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Trading in the digital economy

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The rapidly evolving digital economy brings both risks and opportunities. The term 'digital economy' is used to describe the conduct of business using technology and the internet. It includes the digitisation of traditionally analogue processes, such as paper-less trading and smart contracts. It includes the use of technology to perform tasks historically performed by humans, such as robots building cars or algorithms assessing credit risk. It also includes the new kinds of economic value generated by digital or intangible exchange such as from data, digital services, intellectual property and design. The digital economy is increasingly *the* economy.

Digitalisation improves competitiveness, enables trade and creates new opportunities for businesses. As the economy changes globally, those who don't embrace the digital economy risk being left out or left behind. This means that to fully reap the benefits of an integrated African economy, AU members must enable and make space for the digital economy to develop. However, digitalisation also comes with risks. Digitalisation is changing the way people work, creating new kinds of market failures and challenging the way laws and regulation work. In an increasingly digitised economy, cybersecurity is a growing risk.

Digitalisation and the accompanying economic shifts will continue to have a major impact on both goods and services trade. Digitalisation is enabling multinational value chains and micro-multinationals plus giving rise to new tradeable goods and services. It is blurring the boundaries between goods and services and blurring the boundaries between jurisdictions.

While digital economic development will be driven by the private sector, the trade policy choices governments make will have an impact. Policymakers in Africa can encourage digital trade and the development of the digital economy domestically, and through the African Continental Free Trade Area (AfCFTA) agreement. The OECD identifies four aspects of the digital economy that may be affected by trade agreements: infrastructure and connectivity, enabling and supporting trade, support services and goods, and specific areas.

Fundamental to the development of the digital economy is the underlying infrastructure: electricity and telecommunications. Without strong foundations, the digital economy cannot flourish. Liberalising trade in these services will enable new entrants and improve competition. Reliability should increase, and costs should go down.

To enable and support trade, other services could be liberalised, and regulatory requirements streamlined. For example, e-payment is an important enabler of trade more generally, and especially small-scale trade. The AfCFTA should also include commitments guaranteeing the free cross-border flow of data, as without this, cross-border trade in the digital economy is very difficult. For example, in regional and global value chains it is necessary for not only physical components, but also digital components to easily criss-cross borders: especially as manufacturing becomes more advanced. It is not just services that will support the digital economy. Customs duties on technological goods or digital products or services inhibit digital economic development and should be removed.

When it comes to specific services, technology is enabling more and more services to become tradeable. For example, the internet has enabled personal services like health care consultations and tutoring to occur in real time at remote locations. Sophisticated robots mean that even some medical procedures can be performed remotely. Most knowledge workers can work remotely provided they have an internet connection. This means that services like graphic design, architecture, accounting and legal services can all be traded without physical presence. To enable this trade, countries could open market access for mode 1 – cross-border trade. It would also be valuable to minimise regulatory barriers such as licensing, including by recognising the licensing of a trading partner country as equivalent.

For physical goods, digitisation can offer time saving, greater accuracy and more seamless border crossings. Some examples include digitised single windows, blockchain based trade and trade finance documentation, QR code scanning and geo-locating devices. COMESA's digital free trade area is one regional effort to digitise customs and border procedures including by encouraging and making legally valid e-signatures, e-certificates of origin (underpinned by blockchain) and single windows. Digitisation can also support customs and other revenue collection, including through automated revenue collection. These measures can be part of the trade facilitation agenda.

Having appropriate cyberlaws and protections in place can address the threat of cyber-attack. Some regional trade agreements, such the Comprehensive and Progressive Trans-Pacific Partnership, have included provisions requiring members to put in place cyberlaws and cooperate on cybersecurity. This could also be an option for the AfCFTA.

At a national level, it is also important to identify and support those for whom the digital economy has the potential to leave behind. Policymakers must find ways to mitigate the negative impacts of the changes. Although it is unlikely that trade policies will be able to affect the inevitable digitalisation of the economy, it may be the case that new opportunities created by digital trade, such as those in cross-border services can provide new opportunities for those displaced by digital developments. This will require evidence-based interventions from governments, and a commitment to reskilling.

At the continental level, AfCFTA negotiations on 'new generation' trade issues (investment, competition, intellectual property) are ongoing[1] and services schedules and regulatory frameworks are being developed. Globally, the way we trade is shifting, and momentum is building for negotiating trade rules on ecommerce.[2] This means it is a crucial time for African countries to carefully consider what it is that they want from the digital economy and how the trade agreements currently under development might serve that purpose.

[1] https://www.tralac.org/documents/resources/african-union/2631-key-decisions-of-the-32nd-ordinary-session-of-the-au-assembly-january-2019.html

[2] https://www.tralac.org/documents/resources/external-relations/wto/2733-joint-statement-on-electronic-commerce-25-january-2019.html