**Sizing Up the Digital Economy**

Institute for International Economic Policy
THE GEORGE WASHINGTON UNIVERSITY

**Event Summary:**

**Dr. Susan Aaronson** (GWU) introduced the program and provided background on how and why GWU/IIEP focused on digital trade and internet governance.


He noted it was prepared for the Senate Finance Committee and did not include explicit policy recommendations. He gave two definitions that colored the research: *digital trade-* products and services purchased online, does not matter the delivery method; and *digitally intensive industries*—140k firms across 7 sectors, including content, digital commerce, finance, retail, and wholesale. The ITC surveyed these firms to obtain a better understanding of their operations. The survey had a 41% response rate.

The ITC found that, in 2012, the year of the most recent data, US online sales rose almost 1 trillion dollars. Digital trade increased productivity and lowered trade costs—the ITC estimated that digital trade had increased real GDP by some 3.4-4.8% and aggregate employment by some 2.4 million jobs over the base year of 2011. The ITC was also tasked with examining barriers to trade in the digital economy. It found a wide range of barriers, including localization requirements; market access limits, data privacy and protection rules; intellectual property rights infringement; uncertain liability rules; censorship and customs measures, among others. Our four commentators next provided comments.

**Dr. Michael Mandel** (Chief Economic Strategist, Progressive Policy Institute) noted that PPI had made the data-driven economy a primary focus of their work and stressed how difficult it was to measure the digital economy. He noted that not all data flows leave monetary imprints; hence, the ITC’s estimates are conservative. He also stressed that data differs from exports or imports as it can be both at the same time and data is present in more than one country simultaneously. Finally, he warned that “countries who cut off data have first order negative effects,” with implications for taxation, trade, and economic growth.”

**Jacquelynn Ruff** (VP, International Public Policy + Regulatory Affairs, Verizon Communications) described the report as a “landmark.” She next explained that 99% of Fortune 500 companies use Verizon’s technological infrastructure, concluding that correct data is important for Verizon, yet transformation in the sector is difficult to
capture. She suggested combining the findings of this report with other data sets to create a new broader macro data set. She also noted that early entry into emerging economies allows businesses to grow exponentially compared to competitors that enter the market later. However, barriers to trade prevent certain businesses from entering markets (also true for digital economy). Finally she noted that whether or not a country owns the telecommunication infrastructure has impact on the quality of data.

**Linda Kinney** (Senior Vice President of the Motion Picture Association of America) noted that the report was very well timed and she stressed that other groups including the OECD are attempting to measure the digital economy. She then stressed that the motion picture industry had benefited from digital economy as a key export and job-creating sector. However, this sector encountered many barriers, including IPR infringement, market access limits, and censorship. She cited that companies such as Netflix are unwilling to enter certain countries because they cannot compete with pirated free content and hence, the MPAA viewed countries’ failure to provide a trusted online environment as a barrier to trade.

**Jake Colvin** (Executive Director, Global Innovation Forum and VP, National Foreign Trade Council)
Mr. Colvin also noted the importance of the report and described the research as impressive and daunting. However, he noted it revealed only a small part of the actual impact of the digital economy. In that regard, he stressed that some three quarters of the productivity gains of the Internet go to the non-digitally intensive companies. However, he also noted that we need further research on how start-ups, non-profits, and academics (including students) further the global digital economy, and also on what policymakers can do to make Internet-enabled development happen. He noted that public policy challenges included theft of trade, secrets, and cyber-squatting.

**Q&A Session**
- **What is the right forum to discuss these issues?**
  - One in which everyone (all countries) are invited to discuss the repercussions of each act to stop the flow of information
- **How is cyber security a barrier to trade?**
  - Dr. Michael Mandel: cyber security is most definitely a barrier to trade, and one reason it is not taken as seriously as it should be is the difficulty in measuring how much it actually affects business.
  - Jake Colvin: In order to address cyber security, governments must align themselves in what they do to prevent cyber security threats (otherwise there will be weak spots).
  - Linda Kinney: This was an important topic at IGF. We need to move beyond the idea of the internet as a lawless environment towards one built on trust.
- **How do actions of one country affect others online?**
  - Dr. Michael Mandel: Need to think of exports in a different way than we did in the past. With information, as opposed to physical goods, an export can be in two places at once. Looking at policies such as the right to be forgotten we can see how the Internet could potentially be fractured.
  - Need to think about how norms in one country affect others
  - Free flow between countries should lead to an increase in human capital, but who is to say that an increase in productivity is the most thing to policy makers in a specific country
- **How can we help developing countries in Africa achieve a stable open Internet?**
  - People are afraid to buy things online because of the lack of secure payment options
  - The significance of mobile technologies changes the way we should approach Africa
- **Will the survey be continued?**
  - James Stamps: at this time there is no plan to continue the survey
  - The Internet of things: can we use a lesson from the past to trouble shoot for what will happen in the future?
  - Jacquelynn Ruff: Look at cross-border data flows in the past, and extrapolate
Dr. Michael Mandel: The Internet of things means that every industry becomes digitalized. The benefits/consequences impact 80% of the current economy that is not digitalized. How could we prepare for that?

Organizers:

The Institute for International Economic Policy (IIEP), which is located within the Elliott School of International Affairs, GWU, serves as a catalyst for high quality, multi-disciplinary, and non-partisan research on policy issues surrounding economic globalization. The Institute research program helps develop effective policy options and academic analysis in a time of growing controversies about international economic integration in many countries around the world.

The Washington DC Chapter of the Internet Society (ISOC-DC) serves the Washington, D.C., Maryland, and Virginia community. The chapter strives to promote the Internet Society’s global mission of furthering open development, evolution, and use of the Internet for the benefit of people worldwide. ISOC-DC brings together individuals from within the DC area, as well as abroad, to engage in events, discussions, and information exchanges to advance these goals.

Susan Ariel Aaronson and Kyle Renner of the IIEP at GWU organized the seminars with David Vyorst and John Moore of the Internet Society DC. Special thanks to the Progressive Policy Institute for providing liquid refreshments and to Paul Brigner of the Internet Society for webcasting.