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Centre for International  
Governance Innovation

# On the Cusp of Change: Trade and Development in the Age of Data

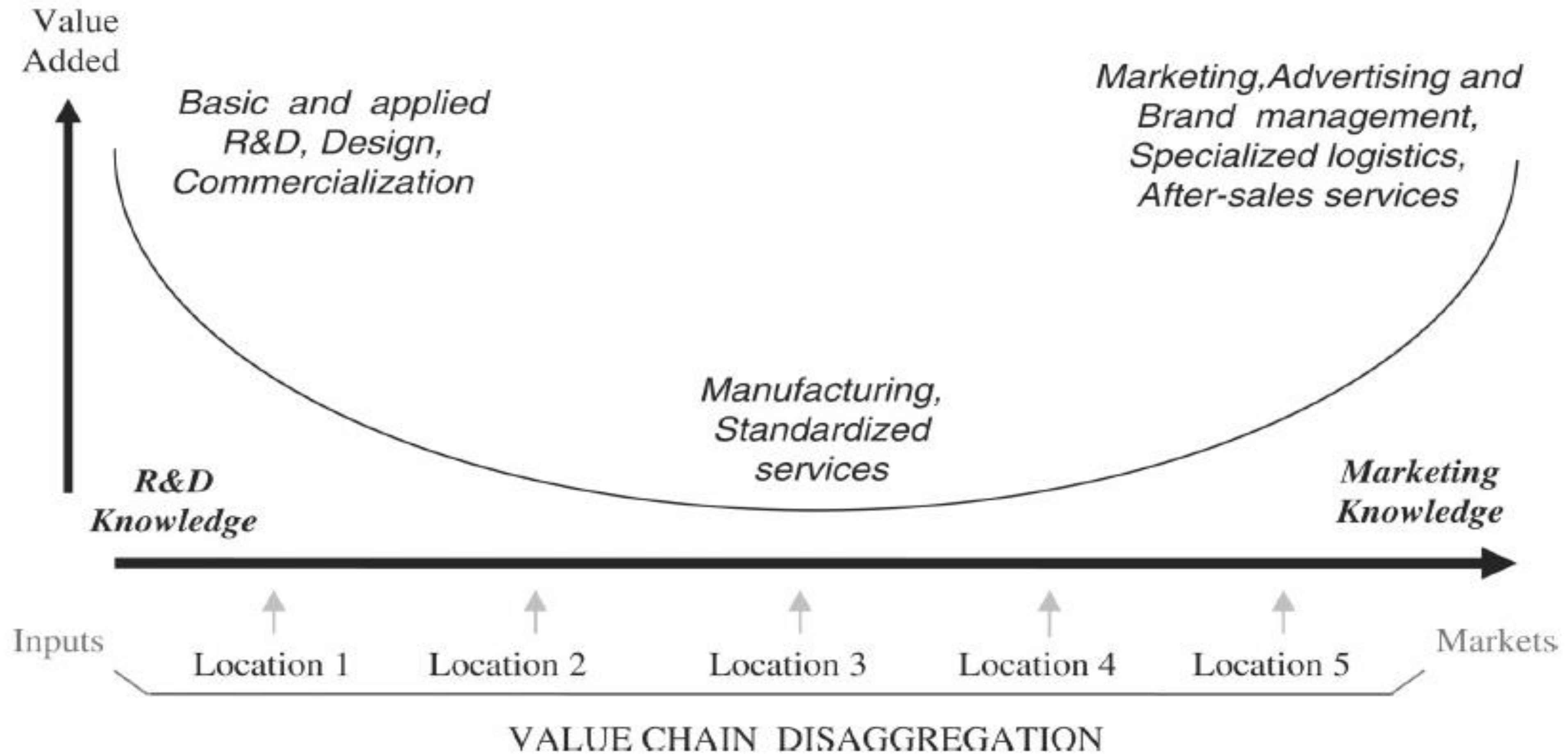
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# The “Smile Curve” and the Shifting Source of Rents



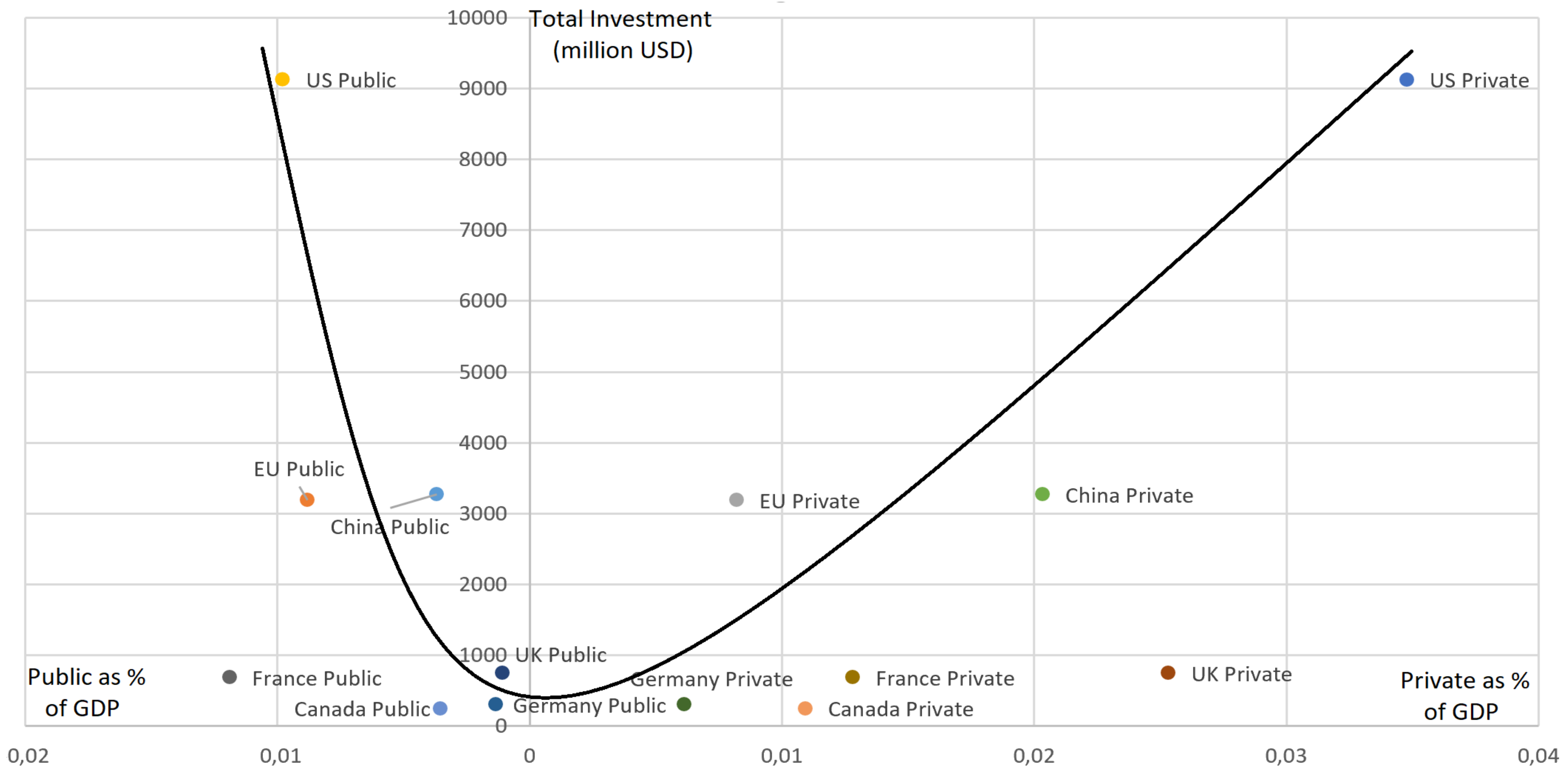
# Economics of the Data-Driven Economy

- **Powerful economies of scale**
  - Quality of predictions improves with quantity of data
  - High fixed cost of maintaining AI expertise
- **Economies of scope**
  - Sharing data across applications in multiproduct firms
  - Cross-referencing data
- **Network externalities**
  - Positive feedback loop
- **Pervasive information asymmetries**
  - Business models exploit information asymmetry
- **Replicator economics for Intangible Products**
  - Machine Knowledge Capital expands at near-zero marginal cost
  - Digital products replicable and non-rival



**Market failure:**  
Concentration of  
market power,  
Emergence of  
tech giants  
New Contest for  
rents

# Who's Investing in AI?



## International Rules Revision: WTO 2.0

- TRADE (Trade-related Aspects of Data Exchange) – free flow but conditional on:
  - exceptions for sovereignty, national security, FTAs, taxes/gains-sharing;
- Competition (superstar firms - pre-emptive takeovers - consumer surplus extraction);
- TRIMS (Tech-Infrastructure-Data – the new key words in CIFIUS );
- TRIPS (non-transparency/non-expiry of protection for trade secrets & data; acceleration of innovation due to machine learning – prospect for concentration of wealth through rent capture through AI (“machine knowledge capital”))
- Subsidies/industrial policy and development
  - Recognize differences due to tax shares of GDP/use of SOEs for domestic policy (very low tax shares in developing societies – low trust?)
  - Expanded role of public investment in innovation (shift from “horizontal/vertical” role assignment to risk/return metrics) – focus on the firm and technology

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Thank you.

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