The Digital Opportunity: Democratizing Trade for the 99 Percent

progressive policy institute ppi

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MAY 2015

Introduction

Trade critics often charge that proposed trade agreements like the Trans Pacific Partnership (TPP) essentially serve the one percent—while harming virtually everyone else. But new trade pacts actually present a significant opportunity to drive more inclusive trade—especially by supporting the revolution in digitally enabled global commerce.

In this policy brief, we explain why it is critical for America to lead in writing modern trade rules that promote the free flow of data and open digital commerce. And we highlight some of the many ways in which the 99 percent—from entrepreneurs and small businesses to consumers and communities—benefit from "democratized" trade in a global digital economy that is both open and fair.

Who Benefits from New Trade Deals?

The 99 percent—from entrepreneurs and small businesses to consumers and communities—benefit from "democratized" trade in a global digital economy that is both open and fair.

Over the past three decades, America's trade agreements have become increasingly complex. While early trade agreements were focused on eliminating high tariffs, modern trade pacts also address non-tariff and "behind the border" barriers, like standards that discriminate against imported products or rules that discourage foreign investment.[1]

To President Obama and supporters of trade promotion authority (TPA) legislation, addressing "21st Century" issues in the TPP and other new trade pacts would enable America to benefit broadly from expanding trade with a growing global economy.[2]

To some trade critics, however, modern, comprehensive trade agreements primarily serve narrow interests—not the 99 percent. Joseph Stiglitz claims, for instance, that there's a real risk that TPP will "benefit the wealthiest sliver of the American and global elite at the expense of everyone else."[3] And, in opposing investor-state dispute provisions in TPP, Senator Elizabeth Warren asks: "Who will benefit from the TPP? American workers? Consumers? Small businesses? Taxpayers? Or the biggest multinational corporations in the world?"[4]

It's certainly true that new trade deals like TPP, the Transatlantic Trade and Investment Partnership (TTIP), and the Trade in Services Agreement (TiSA) would provide considerable help to large companies. And this help is important, because large companies account for two-thirds of America's exports and provide millions of good trade-related jobs that pay higher-than-average wages.[5]

But it's equally true that trade negotiators are also seizing important opportunities to "democratize" trade by making it more inclusive. U.S. negotiators are working, for example, to craft trade agreements that comprehensively address the many trade challenges faced by small exporters and other non-traditional traders.[6] They understand that small businesses that trade are more productive, grow faster, pay better and are more resilient than other small firms—and that small traders are a powerful force for job creation.[7] And, because only about one percent of U.S. small businesses export,[8] they know that boosting trade by smaller firms could pay huge—and often broadly shared—dividends for businesses, workers, communities, and the entire economy.[9]

In today's digital economy, it's increasingly possible for firms of all sizes and at all stages to sell to customers around the world.

Promoting global digital commerce can be an especially effective way to support these small business traders—and a more inclusive global environment for trade. As we detail below, the digital trade revolution is increasingly empowering entrepreneurs, small businesses, and consumers to themselves become global traders. At the same time, however, digital trade and global data flows face a growing wave of foreign barriers, while existing trade rules—most of which predate the Internet age—are often of limited help. The United States has a significant opportunity to boost inclusive trade—and the fortunes of the 99 percent—by assuring that new agreements like TPP, TTIP, and TiSA include strong provisions to advance global e-commerce.[10]

A Digital Revolution in Trade

If the Internet were a separate country, it would be the world's fifth largest economy. With some 3 billion people—almost half the world's population—now connected to the Internet, global commerce increasingly depends on digital links.[11] And the Internet economy is radically transforming international trade—by rapidly changing both *how* the world trades and *who* can trade.

In the past, global trade was generally the province of large, deep-pocketed companies that had the resources to open international offices, hire foreign representatives, and deal with countless financial, legal, and bureaucratic challenges. In today's digital economy, however, it's increasingly possible for firms of all sizes and at all stages to sell to customers around the world. In the words of one recent study, "cross-border trade is no longer an activity exclusive to global corporate elites."[12]

Digitally enabled trade—including platforms like eBay and PayPal and logistics firms like FedEx and UPS—has very significantly reduced the cost and hassle of global commerce, especially for smaller firms. Many of the traditional impedi-

ments to trade—including distance and differences in legal systems, traditions, and levels of corruption—matter much less when trade happens online.[13] Not surprisingly, businesses that employ online resources are incredibly active participants in global commerce. eBay, for example, reports that 97 percent of its commercial sellers are exporters, and that a remarkable 81 percent of these exporters sell to five or more foreign markets.[14]

Online commerce enables a local small business with an attractive niche product to become a "micro-multinational"—growing business by finding and selling to customers worldwide. For instance, North Carolina dance instructor and entrepreneur Katie Hughes employs the Internet to sell her innovative Slip-On Dancers—a $15 band that turns virtually any shoe into an aerobic dancing shoe—to dance enthusiasts in more than 20 countries, from Australia to Europe.[15]

Many digitally enabled exporters are actually "born global." Online custom tailor Black Label, for example, exported to 74 countries during its first full year of operations.[16] And evolving technologies like 3D printing are poised to radically disrupt long-established trade patterns even further. Mary Huang, a young innovative fashion designer, has begun selling 3D-printed shoes from her Brooklyn office, and envisions a future in which she will send digital shoe files directly to automated 3D printers in shops in London or Tokyo, avoiding shipping costs, import duties, and red tape at customs.[17]

The Internet economy is also increasingly empowering consumers by transforming them into global traders, a development that Helen McCallum of Consumers International terms the "democratization of trade." Connected global trade enables consumers to buy lower-cost, higher-quality products, often including unique products that they might not find in their local communities.[18] One study of online marketplaces estimates that online trade saves consumers over 42 percent when compared to similar purchases made offline.[19]

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The digital economy is also revolutionizing *what* we trade.

An information-based world requires an ever-changing array of new digital products, including apps for mobile devices and specialized software and cloud-based services. The vast majority of these digital products are readily tradable on a global basis through outlets like Apple's App Store and other digital platforms. And globalized trade for these products offers particular opportunities for entrepreneurs and smaller firms—and their communities.

Foreign sales, for example, have fueled rapid growth at firms like Minnesota/Wisconsin-based JAMF Software, a firm that produces enterprise management software for Apple devices. Since 2002, the firm has grown from a one-man shop to an operation with over 300 employees worldwide that serves over 30 of the Fortune 100 companies and nine of the world's top ten universities—all while

pumping millions of dollars into the revitalizing the city of Eau Claire, Wisconsin.[20]

Similar opportunities exist in the mobile application industry—a $76 billion globally traded sector that didn't even exist eight years ago—where over 88 percent of the top 500 app developers are small businesses.[21] Additionally, cloud-based global services bring significant benefits to small firms, entrepreneurs and workers worldwide. Xero's cloud-based accounting software, for example, helps increase the productivity of small and medium businesses in over 150 countries.[22] And over 50 percent of the millions of new jobs created by cloud computing are with small- and medium-sized firms.[23]

The Internet's ability to empower entrepreneurs, small businesses, and consumers is a direct result of the Internet's greatest virtue: openness.

Digital trade and global data transfers are also increasingly essential to businesses of all sizes in the broader "traditional" economy, which studies estimate derives some 75 percent of the benefits of Internet data flows.[24]

Digital tools, for example, play a vital role in the operation of far-flung, global supply and production chains for manufacturing and retail, and are increasingly enabling the cross-border provision of services like consulting, education, healthcare, and professional services. With the help of a 3D design program like SketchUp, for example, a small U.S.-based architecture firm can readily develop and share building designs with clients worldwide.[25]

Finally, in the not-too-distant future, the Internet of Things will transform virtually everything into a digital device. Medical devices will be linked to Germany, refrigerators will check in with Korea, and foreign factories and international flights will report on their efficiency and safety to U.S. analytical centers. This increasingly connected world has the potential to generate important benefits for consumers, workers, and businesses of all sizes—and vast new global data flows, as well.[26]

Growing Barriers to Digital Trade

The Internet's ability to empower entrepreneurs, small businesses, and consumers to participate more directly in global trade is a direct result of the Internet's greatest virtue: openness. In the modern digital economy, an Internet connection enables non-traditional traders to engage digitally with the world and find valuable information, innovative products and services, and global customers—often as easily as large, established traders.

Throughout its history—and with some notable exceptions[27]—the global Internet has benefitted from the legacy of America's multi-stakeholder, "light-touch" approach to digital regulation—an approach that has valued openness, innovation, and information sharing over excessive government mandates. But, as the Internet expands globally and becomes an increasingly vital part of modern life and commerce, governments worldwide are adopting or considering an array of restrictions on the Internet and digital commerce. This, in turn, is leading to fears

that the many benefits of inclusive, digitally enabled trade would be eroded—perhaps significantly—by a growing trend toward data protectionism.[28]

A growing list of countries—including Australia, Brazil, Canada, China, India, Mexico, Norway, Russia, South Korea, and Vietnam—are adopting or have proposed rules that bar or significantly restrict the ability to send personal data across borders. A new Russian law, for example, requires technology platforms like Google to keep Russian users' data within the country. South Korea's law requires highly detailed disclosures before data on individuals can be shared across borders.[29]

Other countries are enacting rules that force the "localization" of digital services or related operations and infrastructure. Indonesia's e-commerce regulations, for example, require providers to register with a central authority and mandate that certain providers set up local data centers. Vietnam is also mandating local data servers for certain Internet service providers. Norway takes a different approach, requiring that registrants for Norway's the top-level domain (".no")—which makes an online service more visible to Norwegian consumers—establish a local company or branch in the country.[30] And even more broadly, some in Europe are now seeking to create "splinter net" in which European data stays within a "European cloud."[31]

The many benefits of inclusive, digitally enabled trade would be eroded—perhaps significantly—by a growing trend toward data protectionism.

Finally, court rulings in some foreign jurisdictions that impose intermediary liability on Internet providers for widely accepted digital practices—such as making "fair use" of excerpts and thumbnails in search results—can also act as significant impediments to digital trade.[32]

Countries erect these and other digital restrictions for a variety of reasons. Some restrictive rules, for example, are based on genuine concerns for privacy or security, but are written so broadly that they impede legitimate digital trade. In other cases, countries believe that digital trade barriers and localization mandates are an easy way to grab the economic benefits of the emerging online economy. Economic studies show, however, that digital barriers are bad for consumers, business, and growth in the countries that impose them and for the global economy as a whole.[33]

Digital barriers can cause particular harm to many non-traditional traders. Unlike their larger competitors, smaller traders often lack the bandwidth to deal with the growing array of different national data rules or the resources to establish separate operations or networks in foreign markets.

Government mandates that require Internet service providers to store data locally or use local servers—or rulings that impose liability on these intermediaries—can also result in significant new costs that are ultimately passed on to the smaller traders that use these platforms and, in turn, to their customers. Data mandates

can, for example, pose a significant barrier to cloud computing—often a vital, low-cost, scalable resource and platform for small traders and customers alike.[34]

Simply put, an Internet that is less open will support less trade by entrepreneurs, small businesses, and other innovative, non-traditional traders—and the digitally empowered consumers that they serve.

Writing 21st Century Rules for Digital Trade

The global trading system has well-established rules to govern and promote global trade and investment. But most of these rules predate the digital age,[35] and are not suited to the particular challenges of the Internet era. New trade rules are needed to facilitate digital trade and ensure cross-border data flows—and to prevent digital trade barriers from eroding the broadly shared benefits of an increasingly data-driven global economy.[36]

The United States is increasingly taking a leading role in the ongoing effort to write new global rules for digital trade.

Modern U.S. trade agreements include chapters on electronic commerce. Among other things, these provisions prohibit duties or other fees on—and discrimination against—certain digital products.[37]

In 2011, the United States and the European Union proposed common principles to guide government rules on digital services and electronic commerce. These digital principles, for example, urge governments to support the cross-border supply services over the Internet and to refrain from mandates that require suppliers to use local digital infrastructure.[38]

New trade rules are needed to prevent digital trade barriers from eroding the broadly shared benefits of an increasingly data-driven global economy.

Recently introduced bipartisan TPA legislation would expand significantly on these initiatives and would enshrine open digital commerce as a primary objective of U.S. trade policy. Among other things, the legislation requires U.S. trade negotiators to ensure that trading partners refrain from trade rules that "impede digital trade in goods and services, restrict cross-border data flows, or require local storage or processing of data." And, when trading partners decide that important policy objectives—like personal privacy—require regulations that impact open digital commerce, the United States would insist that these rules be transparent and nondiscriminatory and that they not unnecessarily restrict trade.[39]

Current negotiations with trading partners in the Asia-Pacific and Europe—as well as those on services trade—provide key opportunities to extend these critical digital trade principles to the lion's share of global commerce. The Trans Pacific Partnership and Transatlantic Trade and Investment Partnership would, together, cover some two-thirds the world's goods and services trade, while the Trade in Services Agreement would establish important new rules for three-quarters of global services trade.[40]

Establishing strong global protections for digital trade and data flows will not be easy, especially given the very significant philosophical differences among countries on data issues, privacy, and national security. Key countries will need, for example, to agree on broad privacy principles that support both strong privacy protections and globally interoperable rules.[41] The United States will also need to pursue additional online principles beyond those in the current TPA, including rules to promote intermediary protections for Internet providers and balanced approaches to intellectual property in the digital sphere.[42]

Ensuring that digitally enabled traders can fully participate in the global economy will also require breaking down the many offline barriers that these non-traditional traders face outside of the digital environment.

Finally, ensuring that digitally enabled entrepreneurs, small businesses, and global consumers can fully participate in the global economy will also require breaking down the many offline barriers that these non-traditional traders face outside of the digital environment. This will require, for example, that trade rules reduce customs duties and red tape and facilitate express deliveries—especially for small-value shipments. And it calls for small-business-focused trade provisions that reduce unfair foreign regulatory burdens—and related costs—that particularly harm non-traditional traders.[43]

Conclusion

The digital revolution is fundamentally transforming the world's economy—while significantly contributing to broader global welfare on issues as diverse as human rights and the fight against Ebola.[44] By radically changing *how* we trade, *who* can trade, and *what* we trade, online tools have great power to drive trade that is more inclusive—trade where entrepreneurs, small firms and global consumers enjoy opportunities in world commerce that were once primarily reserved for big companies. Trade agreements that help assure that the global digital economy is free and open are vital for these newly empowered traders—and for many other members of the global 99 percent.

Endnotes

1 America's first free trade agreement—the 1985 agreement with Israel—was less than 20 pages and focused primarily on eliminating tariffs on industrial goods. America's most recent free trade deal—the 2012 agreement with Korea—spanned hundreds of pages and included detailed chapters on issues like technical barriers, investment, and e-commerce. U.S.-Israel Free Trade Agreement, entered into force Aug. 19, 1985: http://tcc.export.gov/trade_agreements/all_trade_agreements/exp_005439.asp. U.S.-Korea Free Trade Agreement, entered into force Mar. 15, 2015: https://ustr.gov/trade-agreements/free-trade-agreements/korus-fta/final-text.

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About PPI

The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century.