for consumer protection and for addressing cross-border digital trade disputes must also be established.

Ensuring that the benefits of digital trade are inclusive is essential. International cooperation is critical to ensure the inclusive benefits of digital trade. Global efforts are needed to ensure that MSMEs, women, young entrepreneurs and consumers in all economies can reap the benefits of digital trade.

It is necessary to address infrastructural gaps, enhance skills and create enabling policies to ensure that the benefits of digital trade are inclusive. To achieve this, a whole-of-government approach is needed along with strong cooperation among international organizations, [10,11,12] governments and stakeholders.

III. RESULTS

The Fourth Industrial Revolution – associated with rapid technological change and digitalization – has already had a profound impact on the way we trade. Digital trade in services is among the most dynamic sectors in the global economy and could be further harnessed for the recovery process, as evidenced by the role of digital payments and cross-border data flows in response to COVID-19. However, despite the tech development, barriers to digital trade continue to exist. Those include outdated rules and regulations, new forms of protectionism, and the lack of international collaboration on global digital governance, to name just a few.

To navigate the opportunities and challenges associated with digital trade, the Digital Trade team engages the foremost political, business, cultural, and other leaders of society to shape global, regional, and industry agendas on digital trade.

Portfolio Projects

TradeTech

The TradeTech project maps the nexus between emerging digital technologies and international trade and facilitates discussion on public policy and regulatory practices on digital trade.

Digital Payments Advisory Committee

The Advisory Committee convenes principal-level meetings to drive greater interoperability and inclusivity, as well as more coherent regulatory reforms for digital payments.

Trade Finance

The Trade Finance project explores ways to close the \$1.7 trillion trade finance gap and harness the use of new trade finance-relevant technology to boost inclusion and sustainability.

Cross-Border Data Flows

In collaboration with the Data Policy team, the Cross-Border Data Flows project examines the ever-changing impacts of data transfer mechanisms and promotes greater interoperability among global arrangements on this novel governance issue.



Digital Economy Agreement Leadership (DEAL) Group

The DEAL Group aims to create a level playing field with digital economy stakeholders and contribute to the growth of inclusive and sustainable digital economies around the world.

Highlights

WEF-UAE TradeTech pilot partnership

During the 2020 Annual Meeting, the United Arab Emirates announced a Memorandum of Understanding with the World Economic Forum on TradeTech to pilot the application of emerging fourth industrial revolution technologies that can help facilitate trade.

WTO-WEF joint publication on TradeTech

In April 2020, a joint publication was launched with the World Trade Organization to facilitate the development of explicit rules through trade agreements and provide legal certainty on emerging issues related to the digital field. Read more about the impact of this project in the report "The Promise of TradeTech: Policy Approaches to Harness Trade Digitalization." The webcast of the launch event is available here.

Payments to Advance Growth for All (PAGA)

In July 2020, a joint project was launched with the Inter-American Development Bank (IaDB) to promote greater utilization of digital payments in Latin America and the Caribbean. Read more about the impact of this project in the report "Accelerating Digital Payments in Latin America and the Caribbean."

Facilitation 2.0 Papua New Guinea

In November 2020, funded by the Government of Australia, a project was to assist Papua New Guinea in advancing business-driven reforms at the intersection of trade facilitation, investment, e-commerce, and digital payments. Read more about the impact of this project in the report "Facilitation 2.0: Trade and Investment in the Digital Age."

Digital Economy Agreement Leadership (DEAL) Group

In July 2020, the inaugural DEAL Group workshop on "Accelerating ASEAN's Digital Economy Integration" convened stakeholders from governments that have signed DEAs or are interested in signing DEAs, the private sector, civil society, and academia to identify digital economy opportunities and challenges, and the role DEAs can play in the ASEAN region and beyond.[13,14,15]

IV. CONCLUSION

While there is no single recognised and accepted definition of digital trade, there is a growing consensus that it encompasses digitally-enabled transactions of trade in goods and services that can either be digitally or physically delivered. That is, while all forms of digital trade are enabled by digital technologies, not all digital trade is digitally delivered.[16,17,18] For instance, digital trade also involves digitally enabled but physically delivered trade in goods and services such as the purchase of a book through an on-line marketplace, or booking a stay in an apartment through a matching application.

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Digitalisation increases the scale, scope and speed of trade. It allows firms to bring new products and services to a larger number of digitally-connected customers across the globe. It also enables firms, notably smaller ones, to use new and innovative digital tools to overcome barriers to growth, helping facilitate payments, enabling collaboration, avoiding investment in fixed assets through the use of cloud-based services, and using alternative funding mechanisms such as crowdfunding.[19,20]

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Rapid technological developments also facilitate the rise of services in international cross-border trade. Information and communication technology services form the backbone of digital trade, providing the necessary network infrastructure and underpinning the digitisation of other types of services. New technologies have also facilitated the rise of digitally enabled services that are supported by a range of new services building on data-driven innovative solutions such as cloud computing.

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