Digital Trade Growth, Rule-Making, and Supply Chain Resiliency: U.S. and Global Perspectives

2020 WTO & RTA International Conference

Stephen Ezell
Vice President, Global Innovation Policy, ITIF

Taipei, Taiwan
October 26, 2020
About ITIF

- The world’s leading science and technology policy think tank.
- Supports policies driving global, innovation-based economic growth.
- Focuses on a host of issues at the intersection of technology innovation and public policy across several sectors:
  - Innovation and competitiveness
  - IT and data
  - Telecommunications
  - Trade and globalization
  - Manufacturing, life sciences, agricultural biotech, and energy
Today’s Presentation

1. Digitalization Driving Global and Pacific Economic Growth

2. Advancing Global Digital Trade Rule-Making

3. Enhancing Supply Chain Resiliency
Increasingly Digitalized Global Economy

- Digital economy now accounts for 25% of global GDP.
- 75% of the value added by data flows over the Internet accrues to traditional industries.
- “Half of all value created in the global economy over the next decade will be created digitally.” – Tekes

Increased Cross-Border Data Flows Driving Global GDP Growth

- The value of international data flows surpassed the value of global merchandise trade for the first time in 2015.

Increased Cross-Border Data Flows Driving Global GDP Growth

- From 2005-2015, cross-border data flows grew 45x; 9x more to 2021.

- Asia accounts for 16% of global data flows; in 2017, Asia’s cross-border data flows were 97 times greater than their value a decade earlier.

Asia and America Dominate the Digital Platform Economy
ICT Services Exports a Key Driver of Pacific Trade

ICT Services Exports as a Share of Total Services Exports, 2017

Source: World Bank, “ICT Services Exports as a Share of Total Services Exports”
ICT-Enabled Services’ Share of Global Trade Growing

Growth in ICT-Enabled Services as Share World Trade, 2008-2018

Source: “2019 WTO Statistical Review”
Today's Presentation

1. Digitalization Driving Global and Pacific Economic Growth
2. Advancing Global Digital Trade Rule-Making
3. Enhancing Supply Chain Resiliency
Digital Trade Policy Recommendations

✓ Pursue new rules to protect global data flows and digital trade.

✓ Maintain the WTO E-commerce Customs Duty Moratorium

✓ Join the Information Technology Agreement (ITA).

✓ Use pandemic to promote adoption of digital technologies.
Eschew Data Localization Requirements

Eschew digitalization barriers to trade, including local data storage and local ICT facilities provisioning requirements.

Importance of Data Flows in Combatting COVID-19

- Viruses cross borders seamlessly; so too must needed epidemiological and health data (with privacy protections).
- Yet China requires that genomic data must be “stored and processed locally by Chinese firms.”
- Policymakers should develop a “global digital health framework” that promotes data interoperability and assists developing nations with skills and ICT infrastructure.

Pursue New Avenues to Protect Data Flows

- Pursue international instruments and cooperation addressing the underlying concerns raised by cross-border data flows:
  - Expand adoption of APEC CBPR approach;
  - Update Mutual Legal Assistance Treaties (MLATs) to improve law enforcement access to data;
  - Include prohibitions on data localization barriers in trade agreements.
Maintain the WTO E-Commerce Customs Duty Moratorium

- WTO E-commerce customs duty moratorium has played pivotal role in enabling global digital trade.
- E-commerce sales reached $25.7 trillion in 2018.
- Eliminating the moratorium would result in annual global GDP losses of $10.6 billion.

Source: GTIPA, “The Importance of E-Commerce, Digital Trade, and Maintaining the WTO E-Commerce Customs Duty Moratorium”
Join the Information Technology Agreement (ITA)

Joining the ITA expansion would grow the economy by $5.4 billion in the 10th year, an increase of 0.35%.

Joining the ITA expansion would generate tax revenue of $1.6 billion over 10 years, an amount 151% greater than the tariff revenue it would forgo over 10 years.

Joining the ITA expansion would grow the economy by $947 million in the 10th year, an increase of 0.29%.

Joining the ITA expansion would increase tax revenue by $67 million in the 10th year, which is 38% of the tariff revenue it would forgo.

Digital Policy for Physical Distancing in Pandemic Crisis

- Policymakers must sweep away regulations that limit remote, automated digital functions across a wide array of industries.

- Support foundational technology platforms: 5G, universal broadband, electronic IDs, EHRs, AI, mobile payments, etc.

- Drive digital transformation for remote activity in key sectors: education, government, healthcare, manufacturing, and transportation.

Remove Barriers to Digital Transformation

- New York legislators proposed banning self-driving cars for 50 years.
- Push back against resistance to self-service options like grocery self-checkouts, cashless stores, etc.

Digitalization an Essential Aspect of COVID-19 Recovery

Korean New Deal

Digital New Deal
1. Stronger integration of data, network, AI (DNA)
2. Digitalization of education infrastructure
3. Fostering the “Untact” industry
4. Digitalization of social overhead capital

Green New Deal
5. Green transition of infrastructures
6. Low-carbon and decentralized energy
7. Innovation in the green industry

Stronger Safety Net
Employment and social safety net and investment in human resources

Today’s Presentation

1. Digitalization Driving Global and Pacific Economic Growth

2. Advancing Global Digital Trade Rule-Making

3. Enhancing Supply Chain Resiliency
Enhancing Supply Chain Resiliency Post-Pandemic

- Supply chain shocks becoming more frequent, costly.
- One-quarter of the pandemic-induced drop in global GDP this year was transmitted along supply chains.

Sources: McKinsey Global Institute, “Risk, resilience, and rebalancing global supply chains”; Bonadio et al., “Global Supply Chains in the Pandemic”
Global Production Becoming Increasingly Concentrated

Change in Geographic Concentration, by Sector, 2000-2018

Source: McKinsey Global Institute, “Risk, resilience, and rebalancing global supply chains”
How to Enhance Supply Chain Resiliency

How Companies Are Bolstering Supply Chain Resilience

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dual sourcing of raw materials</td>
<td>53%</td>
</tr>
<tr>
<td>Increase inventory of critical products</td>
<td>47%</td>
</tr>
<tr>
<td>Nearshoring and expanding supplier base</td>
<td>40%</td>
</tr>
<tr>
<td>Regionalizing supply chain</td>
<td>38%</td>
</tr>
<tr>
<td>Reducing number of SKUs in product portfolio</td>
<td>30%</td>
</tr>
<tr>
<td>Higher inventory along supply chain</td>
<td>27%</td>
</tr>
<tr>
<td>Backup production sites</td>
<td>27%</td>
</tr>
<tr>
<td>Nearshoring of own production</td>
<td>15%</td>
</tr>
<tr>
<td>Increase number of distribution centers</td>
<td>15%</td>
</tr>
</tbody>
</table>

“93% of global business leaders are seeking to bolster supply chain resilience.”

Source: McKinsey Global Institute, “Risk, resilience, and rebalancing global supply chains”
The “Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan” has repatriated $21 billion and 150 manufacturers.

Japan investing $2.3 billion in a reshoring fund to entice Japanese firms to move production from China; labor-saving investments & relocation expenses.

“Project Defend” seeks to reduce British reliance on Chinese production of critical products such as pharmaceuticals, PPEs, and advanced technologies.

Trump administration has considered a $25 billion reshoring fund; Phlow’s SAPIR; CHIPS Act; Biden’s $700 billion “Buy American” plan.
Prospects of Shifts in Global Supply Chains

- 16-26% of global goods exports ($2.9-$4.6 trillion) could conceivably move to new countries over next five years.

Sources: AT Kearney, “U.S. Trade Policy and Reshoring”; McKinsey Global Institute, “Risk, resilience, and rebalancing global supply chains”
Summary Policy Recommendations

1. U.S. should join the CPTPP, bringing in Korea and Taiwan.
2. U.S. should pursue a U.S.-Taiwan Free Trade Agreement.
3. U.S. should coordinate with peers on exports controls.
4. Develop a “Trusted Supply Chain Partner Network.”
5. Follow the Global Trade and Innovation Policy Alliance.

Source: ITIF, “Global Trade Interdependence: U.S. Trade Linkages With Korea, Mexico, and Taiwan”
Join the Global Trade and Innovation Policy Alliance


The Global Trade and Innovation Policy Alliance (GTIPA) represents a network of over 40 leading global think tanks dedicated to advancing a positive view of trade, globalization, and innovation for the benefit of the world’s citizens. Our GTIPA Annual Summits bring together Alliance members with world-leading experts to explore creative solutions to difficult economic, trade, and innovation challenges facing the international community. This year’s Virtual summit will feature distinguished keynote speakers alongside panels addressing the future of trade and globalization; lessons for policymakers on managing COVID-19 economic and public health impacts drawn from a series of original country-level case studies; and getting global trade rules right to facilitate digital trade and cross-border data flows.
Thank You!

Stephen Ezell  |  sezell@itif.org  |  202.465.2984