ASIAN TRADE CENTRE

POLICY BRIEF

NUMBER: 17-02

March 2017

HOW DOES DATA LOCALISATION HURT SMALL BUSINESSES?

Data is a major source of growth, jobs and new investments. It is essential for trade in the digital age, allowing businesses to access foreign markets and participate in global supply chains.[1] This is especially true for small and medium sized businesses (SMEs) who are increasingly using the internet to participate in regional trade.

Data localisation can hurt any SME that uses the internet, including through email, websites, messenger apps, cloud-based computing, digital payments or more complex online systems.

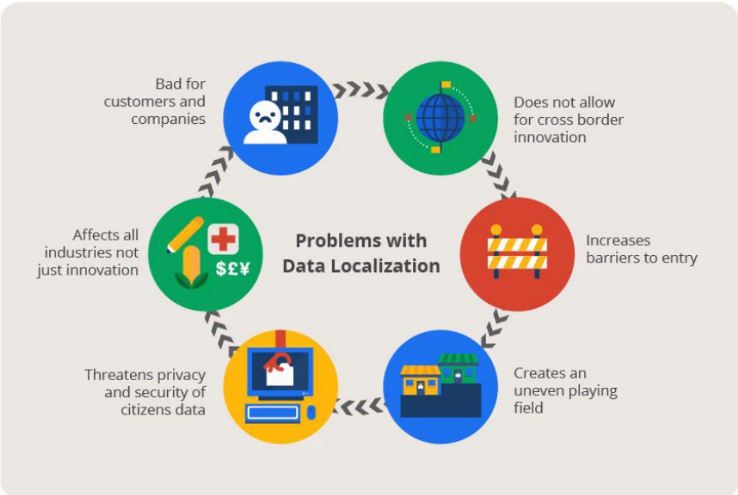
Data localisation drives up costs for small businesses

Cloud computing is affordable for small business because it relies on massive economies of scale. Requiring cloud providers to build unnecessary data centres would massively increase costs, which are likely to be passed on to SMEs.[2]

Modeling suggests that data localisation laws would cause a loss in GDP worth billions of dollars in countries across Asia, including China (-1.1%), India (-0.1%), Indonesia (-0.5%), Korea (-0.4%) and Vietnam (-1.7%).[3]

Data localisation reduces security

Storing data in one location makes it more vulnerable to attackers. Companies store different bits of data in multiple locations across the world, to make it safer. It is also generally harder for local data centres to be updated with the latest security software.



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1 ECIPE, 2014

2 Brookings, 2013

3 ECIPE, 2014

How Can RCEP Help?

As the Asian Trade Centre has previously recommended, in ATC Policy Brief 16-15 (December 2016 RCEP) parties should commit to avoid interfering with the movement of information across the Internet, including the free transfer or access to electronic information -- except where necessary to achieve legitimate public policy objectives such as data protection and consumer protection. Parties should prohibit any requirements to use or locate computing facilities within a country as a condition for doing business in that country. These rules will help support small businesses in RCEP economies.

Small Business Case Study: Indonesian Costume Shop JTOKU

Profile:
As an Indonesian special effects costume shop, JTOKU offers international and domestic customers state-of-the-art costumes and outfits to order, including original and replica monsters, animatronics, costumes, armour, and robots. Founded in 2005, JTOKU took off in 2010 when they first went worldwide by using the internet to expand their access to foreign markets, and grew to 19 employees. Exports now account for over 90% of sales.

How JTOKU uses data

JTOKU relies heavily upon online data flows for business operations. JTOKU relies on internet advertising and a social media presence to reach foreign markets - both of which require data to be shared across borders.

JTOKU also utilizes cloud computing to store its business data. A previous bad experience when JTOKU's email accounts were hacked means they want to use a trusted provider - and they now have an account with an international cloud computing provider, with state-of-the-art security technology. JTOKU also uses cloud technology for its IT infrastructure, back office functions, banking, customer service, market research, audio/visual conferencing, and procurement. These services—all of which rely on cross-border data flows—have enabled JTOKU to reduce business infrastructure costs significantly.

Impact of data localisation

Many of the Internet services utilized by JTOKU rely upon cross-border transfers of data. For example, JTOKU's advertising on social media sites is integral for its access to foreign markets through which the majority of the firm's income is obtained. If access to these sites were removed or the cost of advertising on them significantly increased, sales could suffer.

Furthermore, regulations obstructing access to cloud services could increase the cost for a range of digital services on which JTOKU relies. JTOKU's global access to markets depends on a relatively tight IT budget of approximately IDR 3.6 million; additional costs could provoke the need to raise prices, which would make the company less competitive compared to similar businesses in other countries that don't have the same restrictions. Rising costs could drive the company out of business entirely.

Source: Access Partnership

The Asian Trade Centre (ATC) is the premier regional thought leader, advocate and educator for trade in Asia. ATC works directly with both governments from around the world, companies, think tanks, foundations, non-governmental organizations, aid agencies and serves as the resource for trade-related activities in Asia.

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