



October 12, 2017

## Fueling Tomorrow's Digital Trade Boom

- Digital trade is the future of commerce.
- The United States leads the way in digital innovation and trade.
- There is bipartisan agreement that the United States needs to ensure that digital goods and services can flow freely throughout the world.

The Joint Economic Committee's hearing on [The Dynamic Gains from Free Digital Trade for the U.S. Economy](#) highlighted bipartisan agreement on digital trade's importance for the U.S. economy and the critical role American leadership plays in reducing trade barriers, fostering international regulatory harmonization, and expanding opportunities for trade across the globe.

The witnesses were:

- Daniel Griswold, Senior Research Fellow and Co-Director of the Program on the American Economy and Globalization, Mercatus Center at George Mason University
- Mr. Sean Heather, Vice President, Center for Global Regulatory Cooperation, U. S. Chamber of Commerce
- Mr. Nick Quade, General Manager, Ecommerce Division, Relay Networks Inc.
- Mr. Daniel Sepulveda, former Ambassador, U.S. Department of State.

### BENEFITS OF DIGITAL TRADE

**Leveling costs.** International commerce is generally more costly than domestic commerce because different market conditions require adaptation and distances tend to be longer. Also, cross-border shipments are subject to government controls that impose delays, fees, or tariffs and national regulations may require modifications to foreign goods.

Advancing digital technology lowers costs and levels cost differences between domestic and international commerce, thereby expanding international trade's scope. Digital trade also lowers both the minimum international transaction size that is economical and the minimum firm size that can conduct it. A local small business with a computer or smartphone and a web connection can do what was once possible only for larger firms, such as advertising abroad. The so-called micro-multinationals boost domestic production, employment, and introduce more competition to the consumer's benefit. [Griswold explained:](#)

By reducing costs, spurring competition, and expanding markets, digital trade creates ongoing gains in efficiency that fuel productivity gains. By facilitating the spread of ideas and collaboration, digital trade contributes to product innovation.

#### [Sepulveda added:](#)

Farmers, ranchers, small manufacturers throughout America, are using digital platforms and services to engage in international trade. They are also leveraging digital information management tools as springboards for innovation, increased efficiency, and improved productivity, which is making them more competitive globally.

**Expanding markets.** As digital technology erodes the incremental international trade costs, cross-border internet traffic expanded 500 fold since 2000, and the [McKinsey Global Institute](#) expects it to grow an additional eight times in the next decade. Approximately half the world's population has access to the internet with potentially billions more coming online. [Griswold noted](#) digital networks and equipment enable African countries, for example, to partake in the dynamic gains as well. [Quade put it succinctly](#) by saying that e-commerce *is the future* of commerce.

**Continuing U.S. Leadership.** The United States has a comparative advantage in bringing innovations to market, which is particularly critical as digital technology development opens up ever more possibilities. U.S. firms pioneered the internet's development from e-mail to Netscape to Amazon and eBay. The gains from the internet spread across the world and show no signs of abating.

American businesses leverage Amazon, eBay, and Facebook platforms daily to export around the world. Over half of U.S. services exports are now digitally delivered. The [U.S. Commerce Department](#) estimated that the United States ran a \$159 billion digitally deliverable trade surplus in 2014, with \$400 billion in exports and \$241 billion in imports. The surplus increased by 19 percent from 2011 to 2014. [Griswold observed:](#)

By playing to America's competitive strengths, digital trade allows us as a nation to use our physical, intellectual, and human capital in ways that permanently boost our gross domestic product and general living standards.

The [U.S. International Trade Commission](#) (USITC) estimates the lower cost and increased productivity from cross-border digital trade boosted U.S. real gross domestic product by as much as 4.8 percent and real wages by as much as 5 percent. Such gains are "not a one-time shift but an ongoing process that enhances the dynamic, long-term growth potential of the US economy," [according to Griswold](#).

## **GOVERNMENT-IMPOSED COSTS**

Digital technology needs the same private property protections and contract enforcement as conventional commerce. Intellectual property such as trademarks, patents, and copyrights, as well as rights to private information require data protection and network integrity. Further, technical standards across borders must be compatible for unencumbered network functionality.

Government regulations and technical standards can facilitate trade and innovation but all too easily constrain better, more suitable technology. Unfortunately, governments erect unnecessary obstacles to digital trade by imposing foreign supplier restrictions on data transmission, storage, and processing and creating incongruous regulatory regimes. In addition, even though World Trade Organization member states regularly agree not to impose tariffs on digital trade, remaining tariffs on goods thwart much low-priced international e-commerce.

**Data regulations.** The internet's design transcends national boundaries. High capacity servers and cloud computing transformed the internet's structure so that people in one country no longer need to rely on domestic facilities but can use available capacity elsewhere. But governments increasingly require local servers or data storage and even demand including local content. Some go as far as to demand transferring technology and intellectual property to domestic providers.

The flow of data through the global economy should receive the same deference as goods, services, and capital. However, [Heather testified](#) that:

Too often, forced localization measures require tech transfers as the price to gain entry in a local market, and piracy, too, represents a well-documented drain on our competitiveness and it adversely impacts digital trade.

[Griswold pointed out](#) that cloud computing is more important to small and medium-sized companies than to large companies that have their own IT departments. [Sepulveda emphasized](#) that at every international gathering U.S. negotiators would advocate against using data localization in an anticompetitive manner.

**Incompatible regulation.** Complying with multiple national regulations raises costs and thwarts trade. Given America's lead in digital trade and as the world's largest economy, it is incumbent upon our government to advance efficient policies. Capitalizing on digital technology's potential to make international trade seamless requires regulatory harmonization. [Heather referred](#) to emerging rules in different countries for autonomous vehicles and challenged regulators and legislators to reorient their thinking:

There's a huge role here that goes beyond Commerce and State and USTR [U.S. Trade Representative] that goes to ... the mainline regulatory agencies that this Congress created in many cases 100 years ago before there were international markets. And these regulatory agencies all have offices of international affairs, but they aren't central to the policymaking function of these agencies. ... [O]nce we've decided on a regulatory model we think works here, why aren't we out there advocating it to the rest of the world?

[Sepulveda seconded](#) the concern:

The United States needs to lead the way with workable solutions to these challenges or we will end up dealing with a global patchwork of laws and regulations that end up doing more harm than good, and splintering the global Internet.

If America does not engage and seek harmonization, we could quickly end up in a morass of international red tape that will prevent small businesses from navigating global opportunities while protecting big businesses from competition.

**Tariffs on small transactions.** [Quade described](#) the case of a teacher in the United Kingdom who was unable to afford a used laptop from the company he manages, Relay Networks, because the price exceeded the maximum duty-free merchandise value of less than \$200 and thus was subject to a 20 percent tariff. Other countries, including our northern and southern neighbors, have even lower *de minimis* thresholds than the U.K. (see chart).

[Sepulveda urged](#) other countries to think of their own citizens:

[I]t is also important to think about consumers in Mexico as well as consumers in the United States, the degree to which a product like the one from Relay that can be sold *de minimis* to a teacher to be able to teach his or her kids in Mexico... That's very useful to everyone involved.

All the witnesses were in full agreement that raising the *de minimis* threshold around the world would accommodate many more opportunities for cross-border sales by small- and medium-sized businesses.

## CONCLUSION

Advances in digital technology can expand international trade by reducing the costs of supplying domestic and international markets. U.S. firms lead in digital technology and are poised to drive innovations further. Critical to their success is that the international rules do not deviate from protecting intellectual property rights, enforcing contracts, protecting privacy, and ensuring cybersecurity. Pursuing these objectives, furthermore, should be harmonized among trading partners to avoid creating unnecessary compliance costs.

