

## UNCTAD E-Commerce Week

### Harnessing the Digital Economy for Economic Growth and Development

Room XXIV, Palais des Nations, Geneva, Switzerland

18 April 2016

Keynote Speech by the Deputy Secretary-General of UNCTAD

*AS PREPARED FOR DELIVERY*

Good morning,

Welcome to this session on joint recommendations to G7 leaders in the area of ICT.

One of the central aims of this e-Commerce week is to bring together policymakers, companies, NGOs, and other international organizations to support ICT as an engine of economic growth and development. So I am very pleased to have so many of you with us here today.

Let me start by thanking those who have helped us in organizing this session: the *Information Technology Industry Council*, *Digital Europe*, and the *Japan Electronics and Information Technology Industries Association*.

UNCTAD shares your conviction that the Internet and ICTs are vital to economic growth. Getting ICT policy issues right is important to grow the global economy for all. The role of ICT in the global economy is, as I see it, actually *under-estimated*. If the Internet were a country, its economy would be among the top 5 largest in the world. We need to harness its potential.

But to do so, we need to tackle 21<sup>st</sup> century ICT policy challenges. And this is why this session is important. We come at these policy challenges from different perspectives, but converge around common goals.

At the G7 summit in Japan later this month, your recommendations for the ICT Ministerial will help to frame the discussion about harnessing the digital economy. And UNCTAD agrees with you on the importance of each of your six recommended outcomes for promoting innovation, development, and the digital economy.

In the interest of time, I'd like to offer some reflections on **three** of them: **1)** Discouraging the use of data localization measures,

- 2) Building trust in the digital economy through privacy and data protection policies, and
- 3) Undertaking transparency measures and consultation with other stakeholders.

**Let me address the first area: Data flows and localization measures**

Technology is an engine of change in our economy, but data is the fuel that powers it.

Much of our lives – our music, our books, our shopping habits, our work – has been transformed into binary numbers. And not only are we producing more this digital data – we are accessing it more than ever before, from all over the world. The McKinsey Global Institute estimated that cross-border online traffic grew 18-fold between 2005 and 2012.

The dramatic growth of e-commerce (which has grown 4 times faster than global GDP in recent years) underscores this figure. A central feature of the new digital economy is that trade in goods and services is now closely linked to data. Architects send PDFs of their blueprints to clients; exporters complete customs paperwork online; offshore oil rigs send measurements to oilfield services providers; House of Cards addicts stream the Netflix series from around the world.

This closer link between trade and data is an opportunity, but not without risks. And this is why we need policies.

There is growing concern about data localization requirements that stipulate that certain kinds of information be stored on servers within a country's physical borders. The risk is the balkanization of data that some, including Google's chairman Eric Schmidt, have called the "splinternet."

Countries may adopt localization requirements for several reasons: fears of foreign snooping, concerns about criminal hacking, or out of an interest in promoting local server industries that can compete with foreign rivals. Some countries have adopted restrictions on the transfer of data abroad, and others have considered less severe measures.

But there is a fine line between *data protection* and *data protectionism*. Whatever the rationale, data localization measures can act as new forms of non-tariff barriers that undermine trade, innovation, and competition – to the detriment of consumers and economic growth more generally.

How so?

In today's economy, businesses often process data from consumers, employees, and suppliers at a data center, not in the business's home country. Data localization requirements would make it

costlier to set up multiple data centers in several countries. These higher costs can ultimately be passed on to consumers.

To take one example, data localization requirements could also prevent doctors from outsourcing MRIs that benefit patients by providing cheaper services.

What is needed is a conversation based on clear principles to balance legitimate concerns without hampering trade and/or innovation.

We must ensure that in our effort to protect data, where it requires legitimate protection, we do not make collateral damage out of the rest of the digital economy.

**Let me now turn to the second area: Privacy and data protection.**

As more and more of our lives and economies are digitized, data protection and privacy is becoming increasingly important. Some broadband packages today are 36,000 times faster than what dial-up connections offered only 2 decades ago. The potential of the digital economy – both potential growth and potential abuses – has increased dramatically. The imperative for data protection and privacy has never been stronger.

This is why the figures released earlier today by Ipsos and the Centre for International Governance Innovation showing declining trust online are worrisome.

For all of us with an interest in harnessing the digital economy for growth, this trend needs to be reversed – urgently.

Without trust online, vendors will find fewer customers on e-commerce platforms.

Without trust online, teachers may have doubts about letting their students access educational content on the web.

Without trust online, citizens will be more reluctant to contribute their views and opinions to discussions on the internet.

Trust is the basic currency of the internet. As such, we need to promote better data protection policies to maximize the benefits of the digital economy.

As the expert meeting on data protection tomorrow and on Wednesday will highlight, data protection globally is in bad shape. In fact, many developing countries still lack basic legal frameworks to secure the protection of data and privacy. UNCTAD's *Global Cyberlaw Tracker* found

that as of 2015, only slightly more than half of all countries even had such legislation in the first place. And if they have it, it's often poorly implemented.

A potentially bigger problem from the perspective of global trade is that regulatory approaches across countries are uneven. As data travels through borderless networks, consumers and businesses cannot be sure that data protection and privacy rights are consistently secured. If firms in countries with weak data protection regimes cannot export to countries with strict data protection regimes, this represents a missed opportunity for trade.

We need to make headway in this area. The G7 can, no doubt, make strides. But it's essential that stakeholders from countries at all levels of development are engaged in the dialogue. I encourage all of you to make the most of these next few days to engage in constructive discussions in this regard.

**Let me now address the third area: Transparency and stakeholder consultation.**

To make the most of the digital revolution and ICTs, we're going to need all stakeholders on board.

I want to highlight UNCTAD's Aid for eTrade initiative as an illustration of what more transparency and stakeholder consultation seeks to accomplish. While e-commerce offers immense opportunities to developing countries, the digital divide remains wide.

There are twin challenges that we need to tackle: improving ICT connectivity in developing countries, and improving the "analog complements" - the physical infrastructure, policies and regulations, and human capital - needed to fully leverage ICTs.

There are existing efforts in these areas: UNCTAD, The World Bank, ITC, UPU, ITU, regional development banks, and the WTO (among others) have programs and schemes. The problem, as we see it, is that these efforts are fragmented and insufficiently scaled.

The speed of digital transformation means that we need to increase support and do so fast.

In this context, we envision Aid for eTrade as a demand-driven mechanism for development partners and the private sector to work together: to pool resources, to achieve coherence, and to avoid duplication. And in order to facilitate effective dialogue, we'll set up a Private Sector Advisory Council - which will comprise e-commerce companies and other private sector actors from developing and developed countries.

The objective is greater transparency and offering a "one stop shop". Recipient countries will have a better overview of what forms of support are available to them. Donors will have a clearer picture of which programs they could fund.

For those of you who are interested, we will have a full day of stakeholder consultations on this initiative on Thursday. With your contributions, we hope to launch it formally at our Ministerial Conference in Nairobi this July.

Let me stop here.

It's clear to all of us in this room that ICTs can be a powerful vehicle for economic growth and development. But it's equally clear that policy challenges will need to be addressed to fully capitalize on this opportunity.

Thanks to your research, support, and advocacy, we are closer to accelerating the digital revolution and harnessing its benefits for all.

Thank you for your attention.