trade
policy brief

OECD
BETTER POLICIES FOR BETTER LIVES

Market Openness in the Digital Era

October 2018

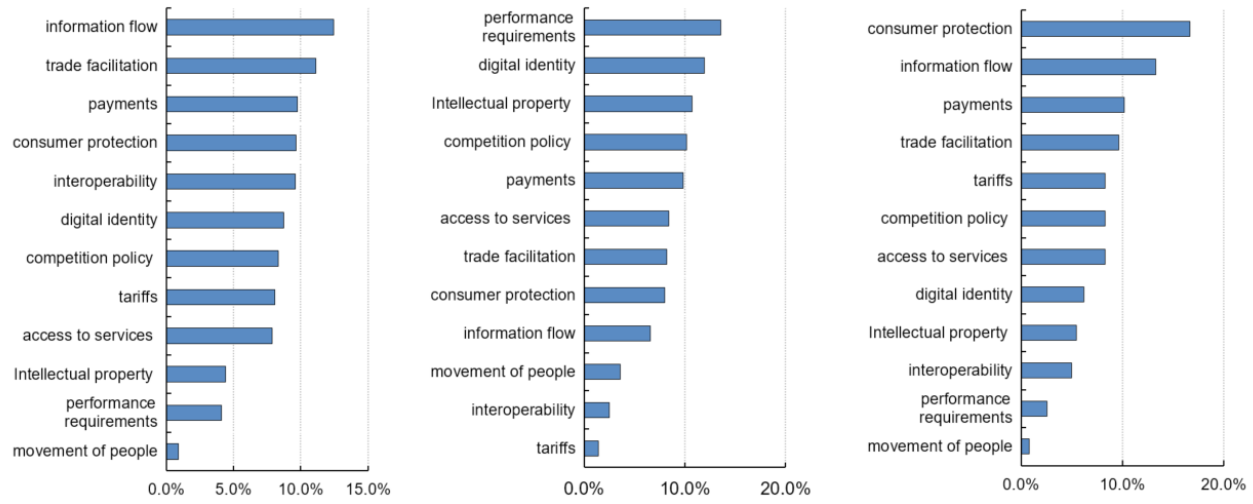
Access to digital technologies has lowered barriers to internationalisation, contributing to growing trade competitiveness, especially for smaller firms. At the same time, digitalisation has changed the scope and speed of the activities undertaken by firms, helping them to better connect with each other and with consumers across the globe and allowing value to move faster and with greater ease. This has led to more trade, especially in more sophisticated manufactures and digitally deliverable services; helped parties better exploit benefits from trade agreements; and given rise to new complementarities between goods and services. But it has also led to more numerous and complex international trade transactions.

Realising the full extent of gains from digitalisation is contingent on a combination of factors. Some are internal to the firm, such as the ability to adopt new technologies or organisational processes and acquire new skills needed to exploit data-driven innovation. Others relate to the extent of market openness, or the regulatory environment in which these firms operate. After all, new technologies are made available through international trade, and access to international markets for both inputs and outputs generates enconomies of scale and boosts competitiveness.

New approaches to market openness are needed

Market openness is about creating a business-friendly environment that allows "foreign suppliers to compete in national markets without encountering discriminatory, excessively burdensome or restrictive conditions" (OECD, 2010). It helps firms, domestic and foreign, reap the benefits of trade, contributing to economic growth (Romalis, 2007). But, with the rise in data-driven business models the factors that make firms competitive are changing, and this should be reflected in new approaches to market openness.

Figure 1. Challenges by product category



Source: Lopez-Gonzalez and Ferencz (2018)

While enabling greater trade, digitalisation has also made ensuring market openness more complex. For instance, as trade shifts to the online world, measures that affect access to digital networks have become more important. At the same time, new consequences from some traditional trade issues, such as trade facilitation and de minimis thresholds, are arising as might be the case for growing cross-border trade in digitally ordered parcels. Also, new measures, such as those affecting the flow of data or the interoperability of e-payment systems, are posing new challenges for policy-makers.

As the pace of digitalisation accelerates, ensuring that the benefits from the digital transformation are reaped for businesses and consumers requires that trade be faster and more reliable than ever before. This means that regulatory approaches to the digital world need to be more holistic and involve more international dialogue.

These approaches need to be more holistic

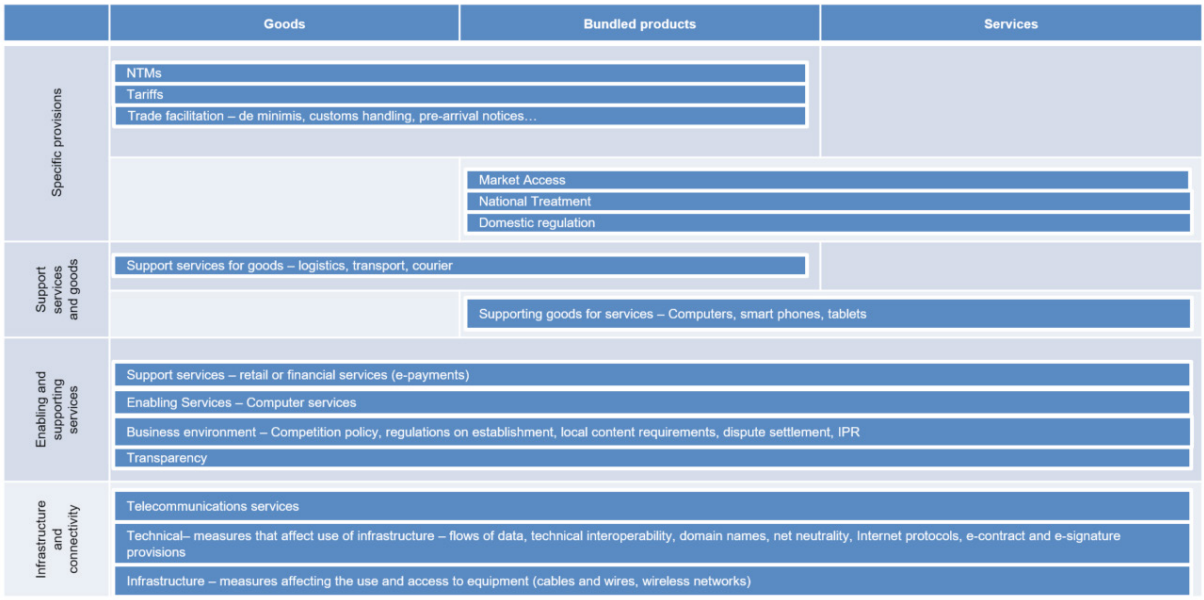
Today, a simple digital trade transaction rests on a series of trade-related factors that enable or support the transaction. For instance, the ability to order an e-book depends on access to a retailer's website. This depends, on the one hand on the regulatory environment under which the retailer can establish the webpage, and, on the other, the cost of accessing the Internet – a cost which, in turn, is affected by the regulatory environment in the telecommunications sector. The purchase of the e-book will also be subject to other measures such as the ability to pay electronically and the tariff and non-tariff barriers faced by the physical device used to read the e-book. A barrier on one of these linked transactions will affect the ability to undertake the other transactions. This means that market openness needs to be approached more holistically, taking into consideration the full range of measures that affect the ability to undertake any particular transaction: firms that sell goods care about services issues and firms that sell services are concerned by goods issues (Figure 1).

Today, trade policy-makers need to go beyond considering the most visible *specific provisions* in any given transaction and think about how these interact with the *supporting and enabling goods and services* provisions and the underlying *digital infrastructure and connectivity issues* (Figure 2). This is irrespective of whether products traded are digitally ordered goods or parcels or digitally enabled or delivered services. But it is especially important when it concerns bundled or smart products, where a greater number of measures, relating to both goods and services, tends to apply.

And they need to involve greater international dialogue

Market openness also needs to be approached more jointly. Data and ideas can generally move unimpeded across the Internet reaching global audiences. This offers firms of all sizes new opportunities to create new products and reach new markets. But in order to access these markets, goods and services are subject to a range of regulatory requirements which differ across countries. This reflects differences in the preferences, just like for food standards, or for the privacy protection afforded to consumers and citizens. While these differences are not necessarily, per se, barriers to trade, they can have an effect on trade. International dialogue among regulators and between the regulatory and trade policy communities is needed to discuss approaches that bridge regulatory differences, making these more interoperable and therefore less likely to undermine the opportunities and benefits from digital trade.

Figure 2. The iceberg of measures affecting digital trade



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