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The Internet Economy and the G20

“We need an ‘eWTO’ proposed by business and supported by governments that will bring the benefits of the internet to developing countries, women and young people.”

Jack Ma, Founder and CEO, Alibaba.com

The Internet economy ² is expected to reach \$4.2 trillion in 2016 ³. If the Internet were a nation, its economy would be the fifth largest in the world. The growth of the Internet economy is on par with China’s growth rate. If the Internet were a sector, it would have a greater weight in global GDP than agriculture or utilities. ⁴ Emerging digital technologies such as social, mobile, analytics and cloud that has the Internet as its backbone have become the new forces acting on competitiveness, growth and job creation. Arguably, no other emerging trend has been as impactful in transforming the global economy in recent years.

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² “Internet economy” or “digital economy” as used interchangeably throughout this memo refers to both digital products or services (software, movies, music, games, and so on) electronically transmitted as well as through e-commerce.

³ Boston Consulting Group (2012). The Internet Economy in the G20.

⁴ James Manyika, Charles Roxburgh (2011). The great transformer: The impact of the Internet on economic growth and prosperity. McKinsey Global Institute.

Digital technologies bring a new set of economic and regulatory challenges. To name a few, cybersecurity, regulation of content, cross-border data flows, and protection of personal data are some of the emerging international regulatory challenges.

Moreover, even though the Internet seems to be ubiquitous, the digital divide is deepening and becoming a new barrier to inclusion. Although penetration rates are improving, less than half of the world's population uses the Internet. This proportion falls to 13% in Sub-Saharan Africa. Indeed, benefits from Internet usage varies directly with access to digital skills and infrastructure.

The digital divide is a crucial international development challenge. Practical initiatives to improve affordability, accessibility and inclusivity, underpinned by better physical and legal Internet infrastructures will have to become cornerstones of international development in the next decade.

The Internet and the G20

The G20 has so far been detached from the emerging digital economy. Despite its acknowledged propensity to positively add to cross-border economic impact, the word "Internet" has never been mentioned in a G20 communiqué to date.

Virtually all areas under the G20's focus are heavily impacted by the digital economy:

- Financial services are beginning to be revolutionized by peer-to-peer lending. These are already becoming significant parts of the financial sector in a few G20 economies, including China. More disruption is likely to be brought about by widespread usage of virtual currencies, such as bitcoin.
- Trade is transformed, by cross-border e-commerce. The opportunity for the internationalization of SMEs through cross-border e-commerce is immense. However, the regulatory structures for customs and taxation have failed to adapt to the increasing number of e-commerce transactions.
- Energy efficiency will be largely driven by the development of the Internet of things, which enables internet based communication between different various devices, and with people and organizations as well. Digital technologies will have a profound impact in the efficient usage of all types of infrastructure.
- Digital skills have become a significant driver of employability – a debate on employment without recourse to the digital economy no longer makes sense.

As the premier forum for international economic cooperation, the G20 can no longer afford to be unengaged with the issues driving the emerging global digital economy.

Can the G20 leaders take a step towards engaging with the Internet economy in the Antalya Summit in November 2015? What are positions of the G20 members in main issues, and what would be the optimal starting point? The remainder of this note discusses these questions.

Main issues and differing positions

The opportunities that have surfaced through the Internet economy have been mostly an outcome of its “open nature.” Indeed, the “Internet was designed to be transnational, not international. It was not built on the nation state model. It does not follow national borders.”⁵

Yet, the regulation of the Internet persists at national levels, and G20 members have differing views on whether or not its openness should be bounded. Minimal standards for legitimate reasons to bound openness –such as child protection or protection against terrorism-- are shared among members. Beyond these, approaches diverge. G7 nations, for instance, limit the open nature of the Internet to protect commercial copyright interests. China, on the other hand, imposes significant restrictions on access to certain content. Russia recently banned transfer of all personal data of its citizens to other countries. Specific restrictions exist on cross-border data transfers in other G20 members, notably in Australia and Brazil. Many other G20 members, including Turkey, India and Korea, regulate Internet content on ethical and security grounds.

Among the G7, a significant distrust on protection of personal data remains between the EU, which follows a rights-based approach, and the USA, which favors innovation as much as the overriding importance of the right to privacy. The recent ruling of the European Court of Justice⁶ invalidated the long standing “Safe Harbor” pact covering EU-US data transfer on the grounds that the U.S. government surveillance over the personal data stored and processed by American companies, which was revealed by Edward Snowden, is not compatible with the right of privacy. Simultaneously, USA and 11 Trans-pacific trade partner countries finished the TPP negotiations with an agreement on committing not to restrict data flows. However, the discussion of cross-border data flows under the TTIP negotiations between the US and the EU is still on hold.

For the overall governance debate, while G7 members prefer a multi-stakeholder governance model that includes the private sector, NGOs and users besides governments, China believes the Internet governance fall under the government for a and as such should be dealt under the United Nations system⁷. On this debate, Russia and India take a similar view with China; while Brazil has recently moved to a position more aligned with that of the G7.

Cybersecurity has also been a hot issue, on which divisions among G20 members exist along the similar lines above. Last few years witnessed a number of significant cyberattacks against American businesses

⁵ Mitchell Baker, Executive Chairwoman, Mozilla Foundation, USA. Speech at World Economic Forum Event in Dalian, China (September, 2015)

⁶ Case C-362/14, 6 October 2015

⁷ Arsene, Severin. 2012. The impact of China on global Internet governance in an era of privatized control

that originate from China. American response has been a mix of legal action, cyber-retaliation and diplomacy. In September 2015, American and Chinese presidents came to an agreement to stop commercial cyberattacks. However, a global framework for governments on cybersecurity that is similar to nuclear nonproliferation agreement is still far away. The division between the multi-stakeholder approach and a more government-centric intrusive approach jeopardizes a potential international coordinated response to cybersecurity threats.

Where to begin?

As much as the fundamentals of Internet governance have been inordinately contentious among G20 members, it is right that the G20 is the forum that should continue to debate positive outcomes for the welfare of Internet participants all around the world. So what should be the optimal starting point among the large set of economic and regulatory challenges brought by the Internet?

This year the Business 20 and Think 20⁸ have stepped up the debate on the digital economy. The B20 policy summary states *“fully realizing the potential of digital technologies will be an important component of implementation across all recommendations given their impact on productivity, costs, reach, and transparency.”* On October 6, 2015, the B20 for the first time, held a Forum on the Digital Economy and published a comprehensive policy paper on this issue.⁹

The T20 for the first time discussed Internet governance issues as a primary focus area, and organized a special session in its June workshop in Izmir with over 60 participants. The overall conclusion of these efforts could be summarized as follows: While it is difficult for the G20 to take a unified stand on Internet governance, it should nonetheless take collective action to improve the digital economy for global economic growth and job creation. Therefore, the G20 should focus on areas related to its core expertise, for example, in facilitating e-commerce, SMEs’ integration with the digital economy, and infrastructure, skills, and ICT for development. These are areas that G20 members can broadly agree on advancing the role of the Internet¹⁰.

Among all these areas, ICT for development is a suitable candidate to begin the dialogue. “Significantly increas[ing] access to information and communications technology and strive to provide universal and

⁸ Business 20 and Think 20 are official engagement groups of the G20. B20 is a dialogue platform between the global business and the G20. T20 is a global network of think-tanks that provides policy ideas to the G20.

⁹ For the B20 Policy Summary and taskforce policy papers, please see www.b20turkey.org/policy-papers/. Digital economy related recommendations include: incorporating a five-year universal broadband connection target into G20 Member Growth Strategies; improving SMEs’ access to the digital economy; improving the global trade system for the emerging digital economy (including improving access to IT products by accelerating finalization of the proposed expansion of the Information Technology Agreement, facilitating customs procedures with a direct focus on cross-border e-commerce transactions, and rolling back data flow restrictions and improving standards for cross-border data security); improving digital skills for increasing employability; and improving e-government systems in cross-border systems and public procurement.

¹⁰ Bill Graham (2015). Final report (unpublished) of the Internet governance session at the T20 workshop (June 2015, Izmir)

affordable access to the Internet in least developed countries by 2020” is one of the targets in the Sustainable Development Goals ¹¹.

Not surprisingly, more than a dozen international bodies are already engaged in advancing ICT for development ¹². The G20 is in the best position to coordinate and catalyze the actions of these bodies, and raise the profile of ICT for development. The role that the G20 can take could begin by,

1. stepping up capital contributions to existing initiatives,
2. pursuing new ideas [such as “Internet Bonds” analogous to “green bonds”, or initiating statistical reforms so that Internet goods and services are appropriately recorded in the national accounts]
3. creating new institutions, analogous to the Global Infrastructure Hub, that could be mandated to enhance the dialogue and policy on the new Digital Economy ¹³.

Moving towards a new consensus in Antalya

These steps can begin to evolve a new consensus among G20 members, multilateral development banks and international organizations that would guide nations on acceptable digital economy behaviors that would, in turn, pave the way toward Internet-based globalization. Just like the nature of the Internet, this new consensus should develop via a bottom-up process, of course predicated on open discussion. ¹⁴ However, political leadership is critical to move us towards this new consensus.

To initiate this move, the G20 can take a leading role. One of the ways through which G20 can start to act is to establish a formal group should start exploring where the G20’s particular areas of competence and authority can contribute positively to Internet governance. Such a group can include the Business 20

¹¹ Sustainable Development Goal 9, Target 9/c

¹² Barry Carin (2015) Option to Promote Development. Background Note for the Global Commission on Internet Governance. Carin states that “a world organization chart of bodies promoting ICT4D would include, several UNCSTD, ITU, UNESCO, UNDP, the World Bank (especially InfoDev), the OECD, the G8, NEPAD, the G20 and its working groups, the Commonwealth Telecommunications Organisation (CTO), the Broadband Commission for Digital Development, as well as regional entities like ICT Africa (...) In 2001, the G8 created the Digital Opportunity Task (DOT) Force, a partnership among international organizations, governments and the private sector, to investigate the “digital divide” in the developing world. UNCTAD was a co-organizer of the 2015 World Summit on the Information Society (WSIS) Forum, the world’s largest annual gathering of the ‘ICT for development’ community, partnering with ITU, UNESCO and UNDP. In October 2015, the 2016 World Development Report will explore the impact the Internet and digital technologies have on development. “

¹³ Ibid

¹⁴ Kati Suominen. The Seoul Consensus. T20 Turkey Blog Post. <http://www.t20turkey.org/eng/pages/blog/b29.html>

and Think 20¹⁵ engagement groups, as well as international organizations such as the World Bank and the OECD, and be tasked to submit their assessment at the China summit in 2016.

¹⁵ Center for International Governance Innovation and the Chatham House, member think-tanks of the T20, host the Global Commission on Internet Governance, chaired by Former Foreign Minister of Sweden Carl Bildt and conducts extensive independent research on Internet-related dimensions of global public policy (ourinternet.org).