

# Data protection & competitiveness: assessing the economic costs

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# Outline

- ❖ The importance of free cross-border data flows
  - ❖ What, why and for whom has the internet done?
- ❖ The economic impact of data flow restrictions
  - ❖ Why important for Indonesian firms?
  - ❖ Channels through which data flows have impact
- ❖ Conclusion
  - ❖ Final policy implications of data flow restrictions

# Cross-border data flows

- ❖ The Internet has transformed international trade for IDN:
  - ❖ **1. E-commerce:** and the digitalisation of products: books, music, movies, taxis, medical equipment etc. are increasingly supplied digitally
  - ❖ **2. Servification:** global commerce and manufacturing is increasingly dependent on services, in large part thanks to the Internet and ICT
  - ❖ **3. Global value chains:** shift of focus to new trade policy barriers; e.g. data privacy and security policy amongst other new policies on the trade agenda.

# The economic impact of data flow restrictions

- ❖ Recent proliferation of data restrictions across countries
  - ❖ Dev'd & dev'ing; recent news; impact on economy (SMEs)
- ❖ Data localization / data storage locally wider effects
  - ❖ ≠ internet companies: finance, retail, manufacturing, logistics
- ❖ Indonesian businesses rely on access to personal data
  - ❖ Business models, HR, headquarter services, marketing
- ❖ Technical data vs. personal data hard to distinguish

# Four channels of data restrictions

- ❖ **1). Price increases:** domestic data services providers faced with increased costs, firms are required to store and process data locally
- ❖ **2). Trade barrier:** external data service providers faced with an additional trade barrier against data processing and internet services. Note: services tool for development!
- ❖ **3). Investment channel:** Indonesian exporters face higher input costs due to the regulation, they suffer a comparative disadvantage, less attractive to foreign investment (FDI)
- ❖ **4). R&D channel:** the effectiveness of R&D is affected to the extent that product development relies on customer and market data, crucial for innovations in services and goods!

# Study ECIPE

- ❖ Quantifies the costs of data flow restrictions by:
  - ❖ Analysing of data services intensity across all sectors of a typical economy such as Indonesia
  - ❖ Introducing price increases and TFP losses to domestic economy to estimate productivity impact of regulation
  - ❖ Estimating economic impact on domestic GDP, and trade and investment flows for Indonesian economy
- ❖ This by taking stock of IDN's position in world economy

# Results of the study

- ❖ An economy-wide data flow restriction would impact the Indonesian economy:
  - ❖ by decreasing economic growth by -0.7%
    - ❖ roughly USD \$6.1 billion
  - ❖ by decreasing domestic and foreign investment by -2.3%
    - ❖ lowering FDI by roughly USD \$510 million
  - ❖ by decreasing exports by -1.7%
  - ❖ Hence, sizable effects for Indonesian's economy



# Conclusion

- ❖ The Internet and cross-border data flows are rapidly transforming global trade, while driving economic growth
- ❖ Data flows will be of paramount importance to Indonesia's growth trajectory in next few years
- ❖ Restrictive regulation would heavily impact the Indonesian economy by decreasing productivity, hampering exports and discouraging investment
- ❖ Designing data protection regulation in a way that does not impede cross-border data flows will be crucial to maintain Indonesia's competitiveness in the ASEAN region and the world