Digitalization to Unlock the Potential of Development: Selected Issues

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Panel discussion on “Strategy and Innovation of Trade in the Digital Age”
ICCAP 2018, 5 September 2018, Jakarta
Plan of talk

• Response to the questions from the conference organizer(s)
  1. Multiplier effect of e-commerce and digital economy
  2. Data management for e-commerce transaction
  3. Tax enforcement for e-commerce

• Policy suggestions on developing digital economy in Indonesia
## Digital economy in the context of globalization

<table>
<thead>
<tr>
<th></th>
<th>Pre-globalized world</th>
<th>The 1st unbundling</th>
<th>The 2nd unbundling</th>
<th>The 3rd unbundling</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade costs</strong></td>
<td>High</td>
<td>Lower</td>
<td>Lower</td>
<td>Lower</td>
</tr>
<tr>
<td><strong>Communication costs</strong></td>
<td>High</td>
<td>High</td>
<td>Lower</td>
<td>Lower</td>
</tr>
<tr>
<td><strong>Face-to-face costs</strong></td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Lower</td>
</tr>
<tr>
<td><strong>What to move?</strong></td>
<td>None</td>
<td>Goods</td>
<td>Production factors, knowledge</td>
<td>People, skills, service</td>
</tr>
<tr>
<td><strong>Int’l division of labor</strong></td>
<td>Autarky</td>
<td>Industry-wise</td>
<td>Task-wise (production fragmentation)</td>
<td>Person-wise (task fragmentation)</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Automation, transportation</td>
<td>CT&amp;IT</td>
<td>SMACI</td>
<td>Mass customization</td>
</tr>
<tr>
<td><strong>Characteristics</strong></td>
<td>Self-subsistence</td>
<td>Mass production</td>
<td>Mass innovation</td>
<td>Mass customization</td>
</tr>
</tbody>
</table>

### Digital Economy, Innovation and East Asia’s Competitiveness in GVCs

The digital economy in the context of globalization can be understood through various dimensions including trade costs, communication costs, face-to-face costs, and the division of labor. The table above illustrates how these factors interact across different stages of globalization. The first stage, the pre-globalized world, involves high trade and communication costs with autarky as the division of labor. As globalization progresses, these costs decrease, allowing for more specialized tasks and division of labor. The final stage signifies a highly connected and interdependent economy.
New economy needs new rules

• Motivations
  • There are risks that online business may give birth to some sort of ‘grey’ zones of international trade associated with problems such as tax evasion, fake products, or violation of intellectual property rights (IPR) and so on.
  • Digital economy calls for new rules and regulations to improve trust, security, and facility in the online marketplace.
  • A fair and competitive regulatory environment is needed to foster “e”-activities.

• Main areas
  Data management, Cyber-security, Consumer protection, Privacy, Trade facilitation, Competition policy, IPR protection, Taxation...
Data management

• Privacy protection is fundamental
  • new technologies can be privacy-invading if they are misused or abused
  • EU’s GDPR

• Data protection but not data protectionism
  • Localization Requirements
  • Data Flow Restrictions
  • Filtering/Blocking
  • Net Neutrality
Taxation

• Taxation in cross-border e-commerce
  • the WTO agreement on a waiver (no customs duties) on cross-border electronic transmissions
  • De minimis tariff-free on goods
  • Equal footing

• Taxation on international platform firms
  • In most countries, the current national Tax regulation do not provide the authority an adequate basis to impose taxes to foreign operators with no presence within the border under domestic rules.

• MSMEs inclusiveness

• The OECD Ottawa Conference on Electronic Commerce and the Ottawa Taxation Framework Conditions calls for neutrality.
Policy suggestions

• Connectivity is the key for developing digital economy.

• Service sector development is the way to unleash the potential of gains.

• Human capital is the determinant.
ERIA research on digital economy in Asia

• Projects
  • Cross-Border E-Commerce in ASEAN and East Asia
  • E-Commerce Connectivity in Asia
  • IPR Protection for Asian Development: Opportunities and Challenges from GVCs and Digital Economy
  • A Study on Micro, Small, and Medium Enterprise Participation in the Digital Economy in ASEAN
  • Digitalization Enabling Services in Asia
  • Setting Rule-based Ecosystem for Digital Economy: Asia’s needs and roles

• Publications
  • FOSTERING GROWTH THROUGH DIGITALISATION, Economic Outlook for Southeast Asia, China and India 2018, Paris: OECD
  • PROMOTING OPPORTUNITIES IN E-COMMERCE, Economic Outlook for Southeast Asia, China and India 2018 – UPDATE, Paris: OECD
  • Chen, L. & F. Kimura (eds.) Developing the Digital Economy in Asia, Abingdon: Routledge
Thank you.

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