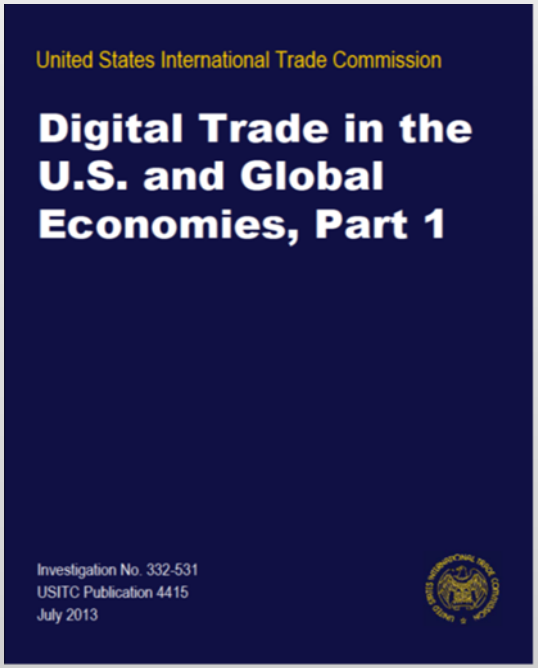
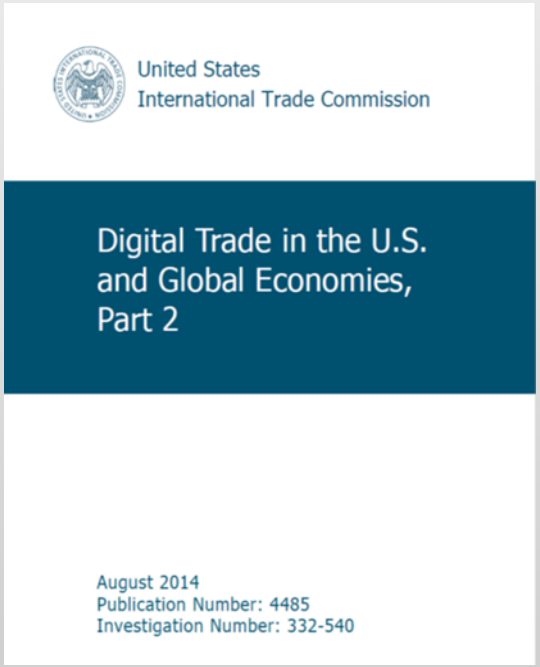
# Digital Trade Issues from the U.S. Perspective



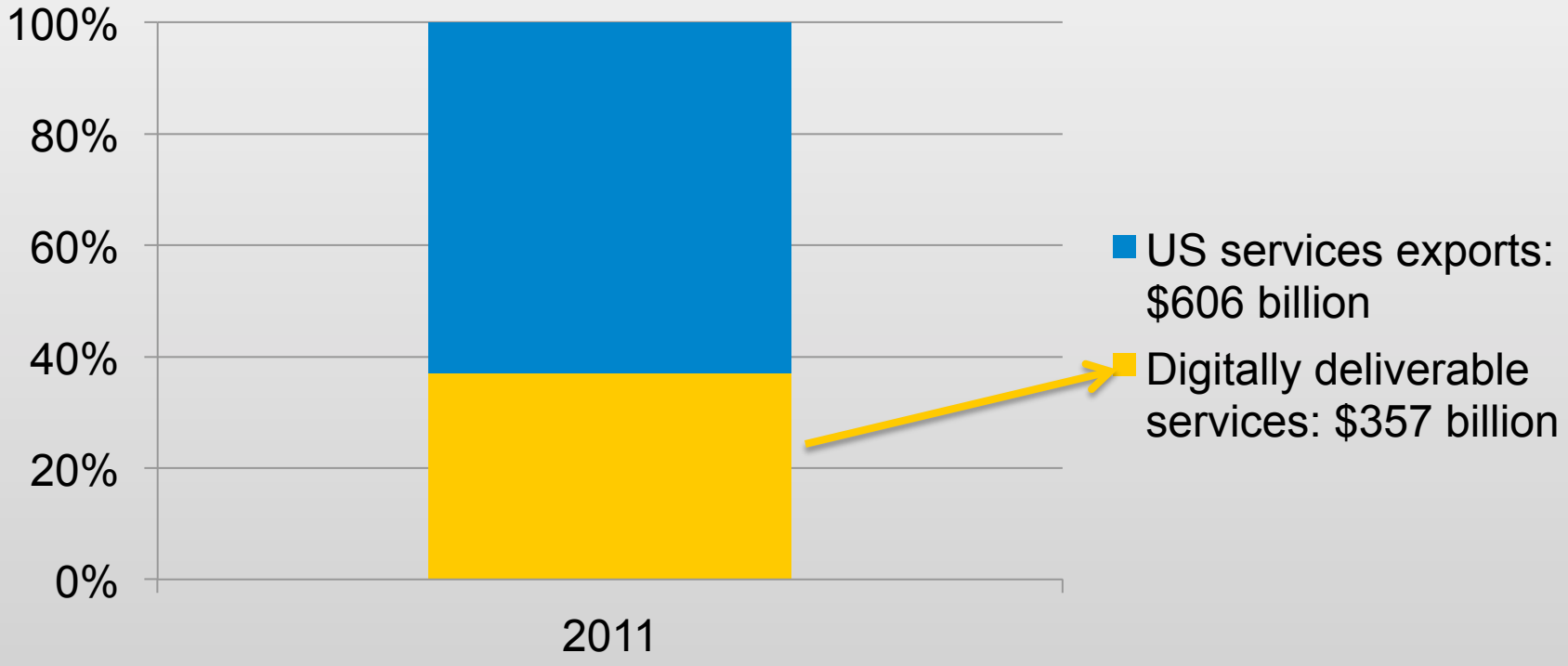
# What is "digital trade"?

- No standard definition of digital trade
- No standard definition of cross-border data flows
- No data currently collected intended to capture these concepts

# "Digital trade": USITC 2013 report

- "Products or services **delivered via the Internet**"
- Measured by: US digitally enabled/deliverable services (UNCTAD), updated to 2011 using **US Department of Commerce/BEA trade data**
- Excluded physical goods that have a digital counterpart

# Digital trade is big: Digitally deliverable services exports = 1/3 of total US services exports




Source: US Department of Commerce, BEA.

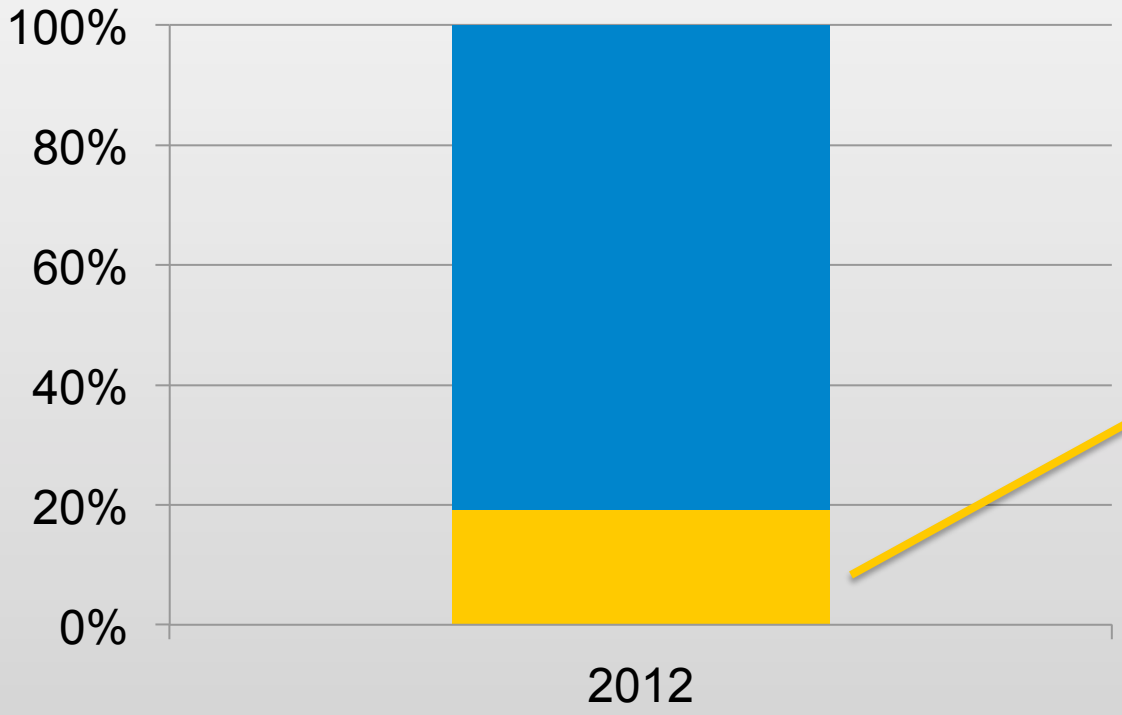
# "Digital trade": USITC 2014 report

- "US domestic commerce and international trade in which the **Internet and Internet-based technologies play a particularly significant role in ordering, producing, or delivering products and services**"
- Measured by: USITC survey and modeling of US **digitally intensive industries**

# Digitally intensive industries

| Industry | Sectors covered (more than 140,000 firms, or 17 % of US GDP in 2012) |
|---|---|
| Content | Publishing (print), motion picture, broadcasting, news syndicates, video and music production. |
| Digital communications | Software; data processing, hosting, and related services; Internet publishing and broadcasting; and Web search portals. |
| Finance and insurance | Establishments primarily engaged in financial or insurance transactions and/or in facilitating these transactions. |
| Manufacturing | Chemicals, printing, industrial machinery, metalworking machinery, engines, computers and electronics, power, distribution, specialty transformer, relay and industrial control, transportation equipment, and medical equipment and supplies. |
| Retail trade | Retail sales in motor vehicles and parts, furniture, electronics and appliances, and clothing through non-store retailers. |
| Selected other services | Accounting; architectural services; engineering services; graphic design; computer programming; computer systems design; marketing consulting services; media buying agencies; travel arrangement and reservation services; couriers and express delivery services. |
| Wholesale trade | Distribution of motor vehicles and parts, computers, electrical equipment, and clothing through business-to-business electronic markets. |

# US online sales: Almost 1/5 are exported



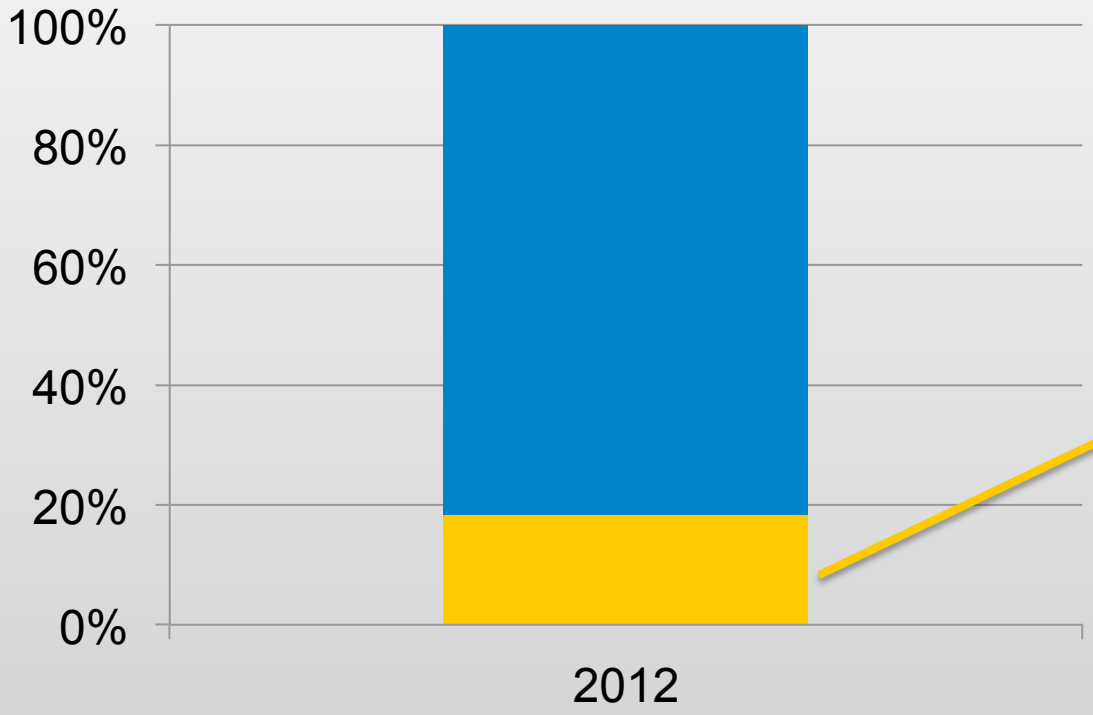

**For digitally intensive industries:**

- Online sales: $935 billion
- Online sales exported: $223 billion

Total US goods & services exports, 2012: $2.2 trillion

Source: USITC, *Digital Trade 2014*.

# US online purchases: Almost 1/5 are imported




**For digitally intensive industries:**

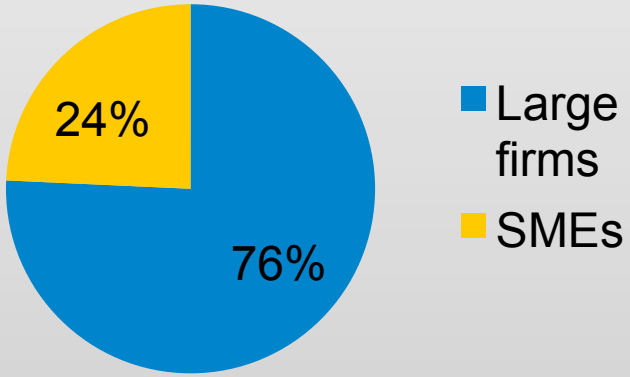
- Online purchases: $471 billion
- Online purchases imported: $106 billion

Total US goods & services imports, 2012: $2.7 trillion

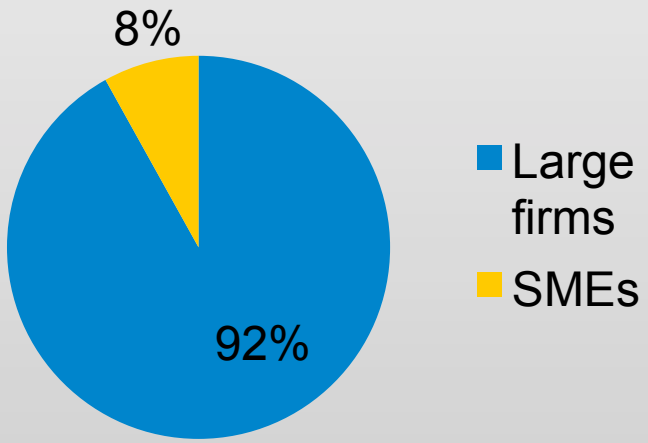
Source: USITC, *Digital Trade 2014*.

# SMEs account for almost ¼ of US online sales… but a smaller share of online exports

**Online sales: $935 billion**



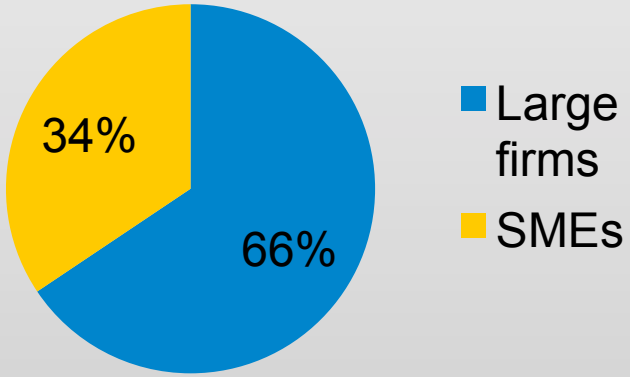

**Online sales exported: $223 billion**



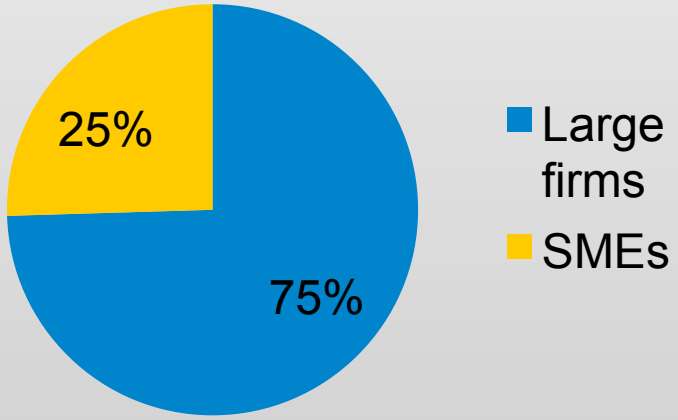

Source: USITC, *Digital Trade 2014*.

# SMEs account for a significant share of US online purchases

**Online purchases: $471 billion**




**Online purchases imported: $106 billion**




Source: USITC, *Digital Trade 2014*.

# Why does digital trade matter?

| Case studies |
| --- |
| • The Internet is changing business dynamics |
| • Big Data is changing the ways businesses and consumers interact |
| • The Internet facilitates international trade and SMEs |

# Case study: Easier job search and lower frictional unemployment

- **Markets are more efficient**: Search engines, data analysis, and targeted advertising help match buyers and sellers
- Search engines, social media sites, and **mobile apps make job search easier**
- Lower frictional unemployment implies a **lower overall unemployment rate:**
  - USITC econometric analysis estimates reduction in the 2012 unemployment rate from 2006 for 64 countries: 0.3% for the United States, Germany, Canada, and Japan; 1.0% for France; 1.2% for Mexico

# Case study: Data analytics and M2M communications

- **Big Data collection and analytics** being incorporated into a variety of business practices to improve products and services

- Insurance companies are:
  - applying data analytics to **risk selection and pricing**
  - deploying telematics (M2M) for **usage-based** insurance, and
  - using **predictive and advanced analytics** to combat claims fraud

Policy concerns:

- **Localization requirements** can constrain cross-border data flows
- Tension between the **benefits of customer data collection** in terms of improved services, and consumer concerns about the **protection of data privacy and misuse of personal data**

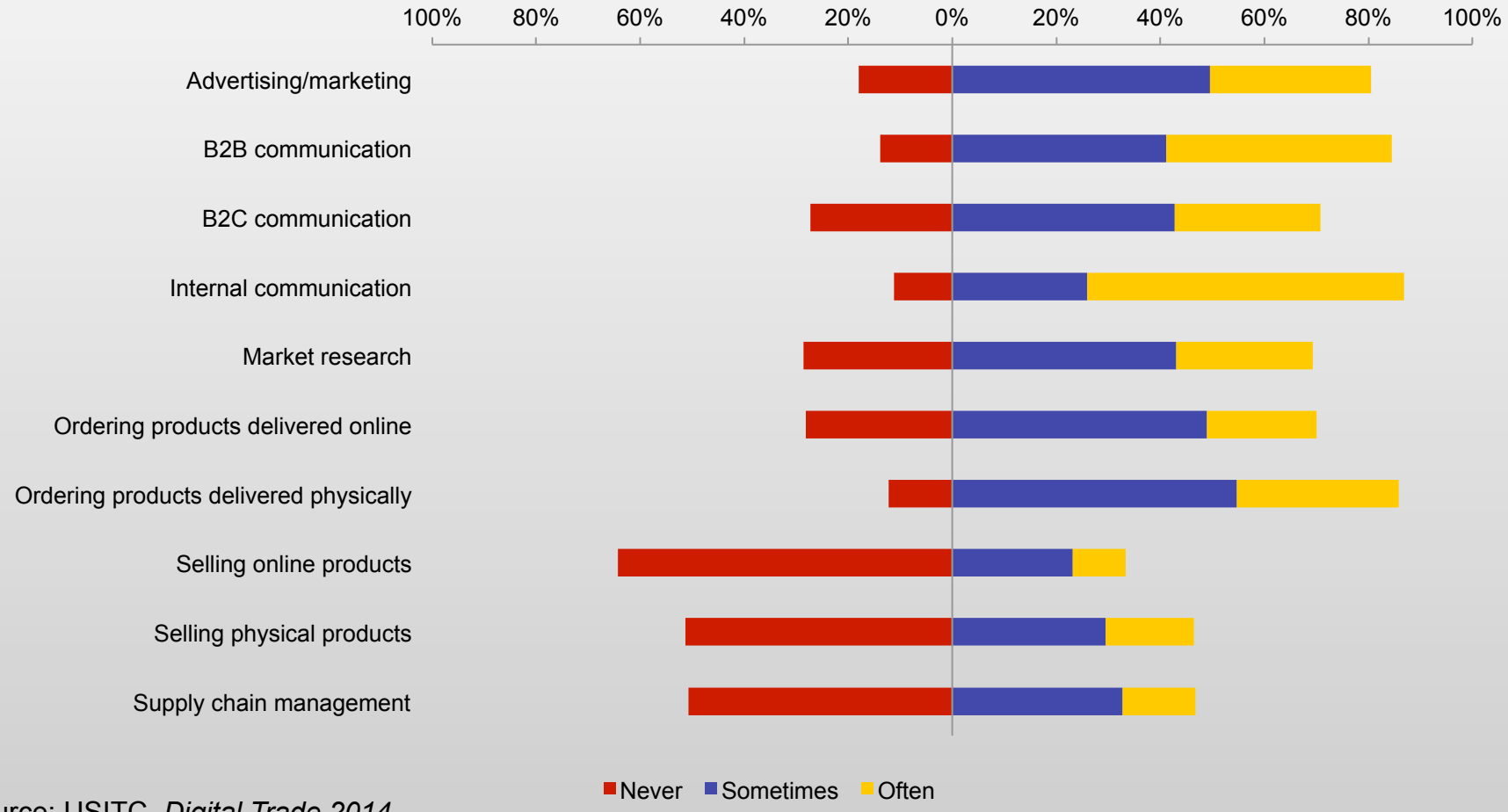
# Case study: The Internet facilitates international trade by SMEs

- The Internet makes it **easier for businesses to connect with customers and suppliers globally**
- How SMEs use the Internet for trade:
  - locate customers via **online presence** (“**accidental exporters**”)
  - online **retail platforms** (example: eBay, Etsy)
  - online **payment systems** (example: PayPal, Square)
  - **mobile apps** mean customers always in reach
- **Digital intensity is tied to SME growth and export performance**

Policy concerns:

- Despite the benefits of using the Internet, SME’s are at **greater risks from hacking and viruses than larger firms**

# How US firms use the Internet, 2012




Source: USITC, *Digital Trade 2014*.

# Effects of the Internet on the US economy

## Productivity

- **Internet improves productivity** in US digitally intensive sectors by 7.8-10.9 percent
- This productivity improvement:
  - **increases US real GDP** by 3.4-4.5 percent ($515-$671 billion)
  - **increases US employment** by 0.0-1.4 percent
- Productivity gains **due primarily to Internet use for:**
  - **business-to-business communications**
  - **internal communications**

Source: USITC, *Digital Trade 2014*.

# Effects of the Internet on the US economy

## Trade costs

- **Internet significantly reduces trade costs** of US imports and exports of digitally intensive industries, by 26 percent on average
- **Lower trade costs:**
  - **increase US real GDP** by 0.0-0.3 percent ($2-$39 billion)
  - **increase US employment** by 0.0-0.3 percent

Source: USITC, *Digital Trade 2014*.

# Barriers to US international digital trade

- ➢ Localization requirements
- ➢ Data privacy and protection requirements
- • Market access limitations
- • Intellectual property infringement
- • Uncertain legal liabilities
- • Censorship
- • Customs measures

Source: USITC, *Digital Trade 2013*

# Localization requirements

## . . . as an obstacle to digital trade

Reported by:

- Most (83%) large digital communications firms and half (51%) SMEs
- More than half large (56%) content firms
- Almost half large (49%) retail firms

Specific concerns:

- **Local data storage requirements** undermine business models that depend on rapid and efficient data movement
- Local-content **requirements and preferences for domestic ICT and content firms**
- **Conflicting financial and payment processing requirements**

Source: USITC, *Digital Trade 2014*.

# Data privacy and protection requirements

## . . . as an obstacle to digital trade

Reported by:

- Most (79%) large digital communications firms and half (51%) SMEs
- Most (62%) large retail firms
- More than half (56%) large finance & insurance firms
- More than half (54%) large content firms

Specific concerns:

- **EU data protection requirements** are strict and compliance can be difficult
- Safe Harbor critical, but ongoing challenges
- Organizational accountability and interoperability work better

# Effects of the Internet on the US economy

## Removing foreign barriers to US digital trade

- would **increase US employment** in the digitally intensive sectors of the economy by 0.4-0.9 percent
- would **increase US real GDP** by 0.1-0.3 percent ($17-$41 billion)
- would **increase US employment** by 0.0-0.3 percent

Source: USITC, *Digital Trade 2014*.

# Thank you!

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