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The global data divide

The coronavirus is driving digitalisation – which will likely hurt the Global South. And the EU isn't entirely innocent

Read this article in German.

There are not many winners of the corona pandemic – but there are a few beneficiaries, with digitalisation amongst them. Multinational concerns expect that the current disruptions in analogue value chains will further stimulate digital trade. According to the optimisation software company Route4Me, more digitalised global supply chains could make e-commerce the norm.

Even before the arrival of Covid-19, great hopes for the Global South were linked to digital trade and the digital economy. Tech companies and the main development cooperation actors agree that new digital markets are linked to high growth rates and greater prosperity.

Since its emergence in the mid-1990s, digital trade has been more dynamic and innovative than traditional trade, with electronic commerce growing much more quickly than analogue. While world trade is currently growing by less than three per cent per year, e-commerce is growing by double digits. According to the United Nations Conference on Trade and Development (UNCTAD), global online trading is worth USD 29 trillion annually.

Concentrated profit from digital trade

However, only two countries have been profiting from this development: the United States and China, which account for 90 per cent of the market value of the 70 largest platforms. Europe notches up 3.6 per cent; developing and emerging countries have almost nothing to show, with Asia beyond China accounting for just 5 per cent and Africa 1.3. Latin America boasts a meagre one-tenth of one per cent – although the continent includes three of the world's 20 major economies: Argentina, Brazil and Mexico. This regional imbalance could become exacerbated

because Covid-19 gives large corporations more reason to invest in the digital economy. Transnational companies based in the US have already announced plans to further digitalise their global value chains in order to be better prepared for future pandemics.

Digital trade has not only grown a great deal since its inception, it has also fundamentally changed. Unsurprisingly, its growing economic importance is reflected in trade agreements regulating digital commerce, including the exchange of data. One of the key agreements of the World Trade Organization (WTO) is the Information Technology Agreement (ITA) of 1997 about eliminating import duties on information technology goods – from laptops to cell phones. Although 81 countries have now joined the ITA, its negative consequences for countries in the Global South are exemplified by India: After tariffs were ended, multinational telecommunication and consumer electronics corporations imported floods of cheap Chinese IT goods that displaced Indian manufacturers and suppliers, partly creating India's high current account deficit.

Especially in the least developed countries, whose budgets largely depend on tariff income, that lost revenue is sorely missed: In Togo, Benin, Sierra Leone and Mali customs duties make up more than 40 per cent of total tax revenues.

The WTO imbalance

Developing countries have an insignificant role in the trade of intangible goods such as e-books, video games, films, music and software. Not one country in the Global South is found amongst the Top 10 largest markets for electronically transferable products: No. 1 in terms of cross-border trade in intangible products is China (USD 13bn) – far ahead of Germany (USD 8bn) and the US (USD 6bn).

This marginalisation is also visible in monetary terms. An UNCTAD study puts the global trade in intangible goods at USD 63bn in 2015. China has achieved significant surpluses trading intangibles, but many developing and emerging countries are net importers of digitally transmitted products, with some posting high trade deficits. Amongst the emerging countries that are net importers is Mexico with a trade deficit of nearly USD 600 million; Thailand, South Africa, Chile and Brazil each post deficits above USD 200 million.

The past 20 years have shown that trade relations

Thus far, the ITA has been a *temporary* moratorium on e-commerce tariffs. To extend the moratorium, member states have to agree

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during a WTO Ministerial. For quite a while, the industrialised countries, home to the largest IT corporations, have been pushing to make the tariff moratorium permanent and unlimited in scope.

Developing countries, however, recognise that a total lack of tariffs would hamper their own markets. African industrial companies rely on regional markets for selling a large share of their products. A principal motivation for developing the African free trade zone, the Continental Free Trade Area (CFTA), is creating secure sales channels. That could be jeopardised by inadequate external controls for electronically trading digital products.

Who owns the data?

However, the WTO is not the only body that regulates digital trade. Since the year 2000, there has been a steady increase in the number of relevant bilateral agreements. Nearly 20 of them contain controversial provisions banning localisation requirements – meaning that countries may not require transnational companies to store and process data on local servers.

Despite many developing countries' rejection of a permanent ban on customs duties and the complete liberalisation of digital trade, for the past two years leading industrial countries have been campaigning for precisely such a WTO agreement. More than 80 countries, including the EU, the US and Japan, as well as China and some emerging countries, have joined the 'Friends of E-Commerce for Development' (FED). They seek to obtain a mandate from the WTO to negotiate such a ban and liberalisation. In light of the digital economy's anticipated expansion due to the corona crisis, FED is now demanding more loudly that e-commerce be further liberalised in trade agreements.

The past 20 years have shown that trade relations are always liberalised at the expense of less developed countries and regions. Therefore, UNCTAD is warning against hastily adopting rules to liberalise digital trade, especially during the corona crisis. No decisions should be made in virtual space, as FED is currently urging – despite the fact that many developing countries are unable to participate in online negotiations because of the digital divide and have also to spend all their state resources on public health because of Covid-19.

The future of the Global South's digital economy is not just determined by the design of trade agreements, however. With ever more economies becoming *data* economies, the question '*Whohas the data?*' becomes

critical. Whose servers store the data? Who is allowed to analyse it and turn it into hard cash?

The EU's double standards

TheEconomist put it right: Data is the new oil. The structures and structural dependencies in a data economy resemble those for extractive raw materials. In both cases, it is not the countries with the raw materials that benefit from their exploitation, but rather those that can process it. The data economy infrastructure includes submarine cables, network nodes, data and data centres, algorithms and artificial intelligence.

Thus far the EU has used double standards to judge its own interests and those of its citizens – and those of the rest of the world.

Developing and emerging countries must be helped to develop and expand their own public data infrastructures so that they are not dependent on infrastructure that belongs to transnational information and communications technology corporations. The international community must support developing and emerging countries. Most importantly, industrialised countries must provide them with the necessary resources – from financial support to the transfer of knowledge and technologies.

The Global South cannot participate economically without the proper framework conditions to control and regulate monopolies and their digital transactions of physical and intangible goods.

The EU has embraced various measures and presented proposals to restrain US and Asian companies' market dominance: starting with billions of fines for violating antitrust laws, to a digital tax and opening debate on breaking up corporations. The recently constituted European Commission prioritises developing a digital strategy to enhance Europe's competitiveness. The previous Commission's landmark decision of 2018 made the General Data Protection Regulation (GPDR) a legally binding component of all future trade and investment agreements. However, as welcome as this measure was, European trade policy continues to push for deregulation. The Commission even criticised India's plan to save at least one copy of personal data on Indian servers as 'unnecessary' and 'potentially harmful'.

Thus far the EU has used double standards to judge its own interests and those of its citizens – and those of the rest of the world. Data protection is viewed as valuable and worthy of protection in Europe – yet a handicap for European companies' economic activities in other countries. The EU

will only deserve to be known as ‘a community of values’ when its readiness to support digitalisation to benefit citizens and the common good doesn’t stop at the shores of the Mediterranean. Brussels has got to understand that the challenge is global.



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