

Digital Exports of Bangladesh *Will Data Localisation Propel or Imperil?*

Background

Digitalisation and cross-border data flow (CBDF) have transformed international trade. Enterprises in developing and developed countries alike can participate in global markets and benefit from global value chains with greater collaboration and innovation, technology transfers and improved business processes. Globally, the free flow of data was estimated to have contributed US\$2.8tn to the economy in 2014 and is projected to scale up to US\$11tn by 2025.¹

The increasing cross-border flow of data generates more economic value than the traditional flow of traded goods. ICT sectors in developing countries such as India and the Philippines have harnessed the opportunities made available through the free flow of data to claim a prominent position on the global stage.

Bangladesh's IT Sector

The ICT/ITeS sector in Bangladesh sees one of the highest growth rates globally; it is expected to grow five-fold from 2017 to 2020.² Prospects for Bangladesh's ICT/ITeS sector are strong and hinge on multiple factors. Studies indicate that Bangladesh has a vast pool of young, trained and English-speaking people, a lower cost of operations, rising labour productivity, and, lastly but importantly, supportive government policies.

The total exports of services from Bangladesh are US\$6.13bn. The contribution of ICT/ITeS services is US\$1.64bn, which is almost 27 per cent of the total export of services.³ Since 2010 the ICT sector (includes Computer, Information and Telecommunication services) has grown at an average rate of 40 per cent per annum.⁴ "Digital Bangladesh Vision" has positioned the ICT sector as a pillar of growth. Targeted efforts in the right direction can propel Bangladesh towards realising the vast opportunity presented by domestic and regional markets in the digital sector.

Regulatory Proposition

As discussed, data-driven innovation is responsible for more significant shares of global economic growth and diversifying trade and export modes. The flow of data across borders – and the government policies that enable data flows – underpins this digital transformation.

In studies, it has been elicited^{5,6} that any policy/regulation that restricts data flow has a disruptive effect on trade, gross domestic product (GDP) and innovation. As the trade of services across borders is significantly based on the transfer of data, policies that restrict the global flow of data hinder services trade due to increased costs for business.

However, arguments in favour of such regulations primarily advocate for immediate access to data by law enforcement agencies and employment generation for countries where data localisation regulations are enforced. This leaves the entire trade-off between enhanced ICT/ITeS trade and GDP and better law enforcement and employment generation quite ambiguous. Thus, in Bangladesh, it is not clear if restrictions on cross-border data flow are beneficial for achieving the Digital Bangladesh Vision.

In the given context, CUTS International is conducting a study titled '*Digital Exports of Bangladesh - Will Data Localisation Propel or Imperil?*', which proposes studying and analysing the nuances and regulatory provisions of data localisation and their possible impact on the country's digital exports and economy. Any trade-offs as a result of the implementation of data localisation need to be assessed holistically.

Objective

To comprehensively understand and analyse:

- impact of data localisation barriers on Bangladesh's digital exports; and
- importance of digital exports for Bangladesh's economy and the possible impact of a shift in digital trade due to data localisation restrictions.

Methodology

The study will be conducted in two phases. In the first phase, the study aims at eliciting the impact of data localisation on digital exports and to what extent. In the second phase, the study will analyse the digital sector's contribution to Bangladesh's GDP.

The study would entail:

Regulatory Framework Analysis: A working definition of digital exports will be established by taking the myriad of existing definitions and classifications into consideration. An extensive literature review will be conducted for the understanding of baseline regulations by looking at current laws governing cross-border data flows in Bangladesh, as well as proposed regulations that may impact Bangladesh's digital exports.

Descriptive Data Analysis: Secondary research will be conducted to review existing literature that has linked digital exports and cross-border data flows to macro-economic indicators like GDP, employment, investment, innovation, research and development, welfare and demand for data centres. Data on the mentioned variables or indicators thereof will be used to conduct statistical analysis using correlation to understand relationships and trends. Data collection and collation will be conducted from various government sources, trade bodies and industry organisations.

Econometric Analysis: Two models of analysis would be employed – The first model would analyse the hypothesis that a trade barrier such as data localisation would impact ICT exports and to what extent and the second would study the contribution of ICT exports to Bangladesh's GDP.

Key Informant Interviews/Case Study Analysis: These will be conducted through primary research using semi-structured in-depth questionnaires to understand the industry's point of view holistically. Respondents would include IT/ITES companies across sectors involved in digital exports and federations, such as BASIS.

Envisaged Outputs

- The findings of the proposed study will be presented in the form of reports and op-eds. These will provide empirical evidence and on-ground experience on the impact of restrictions on cross-border data flows on digital exports and the economy of Bangladesh.
- The findings and recommendations emerging from the study will also be presented in an online consultation and discussion with industry stakeholders to build a narrative for optimal regulation around CBDF.

Envisaged Outcomes

- The study would build a detailed and holistic understanding of the economic implications of proposed data localisation barriers on Bangladesh's digital exports.
- The study would inform trade-offs of data localisation as a policy and help build alternatives towards any negative effect.
- The study would help policymakers in Bangladesh and around the world take an informed decision regarding the adoption of data localisation measures.

Endnotes

- 1 McKinsey Global Institute, Digital Globalization: The new era of global flows, 2016. <https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/McKinsey%20Digital/Our%20Insights/Digital%20Globalization%20The%20new%20era%20of%20global%20flows/MGI-Digital-globalization-Full-report.ashx>.
- 2 Betting on the Future-Bangladesh IT-ITES Industry is Poised for Growth, Everest Group Research. <https://databd.co/wp-content/uploads/sites/5/2018/07/Everest-Group-Bangladesh-IT-ITES-Industry.pdf>
- 3 WTO | Trade Statistics - Bulk download of trade datasets
- 4 Bangladesh creates fertile ground for e-commerce growth. <https://unctad.org/news/bangladesh-creates-fertile-ground-e-commerce-growth>
- 5 Do-Data-Policy-Restrictions-Inhibit-Trade-in-Services-final.pdf (ecipe.org)
- 6 OCC32014__1.pdf (ecipe.org):The Cost of Data Localisation: A Friendly fire on Economic Recovery