



**Asia-Pacific  
Economic Cooperation**

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## **Digital Trade Building Blocks**

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# Digital Trade Building Blocks

Asia-Pacific Economic Cooperation

SOM 3

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# About the Information Technology Industry Council

- ITI is the premier policy and advocacy organization for the world's leading innovation companies.
- We advocate for global policies that advance industry leadership, open access to new and emerging markets, promote e-commerce expansion, drive sustainability and efficiency, protect consumer choice, and enhance worldwide competitiveness of our member companies.



The Global Voice of the Tech Sector



ITI calls on APEC economies to agree on a “Framework for Facilitating Digital Trade” that includes the following building blocks for cooperative actions:

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## Free and Open Internet

- Promoting a free and open internet in order to support the digital needs of manufacturers and service providers and enabling innovative new businesses;
  - The internet influenced sales to the tune of USD 2.1 trillion in 2016.
  - According to the OECD, internet usage has almost tripled in the space of a decade, from approximately 1 billion users in 2005 to over 3 billion today.
  - Of those 3 billion users, two-thirds are located in developing economies.
  - There are more mobile internet users than desktop internet users. There are 3.5 billion global mobile internet users as at August 2017.
  - Mobile devices influenced sales to the tune of over USD 1.4 trillion in 2016.

## Internet Access

- Promoting wide availability of internet access by removing barriers to construction of new networks, enabling deployment of new technologies, and increasing availability of both licensed and unlicensed spectrum;
  - Access to the internet remains unevenly distributed: around 40% of households in upper middle-income economies have internet access, compared with more than 80% in high-income OECD economies. In low-income economies, less than 10% of individuals have access.
  - Furthermore, the World Economic Forum estimates that 4 billion people still do not have access to the internet.
  - As more people and companies gain access to the internet, they will generate and use an increasing amount of data. That data will in turn generate more economic activity and growth.

## Digital Skills and Literacy

- Increasing digital skills and literacy in economies to ensure that businesses and workers can take full advantage of digital technologies;
  - According to the World Bank 2016 Digital Dividends Report, employment is becoming more intensive in the use of digital technologies.
  - Since 2000, the ICT intensity of employment has increased by almost 10 percent in low- and middle-income economies, almost twice as fast, on average, as in high-income economies.
  - Workers using digital skills and technologies are better remunerated – by 25-40 percent more than their peers with the same level of education but performing traditional tasks and jobs.
  - In developing economies, basic ICT literacy is still a significant issue – for example, in Africa 4 in 10 people do not know what the internet is.



## Cross-Border Data Flows

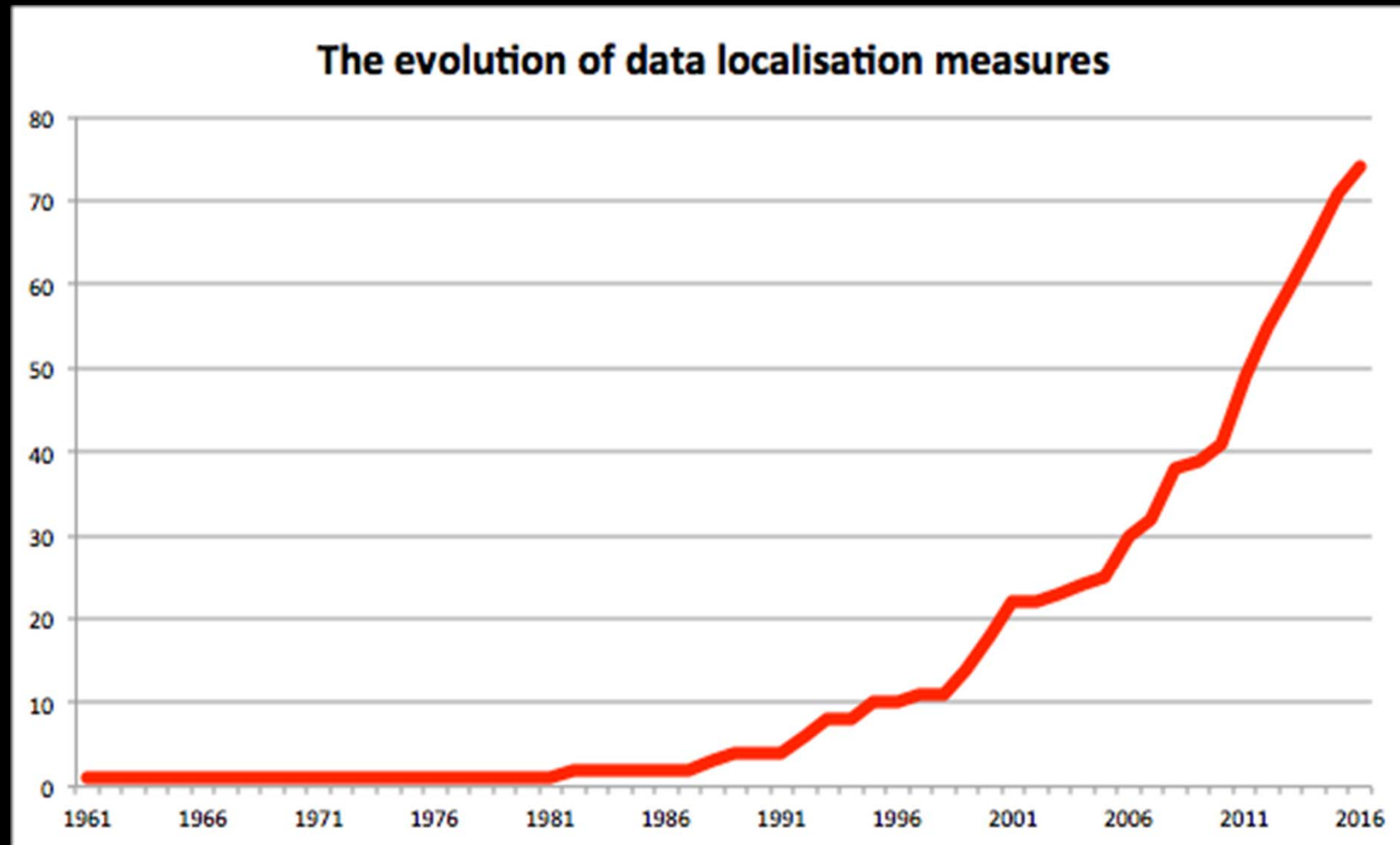
- Allowing data to move freely across borders, enabling firms in all sectors to transfer and access data as it best suits the size, structure, and nature of their operations;
  - The McKinsey Global Institute (MGI) estimates that global online traffic across borders grew 18-fold between 2005 and 2012, and could increase eightfold more by 2025.
  - MGI also estimates that cross-border data flows raised world GDP by 3 percent annually between 2003 and 2014, and that the international flow of data contributed USD 2.8 trillion to the global economy in 2014, a figure that could reach USD 11 trillion by 2025.

# Market Access for Digital Products and Services

- Prohibiting tariffs or taxes, and other discriminatory barriers on cross-border data flows and digital products, providing market access for products and services sold electronically;
  - Because of the WTO moratorium on the application of customs duties on electronic transmission (and the related APEC pathfinder), economies have largely avoided these types of tariffs and taxes.
  - As the WTO Information Technology Agreement has proven, the rapid proliferation and adoption of technologies occurs to a greater degree in a duty-free environment.
  - This also holds true for data flows and digital products.

# Data Localization

- Prohibiting requirements to localize data, production, or physical infrastructure, allowing companies to make investment decisions for commercial reasons;
  - A 2014 study by ECIPE, *Friendly Fire on Economic Recovery*, found that data localization introduces several economic shocks:
    - **Productivity shock:** Data-intensive industries are the worst hit.
    - **Trade shock:** Data localization creates up-front trade costs for firms that want to export to these economies.
    - **Investment shock:** Localization lowers investment, which forms a major driver for economic growth for developing economies.
  - A 2015 study by the Leviathan Security Group found that data localization requirements raise data storage costs for local firms by 30-60%.



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## Forced Technology Transfers

- Prohibiting requirements that companies transfer or allow access to technology, source code, algorithms, or encryption keys as a condition of market access;
  - Such requirements in practice reduce the competitiveness of foreign companies, particularly if the government transfers the technology, source code, algorithms, and encryption keys to domestic competitors.

## APEC Cross-Border Privacy Rules (CBPRs)

- Implementing and using the CBPRs system;
  - Global industry calls for all APEC economies to join the CBPRs:
    - 5 economies have joined to date (U.S., Japan, Canada, Mexico, and Korea); and
    - 3 economies are taking concrete steps to join (Singapore, Philippines, and Chinese Taipei).
  - The acceleration in cross-border data flows will necessitate that economies work together through an interoperable, accountability-based system such as the CBPRs.
  - APEC should stand strong for facilitating cross-border data flows while promoting high standards for privacy and data protection.

## Strong and Balanced Copyright Rules

- Promoting strong and balanced copyright rules, including appropriate limitations and exceptions to drive the growth of new technologies such as machine learning;
  - Such rules can serve as significant generators of economic growth and innovation.
  - For example, in 2014, value added by companies relying on “fair use” of copyright was 16 percent of the U.S. economy, employing 1 in 8 U.S. workers, and contributing USD 2.8 trillion to U.S. GDP.

## Trade-related Cybersecurity Issues

- Cooperating on trade-related cybersecurity issues, including to ensure that measures APEC member economies take to enhance cybersecurity rely on risk management-based approaches that both avoid prescribed domestic standards for individual technologies that are misaligned with international standards and best practices and incorporate meaningful consultation with the private sector to encourage innovative, flexible, and cost-effective solutions;
  - Global spending on cybersecurity is estimated to reach more than USD 100 billion by 2018, and more than USD 170 billion by 2020.
  - It is estimated that the likely annual cost to the global economy from cybercrime is more than USD 400 billion.



## Online Services

- Prohibiting the extension of domestic telecommunications and broadcasting regulatory and licensing requirements to online services and applications and ensuring that any regulation of online services and applications is no more trade restrictive than necessary to achieve a legitimate regulatory objective;
  - Online application and content providers also invest significantly in internet infrastructure, averaging more than USD 30 billion per year around the world to deploy networks, facilities, and equipment.
  - Most of this amount – an estimated 76 percent – is direct investment, including investment in hosting facilities, physical cables, and other transport, while the rest is spent by third party providers to ensure that applications, services, and content are routed as efficiently as possible.

## Intermediary Liability

- Ensuring the adoption of “intermediary liability” protections, so that online services are not held liable for activity by third parties that they do not control.
  - A new economic analysis by NERA Economic Consulting finds weakening intermediary liability safe harbor protections would significantly reduce economic activity in the internet sector, causing the U.S. economy to lose 4.25 million jobs and USD 440 billion in GDP every 10 years.

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## What will ITI do to advance these building blocks?

- We will work with member economies to build consensus within APEC for creating a “Framework for Facilitating Digital Trade” that includes these building blocks.
- We will also help economies undertake cooperative actions for implementing these building blocks.
- Finally, we will promote the inclusion of these building blocks in the trade agreements that APEC member economies are negotiating today or will negotiate in the future.