

The World Trade Organisation finally pivots to the 21st Century

WTO credibility with the global business community is salvaged. Despite a lot of media focus on worrisome protectionist and isolationist trends, a new and constructive era of global trade governance has quietly begun.

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Innovation and rapid technological advancements with broad uptake by individuals and businesses alike mean the digital economy made up more than 15 percent of global GDP in 2023 and grew 2.5 times faster over the previous ten years than the GDP of the physical world (World Bank). One forecast (Forrester) suggests that the digital economy will approach US\$17 trillion by 2028.

Against that backdrop, for the last five years the governments of Australia, Singapore and Japan have jointly championed negotiations in Geneva to pioneer a first ever global benchmark set of new trade rules to govern digital trade. With a critical mass of 80 plus participants, a deal on Trade-Related Aspects of Electronic Commerce was finalised on Friday, 26 July.

Current consultations and ongoing election processes mean that a handful of negotiating participants, including the United States and Indonesia, are not in a position to sign on yet; but all WTO members are urged to join as soon as they are ready.

After a 15 percent increase over the last decade of barriers to trade in digital services (OECD) businesses of all sizes, especially the smaller ones, can now look forward to a gradual easing of constraints on global digital interoperability; easier use of e-invoicing, e-authentication and e-payments; and greater efficiency in complying with consumer protection and cyber-security regulations. The OECD is projecting that this agreement can deliver an improvement in global digital market openness in the order of 30 percent.

The new rules will reduce the cost and complexity of international commerce while also supporting trust and security for consumers. Importantly, the deal includes a permanent and binding commitment that international electronic transmissions (including digital content) will remain free of customs duties in all WTO members that join this deal: an outcome which to date has eluded WTO Ministers at the multilateral level.

This deal is a major milestone for the WTO, with its otherwise outdated rulebook stuck in the 20th century: delivering tangible benefits chiefly to businesses engaged in merchandise trade and traditional modes of services and not sufficiently up-to-date on modern business models, the digital economy, and environmental sustainability. Global trade transactions are shifting online, with both business-to-business and business-to-consumer online marketplaces gaining widespread popularity. Digital adoption surged during the pandemic and shows no signs of slowing. E-Commerce accounted for nearly 20 percent of global retail sales last year, up from 7 percent in 2015 and growing. In the

services sector, digital delivery via electronic transmission is similarly fast becoming the business norm.

A coherent global digital regulatory landscape, achievable over time as more and more WTO members sign on to the new rules, stands to benefit small and medium businesses as much as, if not more than, large technology companies. E-Commerce has allowed small businesses, including sole traders in knowledge-intensive services industries without sufficient scale for a physical presence in multiple jurisdictions, to also access global markets. Small and medium businesses are disproportionately affected by fragmented regulatory obligations across borders, including data localisation and authentication requirements as well as complex data privacy and data security regulations.

The timing of this agreement is also critical. It encourages both international digital regulatory cooperation in fields such as privacy and cyber-security, and the development and adoption of international digital standards in emerging areas such as generative AI. Along with rules to facilitate digital trade, these are the vital elements needed to start the process of winding back a decade of digital market fragmentation. The WTO E-Commerce deal is pro-trade and pro-innovation, while recognising the need to build public trust in the digital economy.

There can be no question that this deal is a standout success that bucks the recent global trends: it demonstrates a shared belief among its members that while technology and domestic regulation evolve in tandem, the development of common and interoperable cross-border standards, rather than trade restrictions, is the most efficient way of achieving the delicate balance between trade and non-trade objectives.

With the EU and Singapore separately also announcing the conclusion of a bilateral Digital Trade Agreement on the very same day, a truly global process of reducing digital regulatory divergence has begun.

This could not have happened without the dedicated global leadership displayed by Asia Pacific players to launch the WTO into the Digital Age. As the ADB points out, the Asian region has experienced the strongest sustained growth in digital services trade. But the fact is that traders everywhere, in all sectors of the economy, will benefit from this deal.

It is meanwhile incumbent upon all governments that have signed on to ensure that domestic regulation governing the digital economy is consistent with the goals and objectives of the new rules. Only then will the productivity and innovation gains be realised, benefitting all consumers and businesses and bringing much-needed economic growth.

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