

Section 5 Diverse responses to digitalization and green transitions

Social implementation of new technologies, including digital technology, requires appropriate policy actions by governments. In this age, when new technologies rapidly spread across national borders, inconsistencies of policy actions taken by governments and a lack of predictability could create uncertainty for businesses. For example, although the development and diffusion of digital technology has brought common challenges to countries, such as taking cybersecurity measures and countermeasures against misinformation and regulating platform operators and AI technology, a lack of sufficient international policy coordination has become a major cause of uncertainty. In terms of the OECD Digital Services Trade Restrictiveness Index (DSTRI), which is a measure of the strength of regulation of digital services, India, South Africa, China and Indonesia, among other countries, have introduced strong regulation (Figure I-2-5-1). Among developed countries, which have secured a certain level of openness for digital services, the strength of regulation differs due to differences in the approach to privacy protection. Regarding new technologies such as AI, it is necessary for governments to conduct deliberations on appropriate regulation. Transparency over the deliberation process affects predictability for businesses.

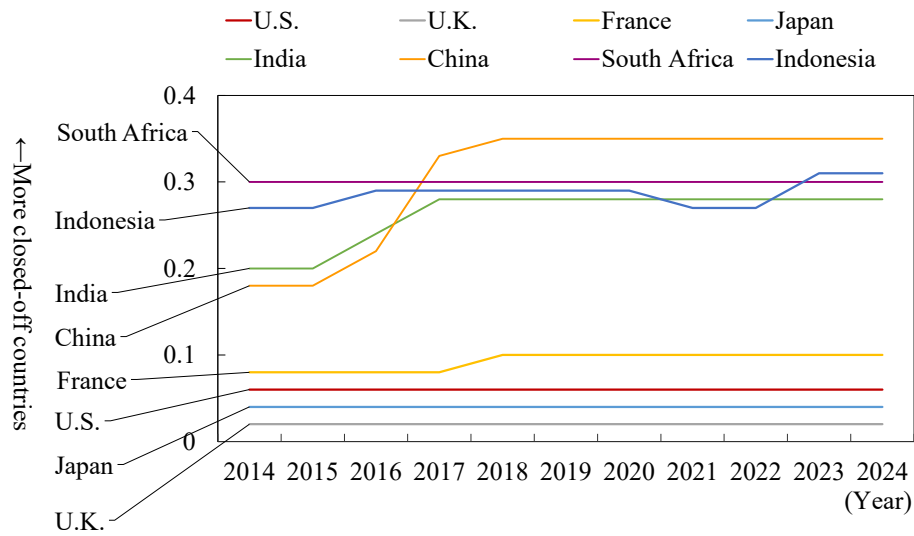
Likewise, policy actions regarding global challenges, such as green transition, could become an uncertainty factor. For example, countries' responses to COVID-19 acutely heightened uncertainty over economic and trade policies.¹² With respect to green transition in particular, the risk has been pointed out that policy actions may be creating diversification of carbon pricing schemes (e.g. Carbon Border Adjustment Mechanism (CBAM) of the European Union) and related regulatory standards across countries, thereby restricting trade more than is necessary.¹³ Moreover, the major shift in the U.S. policy toward climate change under the second Trump administration is creating uncertainty for cross-border business activity.

An overview of major countries' policies and international initiatives related to digitalization and green transition will be also provided in Part II, Chapter 1, Sections 2 and 3.

¹² See Part I, Chapter 3, Section 1.

¹³ WTO (2023)

Figure I-2-5-1. Changes in Digital Services Trade Restrictiveness Index



Note: This figure shows indexes quantifying the level of the strength of regulation over the provision of digital services using electronic networks. These indexes range from 0 to 1, with higher values indicating stricter regulations.

Source: *Digital Services Trade Restrictiveness Index (DSTRI)* (OECD).

The abovementioned rapid changes in the international environment in recent years are posing a major challenge to the rules-based international economic order, heightening uncertainty for cross-border business activity. In the next chapter and beyond, the impact of the escalation of uncertainty over economic policy as a perception-level factor on the global economy and cross-border business activity will be analyzed. In addition, the impact of political distance between governments on trade and investment relationships will be analyzed. Through these analyses, the impact of changes in the international environment in recent years on the global economy and trade and investment relationships will be examined.