



Global economic cooperation: Writing the rules for the digital economy

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Insights

- The global economy is at an inflection point. New barriers and regulatory fragmentation in the digital economy risk harming global economic growth.
- To preserve the economic gains from digitization, policy makers must enhance economic cooperation.
- International economic cooperation can help countries innovate and grow without sacrificing resilience, system safety, and protection of consumers.

With the click of a button, a consumer in Singapore purchases a product from a merchant in London and it is delivered to their doorstep within days. A startup in the Atlanta suburbs provides goods to customers halfway around the globe. A doctor in the United States receives a real time reading of imaging of her patient from a medical technician in Bangladesh. A European business traveler taps a card at a coffee shop in São Paulo and the transaction is approved in seconds. Digital innovations powered by the free flow of data make these transactions possible.

The COVID-19 pandemic has only accelerated the digitization trend. Although e-commerce was growing at a rapid clip prior to 2019 (see Figure 1), the pandemic has fundamentally changed the way we interact with the world. We've become accustomed to doing our shopping online, and we're more frequently using contactless payments to make purchases in stores. Globally, the pandemic caused a shift in service-related trade patterns; while transportation and tourism services declined, other digitally enabled services, such as e-commerce, health, education, and entertainment, have increased (Congressional Research Service [CRS], 2021). In 2020, the World Trade Organization (WTO) noted that these pandemic-induced changes in behavior may result in a fundamental and long-term shift in services trade (WTO, 2020).

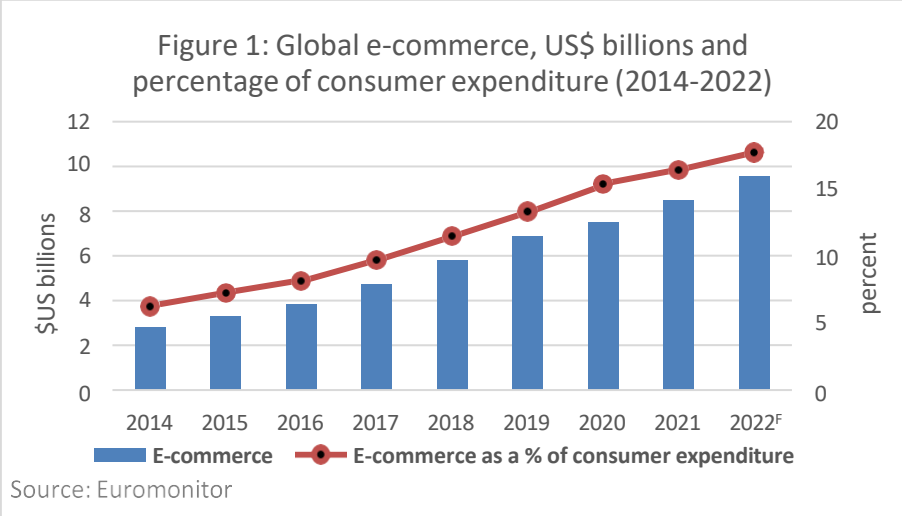


Image Description: Figure 1 shows global e-commerce and the percentage of consumer expenditures from 2014 to 2022. The data shows continued growth with e-commerce totally slightly less than \$3 billion in 2014 to over \$9 billion in 2022. E-commerce as a percentage of consumer expenditures grew by more than 10% over the course of 2014-2022 up to more than 15%.

This commercial activity has been good for economic growth: One study estimates that data flows alone would raise global GDP by US\$3.7 trillion in 2020 (Hufbauer & Lu 2018). Another finds that the digital economy accounts for approximately 10 percent of US GDP and is growing at an average rate of over 5 percent per year, compared to just 2.2 percent growth in the overall economy (CRS, 2021).

The expansion of the digital economy has also brought challenges. Governments around the world are weighing how best to manage the digital transformation while safeguarding the broader public interest, including on issues such as privacy, cybercrime, and cybersecurity. By some estimates, for example, cybercrime costs will grow annually by 15 percent, reaching US\$10.5 trillion by 2025 (Cybercrime Magazine, 2020).

From a policy perspective, simply keeping up with the pace of technological change can be challenging. But governments must find ways to encourage innovation while also protecting consumers and advancing inclusive economic policies. This is easier said than done; as a result, the regulatory environment can often lag behind market developments (World Economic Forum, 2018).

To add to the complexity, policymakers' motivations for regulatory intervention can differ across jurisdictions. According to the Institute of International Finance (IIF), governments intervene for a variety of reasons, including in support of law enforcement and privacy protection (see Figure 2).

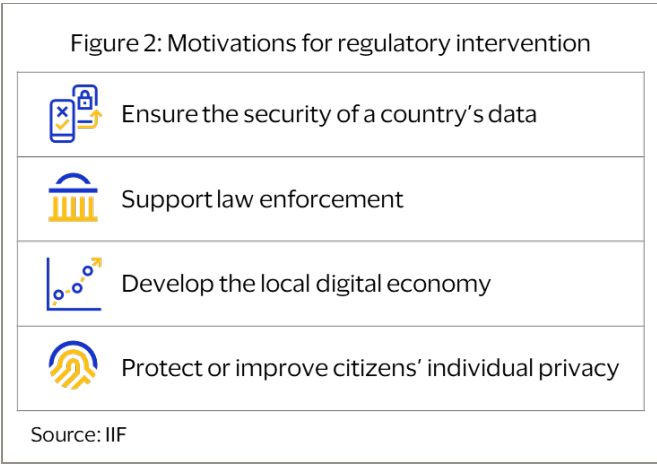


Image Description: Figure 2 shows motivations for regulatory intervention which includes: ensuring the security of a country's data, supporting law enforcement, developing the local digital economy, and protecting or improving citizens' individual privacy.

These policies can have a significant effect on cross-border data flows. Without the smooth movement of data packets across global networks, the Singaporean consumer described above may not be able to receive his English product. A doctor's delayed reading of diagnostics may negatively impact patients' health, while also hurting his practice and putting the Bangladeshi technician's job at risk. The shop owner in São Paulo and the Atlanta entrepreneur may both see their businesses suffer, making it more difficult for them to take care of their families during already difficult economic times. The accumulated effects of these kinds of opportunity costs and growing regulatory fragmentation between countries is significant: A 2020 study by the European Centre for International Political Economy (ECIPE) estimates that a regulatory ban on data transfer from the European Union (EU) to the United States could reduce digital imports by 31 percent, contracting the EU's GDP by as much as 3 percent (ECIPE, 2020). A 2021 Information Technology and Innovation Foundation (ITIF) study estimates that barriers to cross-border data flows reduce trade output and slow productivity (ITIF, 2021).

Indeed, differing domestic approaches to data governance and digital trade is resulting in a web of global regulations that is becoming ever more restrictive and complex to navigate. This so-called "digital noodle bowl" (Honey, 2021) is expensive: According to a joint study by the International Federation of Accountants (IFAC) and the Organization for Economic Cooperation and Development (OECD)'s Business and Industry Advisory Committee (BIAC), regulatory fragmentation can cost the global economy more than US\$780 billion annually (2018). As quoted in the study, "Every dollar spent on managing incoherent regulatory reporting requests is a dollar that isn't put back into the economy through lending" (IFAC and BIAC, 2018). These costs tend to be more harmful for small and medium-sized organizations that aren't as well-resourced as their larger counterparts (IFAC and BIAC 2018, ECIPE 2020)).

A path toward digital economic cooperation

So, what are governments to do? As a starting point, governments should enable rather than constrain, the free flow of data. And they should do so in a way that allows them to protect domestic interests, including privacy protection, cybersecurity, competition, and consumer protection. At the very least, this means avoiding regulatory localization requirements and ensuring that policies do not discriminate between domestic and foreign suppliers. But it also means ensuring greater regulatory cooperation among countries.

A recent series of IIF studies examines these issues in more detail.¹ A 2021 study points out that the world is approaching an inflection point in the digital economy, which may require a new regulatory approach (IIF, 2021). A subsequent 2022 study issues a call to action, highlighting the importance of digital economic cooperation that supports sustainable growth while benefitting all participants in the global economy.

Achieving this objective does not require a wholesale revamp of existing regulatory structures. A good starting point would be to focus on negotiation and implementation of modern, high standard digital trade agreements. For example, the Digital Economy Agreement (DEA) between Singapore and Australia shows how digital trade agreements can help unlock the benefits of the digital economy by directly addressing barriers to growth and limiting regulatory fragmentation. Digital trade agreements should address a range of issues, including greater access for small businesses, enabling data flows and digital payment services, removing digital tariffs and market access restrictions, addressing labor, environment, and supply chain issues in the digital economy, and encouraging greater international regulatory cooperation. Comprehensive and inclusive digital trade agreements are essential to enabling

¹ Institute of International Finance. (2021, October). [Strategic Framework for Digital Economic Cooperation](https://www.iif.com/Publications/ID/4611/Strategic-Framework-for-Digital-Economic-Cooperation). <https://www.iif.com/Publications/ID/4611/Strategic-Framework-for-Digital-Economic-Cooperation>. The study was commissioned by Visa Inc.

compatible digital regulations that enable safe and reliable data sharing within and across digital ecosystems. ITIF defines regulatory interoperability as “the ability for firms to transfer and use data and other information across applications, systems, services, and jurisdictions” and states that regulatory interoperability “accounts for the fact that countries have differing legal, political, and social values and systems” (ITIF, 2021). At its most fundamental level, achieving common goals and metrics across jurisdictions can be a step toward more equitable and inclusive digital trade, including payment systems (Gallaher et al, 2021).

Governments can also help by promoting the development and adoption of industry-driven, global standards. This can help drive a level of commonality to ease adoption, thereby lowering barriers to entry, reducing costs, and improving security, while ensuring there is flexibility to enable competition, differentiation, and innovation. For standards to be relevant and effective, governance structures should promote collaboration among participants, include oversight structures that are robust and transparent, and enable appeals processes for conduct violations.

Taken together, these policy approaches can provide a solid foundation for facilitating digital economic cooperation. To be sure, success will ultimately require continued dialogue among policymakers and a commitment from global leaders. Global forums like the G7, the OECD, Asia Pacific Economic Cooperation (APEC), and others can serve as important platforms to help drive the conversation forward. The private sector has a role to play as well – by, for example, working with regulators and within industry bodies to help develop and implement standards that promote interoperability.

The stakes are high. Enhanced economic cooperation now will lead us towards a more inclusive, robust, and resilient global digital economy.

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The VEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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