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Global Services Coalition Statement on Digital Trade

The Global Services Coalition (GSC) speaks for the services sector in Coalition members' respective economies, particularly in matters of international trade and investment.

Digitally enabled services lie at the heart of modern competitive economies. As businesses around the world compete in the global market, the flow of data across borders, with minimum restrictions, has become the life blood of trade and the impressive global growth in services is largely due to the emergence of the internet and rise of cross-border data flows. Data flows have grown by 45 times since 2005, and will have grown by another nine times by 2020. In addition, according to a 2016 McKinsey study the value of data flows (\$2.8 trillion) now exceed the value of global merchandise trade.¹ Data flows are building blocks for technological advances, such as cloud computing, the Internet of Things, and Artificial Intelligence, all of which are cornerstones of the emerging "Fourth Industrial Revolution" and Society 5.0.

All trade in goods and services – from the placing of an order to confirmation of delivery - now involves the electronic transfer of data. Data-transfer is today's all-purpose means of business communication, spurring economic growth and innovation in all industries. GSC associations see with concern the appearance of certain forced data localization policies and practices, that may threaten to disrupt the continued growth and success of trade and commerce worldwide.

A recent study by the European Centre for International Political Economy (ECIPE) shows the significant negative impact of restrictions on cross-border data flow and data localization requirements on economic growth and jobs.² The ECIPE study revealed an average GDP

decline of 0.6%, a 2.5% reduction in investment and significant welfare losses because of digital barriers in the regions studied.

For trade in goods and services to flow freely, there needs to be both trust among individuals that their personal data will be securely held and handled according to local privacy rules; and certainty for business that data protection regimes will be transparent, predictable, and as least trade-restrictive as possible. The Global Services Coalition recognizes that data-security and appropriate and effective protection of personal data are essential and must be assured through compliance with local privacy and security regulations. Any exceptions to the principles promoting cross-border data flow and avoiding forced localization should be limited to legitimate public policy objectives and only in full compliance with the provisions of GATS Articles XIV and XIV bis, and treat all services providers – foreign and local – equally.

With a view to achieving the above objectives, the Global Services Coalition urges governments across the world to promote discussion in the OECD, the WTO and other possible plurilateral initiatives including the Trade in Services Agreement (TiSA) in order to create high-standard rules on data flow that are compatible with industry-led best practices. At the same time, we call for negotiators of ongoing or future negotiations related to data flow including FTAs/EPAs to make their utmost efforts to agree on strong and effective provisions which guarantee free flow of data, and prohibit forced data localization and requirements for provision of software source code, while applying appropriate and effective protection and security for personal data.

¹ James Manyika, Susan Lund, Jacques Bughin, Jonathan Woetzel, Kalin Stamenov, and Dhruv Dhingra, “Digital globalization: The new era of global flows,” McKinsey Global Institute, February 2016.

² Matthias Bauer, Martina F. Ferracane, Hosuk Lee-Makiyama, Erik van der Marel, “Unleashing Internal Data Flows in the EU: An Economic Assessment of Data Localisation Measures in the EU Member States.” European Centre for International Political Economy, December 2016.