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Digital POLICY and Data Governance in the age of AI

Opening remarks by Luigi Federico Signorini
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I am happy to take this opportunity to greet participants in today's G7 roundtable.¹

Digital policy and data governance are bound to imply complex trade-offs. I'd like to highlight three key areas: (i) data localisation; (ii) digital trade; (iii) AI governance.

I'll touch very briefly on each, mentioning issues that are in some way or other connected to today's papers.

There is of course no pretence that the list is exclusive. The number of potential issues is large; personally, I do not even know all the questions, let alone all the answers. What follows is therefore just a set of examples of some important and challenging issues that may relate to today's discussions.

First, data localisation. The key issue here concerns restrictions to cross-border transfers of data.

The OECD has shown that cross-border data flows are increasingly regulated.² Over the last decade, the tally of localisation measures has more than doubled.³ What are we to make of this?

Even in liberal democracies and market economies, the regulatory approach to data flows entails some trade-off between liberty, free speech and free trade on the one side, and privacy, intellectual property, crime prevention and national security on the other.⁴ Balancing such concerns in a fast-changing technological and market environment is a delicate task.

Non-free regimes, of course, have other reasons to restrict the flow of data.

¹ Thanks are due to Michele Savini Zangrandi and Oscar Borgogno for valuable input.

² OECD (2023), "Key issues in Digital Trade", OECD Global Forum on Trade 2023.

³ Ferracane, M. and Ugart, S.G. (2024) "Data localisation: global trends" Working Paper presented at the Bank of Italy's G7 Roundtable on 3 June 2024.

⁴ Borgogno, O. and M. Savini Zangrandi (2022), "Data governance: a tale of three subjects", *Journal of Law, Market & Innovation*, 1(2), 50-75.

In any case, different countries will tackle the issue in different ways. The regulatory web is intricate, and for the time being it is likely to remain so.

The regulation of data localisation and data flows generates costs for market players; more so for smaller enterprises, which may lack the resources to cope with a complicated cross-border legal framework.⁵

Still, the authors of one of today's papers argue – based on new evidence – that data flow regulation can create benefits for consumers and service providers in terms of increased trust, which might offset any regulatory costs.⁶ The discussion of the merits and limits of this claim will be interesting.

One specific sub-issue concerns the financial sphere. Data flow restrictions affect, among other things, the efficiency and integrity of cross-border transactions and payments.⁷ The issue of payments belongs to the core of most central banks' activity, and the Bank of Italy is very active in this field.

In many ways, technical and regulatory barriers result in cross-border payments remaining slow and expensive.

Surely, safeguards are needed, e.g. for anti-money laundering and counterterrorism purposes. One needs to find a way to reduce costs and increase speed and convenience without compromising on integrity and safety.

There are important international initiatives under way. In today's 'policy track' panel, the G7 workstream on Free data flows within a context of trust, initiated under the Japanese presidency with the support of the OECD, will interact with the G20 Roadmap on cross-border payments and the related FSB and CPMI agendas.

Let me now turn to my next point: digital trade.

Digital trade is booming. According to the OECD, it accounted for 25 per cent of global trade in 2020.⁸

It presents us with another trade-off, albeit one that is by no means limited to the digital space: trade openness against domestic policy agendas.⁹

In fact, all over the world fragmentation and barriers are more and more of an issue in the global policy discussion nowadays. Russia's invasion of Ukraine, heightened strategic

⁵ J. Jia, G. Zhe Jin and L. Wagman (2021) "The Short-Run Effects of the General Data Protection Regulation on Technology Venture Investment" *Marketing Science* 40, 4; R. JanBen, R. Kesler, M. E. Kummer, J. Waldfogel (2022) "GDPR and the lost generation of innovative apps" NBER WP Series.

⁶ Andrenelli, A., Bekkers, E., Lopez-Gonzalez, J., Marceau G. and So, R. (2024) "A song of data flows and trust. A Quantitative Analysis of Cross-border Data Flow Regulation" WTO-OECD Working Paper presented at the Bank of Italy's G7 Roundtable on 3 June 2024.

⁷ Financial Stability Board (2022), "Stocktake of International Data Standards Relevant to Cross-Border Payments".

⁸ OECD (2023), "Key issues in Digital Trade", OECD Global Forum on Trade 2023; WTO, OECD, UNCTAD, IMF (2023), "Handbook on Measuring Digital Trade" (2nd edition).

⁹ Borgogno, O. and M. Savini Zangrandi (2024), "Chinese data governance and trade policy: from cyber sovereignty to the quest for digital hegemony?", *Journal of Contemporary China*.

rivalries (including about technology), and other tensions that show no sign of abating, have all been factors.¹⁰

This trend can touch digital trade. For example, the ongoing Joint initiative on e-commerce at the WTO, which the US had strongly supported, has now seen retrenchment.¹¹

I do not need to underline the importance of global digital trade patterns. The economic rise of some countries (think of India) has been linked, among other things, to their ability to supply technical and professional services remotely.

Is this trend going to continue, and how?

The topic is not explicitly on today's agenda, but I believe that it will be in the background of many of your discussions.

My third and final point concerns artificial intelligence.

Everybody has seen the near-vertical trend in the use of LLMs such as ChatGPT, as well as the surge in AI-related stock valuations.

This is not the place even to start discussing the innumerable social, economic, political, technical and philosophical issues that surround AI.

Let me just draw your attention to yet another trade-off, which is highlighted by the bubbling, but far from homogeneous, growth in AI regulation. How does one reconcile the protection of privacy, intellectual property and other basic rights (which appears to require *more* regulation) and the promotion of vibrant innovation (which often appears to require *less*)?

While the legal framework is still evolving, different jurisdictions already seem to be balancing the pros and cons differently. For the moment, there is little hope (or fear?) of a globally homogeneous, consistent regulatory approach to AI. The first of today's papers¹² discusses developments in this area, including the risk that a fragmented global AI market emerges, with isolated regional blocs.

Regulation and innovation are also the subject of Professor Aghion's speech today, and I very much look forward to hearing what he will say.

And that, ladies and gentlemen, is all from me. Let me conclude by just thanking all the speakers, discussants, and organisers. There is a lot to discuss about. I wish you a very productive day.

¹⁰ ECB - International Relations Committee (2024 *Forthcoming*) "Navigating a fragmenting global trading system – Some lessons for central banks". – Governor Panetta has discussed trade issue at length in his recent *Final remarks*.

¹¹ Burri, M. (2024) "The State of Global Digital Trade Governance" Working Paper presented at the Bank of Italy's G7 Roundtable on 3 June 2024.

¹² Fritz, J. and Giardini, T. (2024) "Emerging Contours of AI Governance and the Three Layers of Regulatory Heterogeneity" Working Paper presented at the Bank of Italy's G7 Roundtable on 3 June 2024.

