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## The Impact of Data Localisation on China's Economy

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**As the global economy grows increasingly digital, businesses rely on the free flow of data across borders to efficiently sell, produce and deliver their products. In China, requirements introduced by recent data protection regulations threaten to disrupt cross-border data flows, and consequently harm the operations of most of its export-oriented businesses.**

Over the past few years, there has been a global proliferation of regulatory restrictions of the internet, in particular for commercial use. With the pretext of increasing online security and privacy, some governments are now requiring mandatory storage of critical data on servers physically located inside the country, i.e. data localisation. Given the nature of today's globally interconnected economy, poorly designed national policies that increase data processing costs have a severe economic impact as many sectors of the economy rely on digitally supplied services and goods.

### Data protection in China

In China, the existence of a plethora of overlapping data privacy laws has traditionally made compliance very difficult for companies that collect personal information. Since the end of 2012, the Chinese government has however taken steps towards installing nation-wide rules related to online privacy. This new focus on data protection regulation is driven by an increasing number of reports on identity theft and illegal trade in personal data.

On 28 December 2012, China's Standing Committee passed a Resolution relating to Strengthening the Protection of Information on the Internet. This resolution is effective nationwide and includes general rules for internet service providers (ISPs) and other businesses that handle personal data. It prohibits the collection of personal data without consent and the illegal transfer or sale of personal information to third parties.

In February 2013, the Standardisation Administration and the General Administration of Quality Supervision, Inspection, and Quarantine published non-binding national standards related to personal information. The guidelines prohibit overseas transfers of any PI to an entity absent express user consent, government permission, or other explicit legal or regulatory permission. Despite the voluntary character of these guidelines, they might serve as a "regulatory baseline" for law enforcement authorities to assess whether or not a business is in compliance with data privacy law.

Moreover, data localisation is already a fact of life in China for the financial services sector. In 2011, the People's Bank of China (PBOC) issued a Notice to Urge Banking Financial Institutions to Protect Personal Financial Information. This notice establishes binding rules for banks operating in China and explicitly prohibits off-shore storing, processing or analysing of any personal financial information related to Chinese citizens.

## **Economic impact of data protection**

When a new regulation restricts businesses and individuals from using data in a reasonable manner – prices of any good or service that uses data in its production also increase. Typically, data accounts for between 4 and 31% of production input in services. For example, the input costs for logistics companies increase when they can no longer process data on their customers or shipments using existing IT suppliers or infrastructure, or are faced with some compliance costs for doing so. These additional new costs are inevitably passed on to their customers – who may be manufacturers, exporters and consumers.

Thus, increased regulation leads firstly to domestic productivity losses for the vast number of economic sectors that use data as a production input. Secondly, it creates an additional trade barrier for data processing and internet services, or any service (to a lesser extent also goods) that depends on the use of data for delivery. Thirdly, as the competitiveness of the economy changes, investments (both domestic and foreign) will be affected.

## **The impact of data localisation on the Chinese economy**

In a [new research paper](#), ECIPE has assessed the economic impact of forced data localisation and the administrative barriers introduced by the recent regulations. If fully enforced, the new data privacy guidelines would significantly impact economic growth – China's GDP would decrease by -1.1%. In addition, the foreign direct investment (FDI) flows that drive Chinese exports and long-term growth, would drop with -1.8%. China's exports would also decrease by -1.7% due to the loss of competitiveness.

These findings show that the negative impact of disrupting cross-border data flows should not be ignored. The globalised economy has made unilateral trade restrictions a counterproductive strategy that puts China at a relative loss to others in the region, with no possibilities to mitigate the negative impact in the long run. If China fully enforces data localisation in all sectors, it will strongly impact the Chinese economy by decreasing productivity, hampering exports and discouraging investment.

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## 数据本地化对中国经济的影响

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随着全球经济日趋数字化，企业依赖跨国界数据的自由流动来有效地对他们的产品进行销售、生产和交付。在中国，最近的数据保护法规出台的要求即将扰乱跨国界数据流，从而损害中国大部分出口导向型企业的运营。

在过去几年中，互联网的监管限制已在全球扩散，特别是针对商业用途。以增加网络安全和隐私为由，一些政府现在要求把关键数据强制储存在物理上位于该国家的服务器中，即数据本地化。考虑到当今全球互联经济的性质，设计欠佳地增加数据处理成本的国家政策会产生严重的经济影响，因为很多经济部门都依赖于数字化提供的服务和商品。

### 中国的数据保护

在中国，过多的竞合的数据隐私法使得收集个人信息的公司传统上很难遵从。然而自2012年底以来，中国政府已经采取措施来制定有关网络隐私的全国性条例。越来越多的身份盗窃和个人数据非法贸易的报告驱使了对数据保护法规的新的关注。

2012年12月28日，中国常务委员会通过了一项有关加强保护互联网信息的决议。这一决议在全国范围内有效，包括互联网服务提供商（ISPs）和其他处理个人数据企业的一般条例。该决议规定，未经同意，禁止收集个人数据，禁止非法转让或出售个人信息给第三方。

2013年2月，质量监督、检验和检疫标准化管理部门和行政管理部门发布了有关个人信息的非约束性国家标准。指导准则规定，未经用户明确同意、政府许可或其他明确的法律或监管许可，禁止将任何PI（个人信息）转移到海外实体。尽管这些指导准则具有自愿性性质，但它们可能会作为执法当局评估企业是否符合数据隐私法的“监管基线”。

此外，对于中国金融服务业，数据本地化已经是一个不争的事实。2011年，中国人民银行（PBOC）发布了一份通知，敦促银行业金融机构保护个人财务信息。该通知制定了银行在中国运营的约束规则，并明确禁止离岸存储、处理或分析有关中国公民的个人财务信息。

### 数据保护的经济影响

如果一项新的法规限制企业和个人从以合理的方式使用数据，任何在生产中使用数据的商品或服务的价格也会上涨。通常，数据占服务的生产投入的4 - 31%。例如，如果物流公司不能再利用现有的IT供应商或基础设施来处理他们的客户或发货数据，或者这样做要面临一些合规成本时，他们的投入成本会增加。这些附加的新成本将不可避免地传递给他们的客户，有可能是制造商、出口商和消费者。

因此，法规的增加首先会导致国内大量使用数据作为生产投入的经济部门的生产力损失。其次，它给数据处理和网络服务、或任何取决于使用数据交付的服务（还有较小程度的商品）造成了附加的贸易壁垒。第三，随着经济竞争力的改变，投资（国内外）将受到影响。

### 数据本地化对中国经济的影响

在一项新的研究报告中，ECIPE已经评估了强制数据本地化的经济影响和最新法规引出的行政壁垒。如果完全实施，新的数据隐私指导准则将显著地影响经济增长，中国的GDP将减少1.1%。此外，推动中国出口和长期增长的外国直接投资（FDI）流将下降1.8%。中国的出口也会因丧失竞争力而下降1.7%。

这些调查结果表明扰乱跨国界数据流动的负面影响将不容忽视。全球化经济已使得单边贸易限制一个使中国对区域内其他国家是一种相对损失并且没有缓和长期负面影响的可能性的适得其反的策略。如果中国在所有部门完全实施数据本地化，将会降低生产力、阻碍出口和抑制投资而强烈影响中国经济。