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Risks and Challenges to Trade Within Digital Economy²

Discussions and debates over international trade in the global digital economy, especially e-commerce have surged in numbers in the recent years. This article establishes the growing tendency of implementing information technologies in trade relations and examines the main opportunities for Russia to promote ideas concerning the development of digital technologies in international economic relations. The recent 2018 WTO Public Forum in Geneva discussed the role of the correlation between digital trade policy and socio-economic development. The idea of how Russia can contribute to the evolution of emerging technologies is developed within the paper.

Key words: WTO, emerging technology, trade relations, trade agreements, education, e-commerce.

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Introduction

The world is undergoing crucial changes, and the trade relationships among countries involve several important steps — the interconnection between exchange of products and exchange of services. The major tendency of this era is that not only that the goods and services are tradable, but also the movement of factors of production is increasing among the countries. With the creation of digital economy, the most significant role in this tendency plays the rise of new factors of production — information and big data, which appear to be essential in international economic cooperation and increases the opportunities to attain a greater market access.

With the growing issue of implementing information technologies into trade, digital economy has become a compelling problem towards the regulation of new instruments and directions of trade among the countries. The most important challenge nowadays lies in the ability of countries to enlarge the number of areas, involved in trade, and include digital commerce into their scope.

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Benefits and drawbacks of emerging technologies for the WTO

Digital economy is not only a powerful and effective instrument to introduce the world-changing cooperation technique, but also provides opportunities to lower the transaction costs between the countries to ensure the easy entrance to the market. The development of e-commerce and the formation of the digital economy as a whole creates tremendous opportunities to accelerate the economic turnaround of meeting human needs and increasing well-being. [1, pp. 340-342]. To imply some detail in this assumption, the digital infrastructure includes three main components:

- The actual infrastructure of access to the Internet
- The availability of software
- The availability of data (or data access)

The development of international involvement in digital economy has several directions of impact on the socio-economic progress. First of all, information technology is increasingly pervasive, accessible and affordable. The combinations of technologies could multiply this impact. From the point of consumers, they are acquiring benefits, as well as producers, who are able to create the new business models and establish new ones in this area.

However, the urgent need to negotiate over the problems of involving information technologies has been caused by the difficulty of enforcing the trade within the digital economy. Like with any new and large-scale process of structural change, this stage requires the creation of new institutional capacities, regulatory mechanisms and in particular measures aimed at ensuring proportional development, compensating for problems and imbalances and, in general, ensuring the inclusiveness of the process.

Digitalization creates new factors and directions for inequality in the global economy. A great number of scholars have been addressing this well-known “digital divide” issue. The difference in access to digital networks poses serious problems to the countries. Technology impact differs between and among developed and developing countries and within those groupings. The aforementioned three major components display significant manifestations of inequality and discrimination:

- The provision of users with effective Internet access

This means that the gap between high income and low-income group of countries is shown to be almost two times difference between each other (Fig. 1).

- High level of monopolization of the software market
- Extremely high monopolization of digital platforms (Amazon, Aliexpress), etc.

At the same time, competition policy issues are not addressed at the multilateral level. Meanwhile, in developed countries antitrust legislation is sufficiently developed, in less developed countries, this trend seems to be very weak, or there is a lack of qualified personnel, experience or practice among workers. Furthermore, there is a

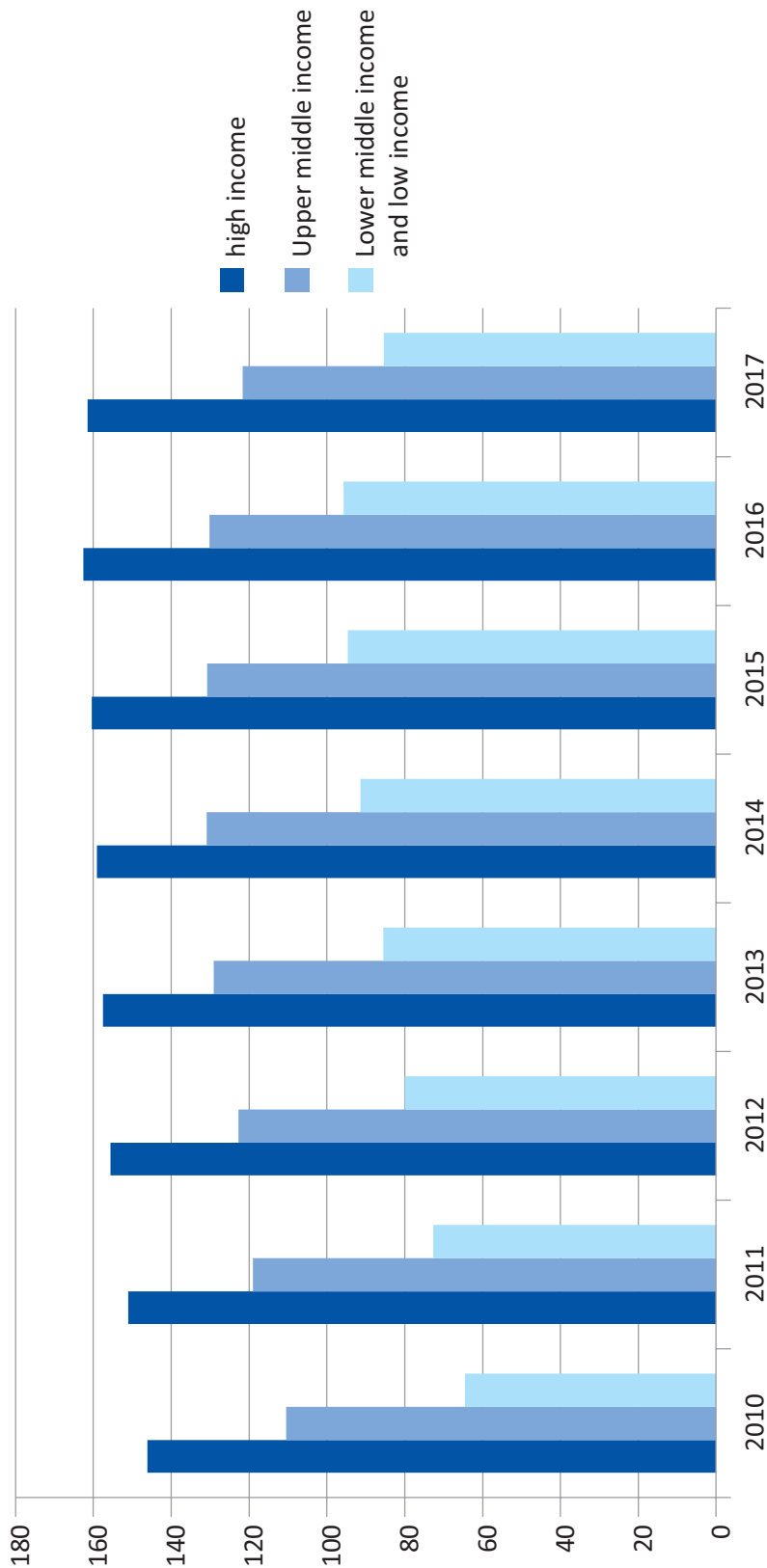


Fig. 1. Number of mobile and fixed broadband Internet connections per 100 people in different groups of countries

Source: [2].

high probability of facing subsidies (direct or hidden) of digital monopolists from more developed countries for promoting their own businesses in this area.

Access to data (the possibility of using big data technologies) is largely determined by both institutional factors and material resources, both of which act against the less developed countries.

The data on the availability of servers presented above indicates the weakness in the position of countries with low per capita incomes. To a large extent, the solution to this problem depends on the solution of the problem of data localization. However, the issue is obviously quite complex and controversial and the positions on this issue can differ.

Similarly, the problem of the institutional lag of the states with a lower level of development in matters that may be crucial in connection with the development of the digital economy and electronic commerce is highly significant. This factor can lead to rather negative consequences both for the developing countries themselves and the development of digital commerce as a whole.

On the one hand, the markets of countries with low and even low incomes are potentially attractive for e-commerce, especially given the opportunity to drastically reduce transaction costs and ensure high availability of products for the consumer without the need to develop traditional trade infrastructure [3, p. 32].

On the other hand, there is the problem of the risk of insufficient development of regulatory institutions and their readiness to meet the requirements that digital technology development may present.

The new trade technologies and related mechanisms of competition, regulation of access to the market (i.e. consumer data), digital trade infrastructure, consumer rights protection and other participants in trade have high demand for new requirements for regulatory institutions and practices.

To sum up, the question lies in discussing the risks associated with an inverse effect of the “digital divide” in the regulatory area - the possible consequences of the regulatory lagging behind the pace of development of electronic commerce and digitalization in general in developing countries. And the other question states whether the WTO as a system can achieve the balance on these issues in the next ten years and be the most efficient driving force to address challenges of social economic development.

One of the areas of concern is the fact that the mechanisms for the protection of the rights of right holders can inhibit the digital development of less wealthy countries. However, balanced and effective mechanisms for the protection of intellectual property rights are an important prerequisite for the successful commercial use of digital technologies. Insufficient protection of the rights can lead to

the development of grey markets, violation of the rights of consumers, but in the end will inevitably lead to conflict with the rights holders and the attempts to restrict access to advanced products for problem partners [4, pp. 34-37]. Undoubtedly, in the future, the enormous potential for scaling up digital technologies and the use of network effects will dramatically increase the importance of effective regulation in the field of intellectual property rights.

Possible solutions

The potential solutions to the digital trade problem do not involve only implementing rules in this particular area. The major solution to these problems would be a combination of rules which would provide for the movement of factors and help comprise them together systematically. All the factors of production at play can be developed in a system, whereas the task proposed to solve these issues would majorly depend on the differenced among the countries. There are some implications for the flexibility among the countries:

- The implementation of rubber rules
- The creation of specific part of obligations
- Special and differential treatment.
- The solutions to these problems include several points, among which there are

Ability to implement general disciplines to reach an agreement among different players. However, these might not serve as the best and the most effective regulations due to a high risk of a great number of barriers and bilateral instruments, such as new technological protectionism and “the risk to be late”

Development of regional trade agreements. However, there can occur a risk of fragmentation and appearance of “digital” regions and so called technological platforms, with many outsiders facing regional barriers. Furthermore, there is a possible lack of transparency among the players.

Achievement of a flexible agreement providing differential treatment to reflect different features of countries, and this system is more beneficial than the old regionalism as it could be transparent and have general principles and be open for opportunities to different levels by choosing different sets or levels of obligations.

The creation of conditions for real, equal and effective (as well as without increased risks of negative consequences) inclusion of developing countries in the development of the digital economy will be possible only with some limitations:

The implementation of large-scale assistance programs in the direction of improving regulatory mechanisms and the potential for their improvement;

The creation of a new, more flexible and problem-oriented system of special and differential mode. Similarly, this should include not only formal concessions with

respect to obligations, but also a part related to rendering assistance in fulfilling obligations, as well as elements aimed at reducing the risks associated with insufficient regulatory capacities with regard to high-tech global and trade arrangements.

Conclusion

To sum up, the biggest danger nowadays is the fragmentation of the world economy, in which it can be divided into groups of countries by level of development. On the basis of the WTO countries can start a movement to eliminate discrimination on the level of states development. In these circumstances, it is important to maintain the right balance between regulation and openness, and, in addition, it is necessary to interact more actively with the economies at the forefront.

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Риски и вызовы для торговли в условиях цифровой экономики²

Обсуждения и научные дебаты на тему международной торговли в условиях глобальной цифровой экономики, в частности, электронной торговли, в последние годы стали проводиться значительно чаще. Статья освещает тенденцию применения информационных технологий в мировой торговле и основные возможности продвижения идей развития цифровых технологий в международных экономических отношениях для России и пути вклада России в эволюцию цифровых технологий. Также анализируется вопрос взаимосвязи между цифровой торговой политикой и социально-экономическим развитием, рассмотренный на состоявшемся в октябре 2018 г. Общественном форуме ВТО в Женеве.

Ключевые слова: ВТО, технологии, торгово-экономические отношения, торговые соглашения, образование, электронная торговля.

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