Defending the global digital marketplace

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Biographer Walter Isaacson told me recently that Steve Jobs *"was seized with the importance of improving the framework governing the flow of information around the world"* in conversations he had with the late Apple CEO. Jobs recognized the danger that information and ideas could become Balkanized, interrupting what has been a mostly steady march towards more integrated, productive and innovative economies since the onset of the internet.

Individuals, businesses and governments mostly take for granted their ability to access information and conduct business online and across international borders along with the substantial economic benefits that accompany those activities. Yet access to information relies on the existence of appropriate regulations and policies, and a general attitude by governments that the benefits of openness to digital information and technologies outweigh the potential costs.

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Today, as billions of people increasingly adopt digital technologies and habits, and the companies that provide them are more global in scope, the world has arrived at an inflection point when it comes to electronic information. While many countries are building frameworks that enable access to the best technologies and ideas, others are testing policies that reduce access to global flows of digital information, products and services.

As the internet matures, it is important to recognize that emerging attempts by some countries to restrict information flows could have far-reaching impacts on entrepreneurs, innovators and economic growth. In order to fulfil the substantial promise of the internet to improve economic development, countries must craft future policies that promote that open and secure access to the global digital marketplace.

The economic impact of digital information

It is difficult to overstate how important the exchange of digital information and use of related technologies and services have become in the lives and especially the livelihoods of billions of people. Manufacturers, farmers, retailers and service providers use information technologies and cloud services to improve their productivity and manage international customers, suppliers and employees. From streamlining payroll services to interacting with customers to developing smart power plants that can be monitored remotely, companies everywhere are utilizing digital information and technologies across their businesses. In all, more than three-quarters of the value created by the internet goes to traditional industries that would exist without it, according to McKinsey.

Entrepreneurs and small businesses benefit greatly from digital technologies, which permit anyone with an internet connection to reach new markets, test ideas and interact with partners around the world at low cost. Small businesses in China and Korea that used the internet intensively grew approximately three times as fast as companies that did not rely heavily on it, according to a Boston Consulting Group (BCG) survey of around 6,200 small and medium-sized companies across several countries.

Microenterprises, comprised of one or a few employees, are able to market and sell products around the world via online platforms like Etsy and South America's MercadoLibre. eBay estimates that in 2010 approximately $4 billion of gross sales were the result of cross border trade and were conducted mainly by microenterprises. Advances in networked technologies are enabling these individuals and small companies to access information and services inexpensively and conduct business via the cloud instead of through large investments in physical operations or software.

The internet has created a variety of new opportunities and business models, which further empower small businesses and entrepreneurs to participate in global markets. Revenues from mobile application stores, already an $8.5 billion industry in 2011, are projected to grow to $46 billion by 2016, according to ABI Research. Kiva, a micro-lending service founded in 2005, has assembled a network of nearly 600,000 individuals who have lent over $200 million to entrepreneurs in places where access to traditional banking systems is limited. Millions of others use online advertising, e-commerce and innovative payment technologies to reach customers and partners around the world.

Even blogging can be a full-time, lucrative profession. As writer Alex Pappademas suggested in a June 2012 GQ profile of Scott Schuman, publisher of the men's fashion blog the Sartorialist, *"the internet demolishes long-standing hierarchies, sows democracy, takes power out of the hands of elites and middlemen and redistributes it to scrappy upstarts with big dreams."* (Schuman last year indicated he earns more than a quarter of a million dollars from sponsorships.)

These economic benefits to businesses, entrepreneurs and workers add up. According to a March 2012 study by BCG, the internet economy currently accounts for 4.1 percent of GDP across the G-20 countries. The size of the internet economy in those countries is expected to double between 2011 and 2016. Those figures do not include the economic benefits of e-business services such as websites, Facebook pages and crowd-sourcing platforms that permit consumers to research products and services online before buying them in stores or the productivity gains and cost savings companies realize from leveraging cloud services. The economic promise of the internet is especially large for developing economies. By 2016, according to the same study, emerging countries will be responsible for a third of the internet economy of the entire G-20 and nearly half of its growth.

Constructing new virtual economic walls

Despite the substantial economic benefits of maintaining access to the global digital marketplace, a small but growing number of government policies threaten to create new virtual walls that could undermine the open nature of the internet and the ability of companies and individuals to transmit or retrieve information across borders.

Indonesia, Korea and Turkey are among several countries that have proposed or enacted measures that would require financial services providers to process data on-shore or force companies to locate physical infrastructure such as servers within their borders. China has proposed rules that would require companies to innovate and develop technologies locally in order to sell to the government. In 2011, the Kazakhstan government announced that all local .kz domains would have to run off of servers located physically in the country.

In May, the Ethiopian government criminalized the use of services such as Skype that use voice over internet protocol (VOIP) technology in part to protect the monopoly of its sole state-owned telecom provider Ethio-Telecom. Over the past several years, a variety of countries including Egypt, Guatemala, and Vietnam have blocked access to US-based information services including Facebook, Wordpress and YouTube.

Some countries would like to make it easier to monitor or unplug altogether from the global internet. Russia has called for more international control of the basic functions of the internet, a development which could lead to a less open, less global internet subject to the whims and taxation of national authorities. Iran has already announced its intention to divorce itself from the internet and replace it with access to a 'clean' national intranet, subject to stringent national monitoring and regulation.

One difficulty with addressing this emerging digital protectionism is that new online roadblocks are not as clear-cut or easy to spot as tariffs on physical goods. In some cases, countries are attempting to address legitimate national interests such as consumer protection, national security, privacy, or public morals in ways that unnecessarily restrict or discriminate against international information and services. Other countries are simply invoking these concerns as a pretext for shutting the door to global ideas and businesses to improve their ability to control information or protect local economic interests.

These issues are perhaps inevitable growing pains of the internet as companies and countries struggle to adapt to an information-based global economy. At the same time, measures that shut out global internet-enabled services and ideas jeopardize the ability of individuals and businesses to benefit from the global economy. Policymakers everywhere ought to think carefully before placing restrictions on flows of information or internet-enabled services regardless of the rationale.

Advancing the economic promise of the internet

There is some evidence that this economic promise is an increasingly critical factor in policy decisions addressing information and the internet. In Cuba earlier this year, I spoke with government officials, academics and bloggers who repeatedly emphasized the importance of the internet to economic growth, including to the success of the small-scale entrepreneurs that President Raul Castro is trying to encourage. At the same time, they clearly struggled to reconcile that potential with the political uncertainty that greater access would bring. Entrepreneur and fellow traveller Esther Dyson summed up the prevailing attitude in Cuba, observing in a Project Syndicate blog post that, *"Everyone agreed that internet access could dramatically help the economy, but seemed unwilling to concede that it was regarded as a political threat and thus was being delayed intentionally."*

Even within this context, telecommunication and internet policies in Cuba are evolving, albeit slowly. Texting prices, set by the state telecommunications company, have dropped. Cubans now have the ability to use computers in hotels. The government permits a Cuban version of Craigslist called Revolico.com to function, implicitly acknowledging and facilitating the grey market that has existed in Cuba for so long. Such a development would have been unthinkable even several years ago.

Other countries are working together to create a more open and secure digital economic framework by applying familiar disciplines that cover international trade in goods to information and electronic products and services. Mauritius signed a joint set of principles with the United States in June 2012 signalling that international internet-enabled services and information flows should not be restricted, that foreign companies should be treated fairly to provide telecommunications and related infrastructure, and which committed the countries to work internationally to increase digital literacy.

In the Asia-Pacific region, a group of innovative and diverse countries, including Australia, Malaysia, New Zealand, Singapore, the United States and Vietnam, are negotiating a trade agreement, the Trans-Pacific Partnership (TPP). Negotiators there are discussing for the first time the possibility of including specific commitments that would permit access to legitimate information flows and business services, avoid discriminating against foreign suppliers of digital products, and allow flexibility in the storage of data and servers within the region.

The global trade policy framework that has emerged over the past 60 years establishes basic rules of transparency, fairness and non-discrimination for international transactions involving physical goods, while still permitting governments to regulate in support of national interests such as privacy and security. Working with other innovative economies to apply those same concepts to information and electronic services can help secure an open, transparent framework to facilitate participation in the global digital marketplace.

Recognizing this, the Obama administration has taken the lead in raising these issues in speeches and in forums such as the Organization for Economic Cooperation and Development, which last year developed a communiqué on principles for internet-policymaking. Now with TPP, the United States and its trading partners have an opportunity to enshrine new commitments in the Asia-Pacific region.

This kind of international cooperation is increasingly necessary to ensure access to an open global electronic marketplace. As companies and workers rely increasingly on remote servers and cloud applications, and as digital information policies continue to evolve, it is becoming easier to get confused or wrong-footed on complex regulations and legal issues. Small businesses and entrepreneurs in particular would benefit from cooperation among governments to ensure fair, non-discriminatory access to global digital markets and to improve their ability to navigate privacy standards, security regimes, and issues of jurisdiction and liability.

While these are increasingly complex policy areas, it is critical for governments to develop and apply laws and regulations in a way that is fair and transparent and without walling off the innovation that comes from open access to global information, digital services and technologies. In fact, overly restrictive policies, such as a requirement that companies house sensitive data solely within a country's borders, could make that information less secure by preventing companies and governments from taking advantage of redundancies and multiple storage capabilities of international cloud service providers.

Google's Chief Technology Advocate Michael Jones told an Atlantic Exchange Forum in May that *"there's a war going on right now"* for the future of the internet. Creating a trade policy framework for the digital age will be vital to winning that war and preserving the ability of innovators and entrepreneurs everywhere to participate effectively in the global marketplace of the 21st century. ■