



Unlocking growth and opportunity through digital trade

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Insights

- The rapid pace of digitization underscores the need for trade agreements to adequately reflect a modern digital economy.
- Many trade agreements, even those that do contain provisions on electronic commerce, were negotiated before the global economy was truly digital.
- New digitally born micro, small and medium-sized enterprises (MSMEs) offer gains not only to the entrepreneur but to the community and society in which they have emerged.
- These new MSMEs need a welcoming international marketplace in order to thrive.

The international trading system was not designed with small and micro enterprises in mind, but the digitization of trade—using the internet to move goods and, especially, services—has made selling across borders more feasible for smaller firms. Making trade work better for digital entrepreneurs of all sizes can help power the economic recovery. The COVID-19 pandemic required businesses of all sizes to rapidly reinvent their business models in order to address changing consumer needs. Millions of micro, small, and medium-sized enterprises (MSMEs) transformed themselves into e-commerce companies and learned to transact quickly, safely, and securely online. Going digital made it possible to reach a global customer base. As a result, MSMEs that once served a single community or neighborhood became overnight exporters. Trade policy must evolve to support the internationalization of small business.

Redefining a trade policy agenda for the digital small business

Digital trade should be a core pillar of the COVID-19 recovery policy agenda, with a particular focus on MSME recovery. The importance of MSMEs to the broader economy is reflected in the sizable support packages governments across the world have pledged to keep MSMEs afloat during COVID-19 lockdowns. International institutions, such as the World Bank and regional

development banks, have also put in place economic packages to support micro and small business recovery. As policymakers begin to think about long-term recovery, they should also focus on how global trade rules can support MSME recovery in an increasingly digital economy.

The rapid pace of digitization has raised a number of challenges for policymakers. Among these is how trade agreements can adequately reflect a modern digital economy, including the profound technological transformation of goods and services underway and the exponential growth of data flows that underpin it.

While agreements at the multilateral level contain some commitments on electronic commerce, many of these agreements were negotiated before the global economy was truly digital. Since then, bilateral and plurilateral trade agreements have tried to fill this gap by including digital trade chapters. Recently, the World Trade Organization (WTO) also launched negotiations for an e-commerce agreement.

As all these initiatives unfold, however, there are also concerns about increasing protectionism. Of particular importance is how the still-evolving nature of digital trade commitments—coupled with protectionist tendencies—may inhibit the growth of MSMEs and their integration into the broader digital economy.

With these challenges in mind, the Visa Economic Empowerment Institute (VEEI) has made unlocking growth through trade a core pillar of focus in order to promote greater economic empowerment. The VEEI is focused on five key areas of digital trade:

Modernizing global trade rules: The VEEI fellows will examine best practices in international trade agreements for the digital age, making recommendations for key principles and specific provisions to address pain points. Recent trade agreements offer important lessons on digital trade, ones that could inform ongoing discussion at the WTO.

Prioritizing interoperability: International standards enable small businesses in different countries using different systems to seamlessly engage in global commerce and, therefore, should be adopted whenever possible.

The importance of data flows in trade: Growth in digital services and digital trade will be critical to global economic recovery, but several challenges threaten to impede cross-border commerce. A growing number of protectionist measures, such as requirements to use domestic infrastructure, localize data and licensing, and impose equity minimums for foreign firms, prevent international service providers from delivering services in some countries. Trade agreements and multilateral commitments can help address some of these trade barriers.

Facilitating the gains from trade: International trade can generate tangible benefits. VEEI research will examine ways to capture these benefits, in particular by small businesses and underserved groups, such as women, who have traditionally not been able to benefit from the full range of benefits from exporting.

Digital trade and security: With the rapid increase in digital trade, cross-border commerce may be targeted by fraud and cybersecurity threats, and small businesses will be particularly vulnerable. Unfortunately, many policies with the intended aim of improving cybersecurity and trust may actually be ineffective or counterproductive. The VEEI will draw on Visa's deep experience in cybersecurity to advance recommendations for maintaining the benefits of free flows of data with security and trust.



Why including MSMEs in trade matters

New digitally born MSMEs offer gains not only to the entrepreneur but to the community and society in which they have emerged. Micro and small businesses are often the backbone of the private sector, providing jobs, stimulating innovation, and offering opportunities, particularly to women entrepreneurs. It is well known that helping women succeed in exporting not only is good for women-led businesses but has a multiplier effect on societies. These new MSMEs need a welcoming international marketplace in order to thrive. For trade to flow, regulatory and administrative obstacles must be minimal. For example, procedures to deliver goods and services across borders should be seamless and not act as barriers to trade. Similarly, data must be able to flow freely and responsibly. To truly achieve the gains that digital trade can deliver, businesses and the public sector must work together to create an encouraging digital ecosystem in which individuals and businesses can thrive. VEEI research will seek new ways to support newly digitizing small businesses, work to modernize trade rules, and ensure opportunities for all. Together we can find the right balance to foster a digital trade realm that is open, seamless, and secure.

About the Visa Economic Empowerment Institute

The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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