Briefing

Socio-Economic effects of digital trade and artificial intelligence on EU industries including their value chains and EU imports and exports with major trade partners

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Outline

• What is digital trade?

• The drivers of digital trade are changing

• Impact on digital trade

• Socio-economic effects

• Policy implications
Digital trade: what is it?

- DT is not new, but it is taking new forms
- DT comprises digitally enabled international transaction in goods and services
- The OECD typology has become standard reference:
Enablers are changing rapidly

- Exponential rise in digital technology
  - Computing power
  - Collecting and storing data
  - Internet bandwidth

- Use of AI by EU enterprises according to EU Enterprise Survey (2020):
  - 42% already use at least one AI technology
  - 25% already use at least two AI technologies
Adoption across EU countries

% of firms that use at least one AI technology
Data flows play a key role

- Data analytics and data flows can increase the benefits from trade thanks to personalisation of services and products

- But data pose two types of problems
  - Privacy risks => privacy rules
  - Concentration
    - Data concentration => sharing rules
    - Firm concentration => competition policy rules
Digital trade: how big is it?

• Unfortunately, there is no reliable estimate of the importance of DT by national or international institutions.

• Hence, we don’t really know what is the share of DT in global trade nor how fast it is growing.

• However we know that:
  • DT plays a crucial role in GVC trade, which accounts for a large share of trade in manufacturing.
  • But DT associated with GVC trade was and is still mainly physically delivered.
  • Digital delivery of trade is probably more important, but less visible in services, where the main changes will occur.
  • The Covid-19 situation as an accelerator.
The phase of digital transformation that started 20-30 years ago led to a rapid increase in the fragmentation of manufacturing production and a huge increase in GVC trade, especially between advanced and developing countries.

The new phase of DT, which involves also AI and 3DP will have a big impact on manufacturing production and employment, but probably less on trade.

3DP may increase or decrease trade in goods.
Socio-economic effects on the services sector

• Digital services trade is already a reality

• But it is likely to increase a lot more as digitally delivered transactions become even easier

• AI increases the tradability of services and ushers the possibility of ‘telemigration’

• Advanced economies like the EU could witness big changes in services employment akin to what happened in manufacturing previously
Policy implications

• Implications for domestic policies:
  • Education, both formal and informal, including retraining
  • Countries with flexi-security policies are best equipped to deal with changes
  • These policies are expensive and require sufficient resources, including by taxing digital activities

• Implication for EU trade policy
  • Some countries outside the EU (like Brazil, China and India) maintain high barriers in digital services trade
  • The EU has an interest in lowering these barriers
  • WTO rules on DT will help but will need to be supplemented by bilateral and/or regional trade agreements