



## Increased Economic Impact in the Digital Economy

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**Abstract:** *The digital economy is now here to stay. The new technologies and modes of business it has created add immensely to speed, convenience, productivity, and transparency, boosting trade and GDP. This digital economy is fundamentally transforming the global economy and unleashing a Fourth Industrial Revolution that will disrupt the existing economic order. This disruption will both drive – and be driven – by shifts in global patterns of FDI as MNEs all over the world take to digital technology and modes of organization to compete. The digital economy is also driving sustainable development through more resource-efficient products, technological inclusivity, and new green technologies, speeding up global progress in meeting the goals of the 2030 Agenda for Sustainable Development.*

**Keywords:** *Foreign Direct Investment, FDI, Digital FDI, MSMEs, Sustainable FDI, Sustainable Development.*

The rapid expansion of the digital economy is driving an elemental change in the structure and geography of the world economy as it creates new kinds of global economic value and directs it to a set of companies and countries that differ from the past. Digital firms’ FDI lightness, and their reliance on local networks and partners, has made it possible for them to scale globally at unprecedented speeds. For instance, while it took Marriott Hotels nearly a century to reach 122 countries, Airbnb needed just eight years to begin operating in 190 countries (Banalieva and Dhanaraj, 2019). “The rapid rise of tech MNEs represents one of the most noteworthy trends in the world of global mega-corporations in recent years. Tech MNEs have not only gained weight in the universe of the largest global multinationals, but they also represent by far the most dynamic players” (Casella and Formenti, 2018). These MNEs and their founders now cluster at the top of international rankings, including Fortune 500,<sup>1</sup> Forbes’ Global 2000<sup>2</sup> and World Billionaires List<sup>3</sup>.

A principal impetus for the digital economy’s rapid growth since 2010 has been the rapid international expansion of digital platforms and tech firms, which has completely upended earlier global corporate hierarchies. So much so that in 2020, seven of the world’s twelve largest companies by market capitalization are digital platforms. Eight such firms now account for some 56 per cent of the market capitalization of the world’s top twenty firms by market capitalization (UNCTAD, 2019). In contrast, seven oil, gas and mining companies accounted for 36 per cent of the top 20’s total market capitalization in 2009. At that time, just three of the world’s top 20 by market capitalization were technology and digital firms, and their share was a mere 16 per cent.

<sup>1</sup> The Fortune 500 list is available at: <https://fortune.com/fortune500/2020/search>.

<sup>2</sup> Forbes’ Global 2000 list is available at: <https://www.forbes.com/global2000/#58cbcc56335d>.

<sup>3</sup> Forbes World’s Billionaires List is available at: <https://www.forbes.com/billionaires/>.

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UNCTAD’s annual ranking of the world’s 100 largest MNEs shows a similar trend. In 2020, it contains some 15 tech firms – some of which are now global megacorporations – up from four in 2010. They are also the most economically dynamic: these 15 firms’ assets grew by 11 per cent a year between 2010 and 2015 (i.e. 65 per cent in total), over ten times faster than that of other MNEs. Their operating revenue and employment expanded by some 30 per cent. In 2019, their foreign assets represented 11 per cent – and their foreign sales 18 per cent – of the total for the world’s 100 largest MNEs. Just 10 of them – including Alphabet (Google), Apple, Microsoft, Hon Hai, SAP, and Sony - accounted for a quarter of the total market capitalization of all 100 firms in UNCTAD’s list (UNCTAD, 2017).

The other impetus has been the rapidly growing adoption of digital connectivity and technology in the broader economy, particularly individual consumers. Resultantly, the digital economy is believed to have expanded two and a half times faster than the global economy between 2000 and 2015, to reach 15.5 per cent of global value-added in 2016 – or US\$11.5 trillion (Huawei and Oxford Economics, 2018). Based on this, it is possible that the digital economy accounted for about a fifth of global value-added in 2020.<sup>4</sup>

Projections are that the digital economy will account for 24.3 per cent of global value added by 2025 (or some US\$23 trillion), this time driven by the ‘industrial Internet’ of traditional sector firms digitalizing (Huawei and Oxford Economics, 2018). McKinsey calculates that a few immense digital ecosystems could generate over \$60 trillion in revenue by 2025, or more than 30 per cent of global corporate revenue (McKinsey and Company, 2018). It also estimates that global GDP could swell by an additional US\$13 trillion by 2030, should 70 per cent of companies harness just one of five AI technologies: computer vision, natural language, virtual assistants, robotic process automation and advanced machine learning. Even such minimal AI adoption could boost GDP growth by 1.2 per cent annually this coming decade, creating 16 per cent more in cumulative GDP (McKinsey Global Institute, 2018).

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<sup>4</sup> Author’s calculation based on the estimates in (Huawei and Oxford Economics, 2018).