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Policy Brief

Task Force 2: Digitalization of the Global Economy

Realizing Data Free Flow with Trust: Strategies for Turbulent Times

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Key Points

- Cross-border data flows are vital to the global digital economy yet approaches to data governance remain fragmented. Artificial intelligence (AI)-driven digital transformation, geopolitical tensions and geoeconomic competition are fundamentally reshaping global data governance.
- Coordinated legal and regulatory frameworks remain a cornerstone to operationalizing Data Free Flow with Trust (DFFT). However, noting the challenges facing multilateralism in today's context, the G7 can focus on leveraging existing regional frameworks and agreements, and adopting risk-based approaches to promote interoperability. Policy approaches should aim to strike a balance between protecting national and citizens' interests and fostering innovation, ensuring that security, privacy and free data flows can coexist to drive economic growth and development.
- Sharing the benefits of digitalization inclusively and equitably is critical to ensure the long-term success of DFFT, as most developing economies and micro, small and medium-sized enterprises (MSMEs) lack the capacity and resources to meaningfully engage in cross-border data flows.

Statement of the Issue

Since the introduction of DFFT under the G20 Japanese Presidency in 2019, the world has entered an era of unprecedented technological change and heightened geopolitical tensions, driven by increasingly high stakes. Today's global political economy is shaped more by economic, network-driven and complex dynamics of confrontation, competition and cooperation (Babić, Dixon and Liu 2022). Securitization of economic policy has become the norm, and trust both at country- and the global-levels has grown scarce.

Digital transformation, fueled by the rapid development of advanced narrow AI and emerging general-purpose AI, has placed global data governance at a critical turning point. With AI models and systems relying on computing power and vast datasets that span across borders, governments have awakened to the enhanced urgency of establishing laws and regulations governing data collection, processing, storage, availability, quality, access, sharing, and use. These policy shifts aim to support the breakneck advancement while safeguarding national security, data security, data privacy, and economic interests.

Although the G7 has endorsed their commitment to promoting DFFT[1], and operationalizing DFFT[2] with the creation of the Institutional Arrangement for Partnership (IAP), operationalizing trust in DFFT and global data governance remains difficult at both the political and policy implementation levels. The past several years has continued to prove challenging in building a globally coordinated approach to data governance, especially in the context of competing national interests and policy objectives.

[1] Under the G7 United Kingdom Presidency in 2021; the G7 German Presidency in 2022.
[2] Under the G7 Japanese Presidency in 2023; the G7 Italian Presidency in 2024.

With the global economy on the brink of an AI-driven industrial revolution, the twin geopolitical and geoeconomic AI competition will only intensify. Meanwhile, global economic policy uncertainty has returned to its highest levels since 2020[3] (Economic Policy Uncertainty 2025). Against this backdrop, the absence of a global approach to data governance will add to the uncertainty and costs for businesses while increasing the risks of exposing individuals to consumer harm, security threats and privacy breaches. Besides business and consumer trust, another important dimension of trust for DFFT is trust through digital inclusion and international cooperation. The long-term success of DFFT in "[generating] higher productivity, greater innovation and improved sustainable development"[4] hinges on bridging the persistent digital divide between developed countries and developing economies and ensuring that no groups are marginalized in the global digital economy.

Summary of Relevant Facts

Trust in Cross-Border Data Flows

Cross-border data flows are essential to innovation, international trade and economic growth. However, legal and regulatory fragmentation and uncertainty surrounding data governance pose pronounced challenges to economies and businesses seeking to leverage digitalization.

The OECD and the WTO (2025) found that open data flow regimes with safeguards strike the optimal balance between mitigating trade costs and ensuring trust in data regulation. In a scenario analysis, if all economies adopted such approaches, global exports would increase by 3.60% and global GDP would rise by 1.77%, with the most substantial benefits seen in low and lower-middle-income economies, where GDP could increase by over 4%.

While governments are motivated by national interests and policy objectives on national security, data security, data privacy, regulatory reach and industrial competition (IMF/OECD/UN/World Bank/WTO 2023; OECD 2022), excessive conditions on cross-border data flows can create unintended economic and social consequences. Such fragmentation leads to higher compliance costs, discourages foreign investment and limits market opportunities, particularly for MSMEs, which lack the capacity and resources to navigate and comply with complex data governance requirements. Vulnerable groups, including women, young people and rural communities, are affected disproportionately by these barriers, reducing their competitiveness and access to global digital markets. A more inclusive and equitable global digital economy not only strengthens trust in data flows, it also reinforces economic partnerships, benefitting both developed countries and developing economies alike.

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[3] As indicated by the Global Economic Policy Uncertainty Index that has tracked the GDP-weighted average of the national Economic Policy Uncertainty indices of 21 countries from 1997 to the present, 2025: Australia, Brazil, Canada, Chile, China, Colombia, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, Netherlands, Republic of Korea, Russia, Spain, Sweden, United Kingdom, United States.

[4] cf. G20 Ministerial Statement Trade and Digital Economy, paragraph 16.

Ensuring trust in cross-border data flows through interoperable and transparent frameworks is thus crucial to balancing openness, control and economic opportunity. The following are two key examples that illustrate different approaches to fostering trust while enabling cross-border data flows.

1. APEC Privacy Framework; APEC Cross-Border Privacy Rules (CBPR) and Privacy Recognition for Processors (PRP) Systems

- The APEC Privacy Framework, endorsed by 21 APEC Economies in 2004 and updated in 2015, provides a regional approach to accountable and responsible personal data protection. It is built on nine guiding principles to promote privacy while enabling cross-border data flows.
- To operationalize this framework, APEC launched the APEC CBPR System in 2011. This voluntary, certification-based system established 50 enforceable privacy requirements, ensuring companies in participating economies adhere to a consistent baseline of data protection while facilitating the secure flow of consumer data across borders. Complementing this, the APEC PRP System helps data processors demonstrate compliance with privacy safeguards.
- Recognizing the need for a broader, more inclusive framework, the Global CBPR Forum was established in 2022 to expand these systems beyond APEC. The forum aims to create a global certification mechanism based on the APEC CBPR and PRP Systems and support the free flow of data with effective data privacy and protection. As of 2025, nine APEC Economies[5] and four non-APEC jurisdictions[6] are participants, reflecting its growing relevance in global data governance.

2. Digital Economy Partnership Agreement (DEPA)

- The DEPA, signed by Singapore, Chile and New Zealand in 2020, is a pioneering digital trade agreement designed to facilitate cross-border digital transactions and interoperability between economies. Unlike traditional trade agreements, DEPA adopts a modular, flexible framework, allowing new Parties to join and adapt provisions to their own digital economy needs.
- DEPA promotes trusted cross-border data flows through Module 4 that covers personal information protection and cross-border transfer of information, ensuring that data can move freely with the appropriate safeguards. It also encourages regulatory cooperation on emerging digital technologies including fintech, AI, government procurement and competition policy, reducing trade barriers while maintaining security and privacy standards.
- As of 2025, the Republic of Korea joined as the fourth Party and seven economies have applied to join the DEPA[7], reflecting DEPA's role as a scalable and inclusive model for global data governance for digital trade and the digital economy. Its modular approach also offers a blueprint for other digital trade agreements such as the Digital Economy Agreements.

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[5] Australia, Canada, Japan, Republic of Korea, Mexico, Philippines, Singapore, Chinese Taipei, United States.
[6] Bermuda, Dubai International Financial Centre, Mauritius, United Kingdom.
[7] China, Canada, Costa Rica, El Salvador, Peru, Ukraine, United Arab Emirates.

Trust in Data Localization Measures

Concerns around data security, data privacy and industrial competitiveness have also driven a surge in data localization measures since the early 2010s. According to the OECD, half of 96 data localization measures across 40 countries were implemented after 2015, with over two-thirds categorized as highly restrictive; these measures often mandate both domestic storage and processing requirements while prohibiting cross-border data flows (Del Giovane, Ferencz and López González 2023).

While data localization measures aim to enhance control over data, they also impose substantial economic costs. Recent research conducted by the OECD indicates that data localization requirements can raise data management costs by 15% to 55%, significantly burdening cloud service providers and limiting access to affordable digital services. Higher costs lead to reduced service offerings, particularly impacting downstream users, especially MSMEs (Del Giovane, Ferencz and López González 2023).

Removing existing data localization measures entirely, while politically sensitive, could yield some small but positive economic gains. In a scenario analysis, the OECD and the WTO (2025) estimated that lifting these restrictions would result in a 0.26% increase in global exports and a 0.18% rise in global GDP. Low-income economies stand to gain the most, with potential GDP growth exceeding 1%.

To balance data sovereignty with economic gains, tiered data governance models that differentiate between sensitive and non-sensitive data offer a promising approach. They allow critical data to remain under strict regulatory oversight while enabling less sensitive data to move across borders. Privacy-enhancing technologies (PETs) – such as data obfuscation and encrypted data processing tools – can mitigate security and privacy concerns while enabling cross-border data exchange and analytics.

Options for Consideration

These findings underscore the importance of trust-based alternatives to data localization measures that facilitate cross-border data flows while safeguarding national interests and policy objectives. Given the current geopolitical tensions and geoeconomic trends, attaining a harmonized global data framework remains difficult. However, regional interoperability among like-minded countries can serve as a practical stepping stone – delivering immediate benefits that foster political buy-in and gradual policy convergence. Simultaneously, broadening engagement with developing economies can maximize the benefits of the global digital economy and mitigate geopolitical and geoeconomic uncertainties.

The following outlines four categories of trust-based mechanisms, each with corresponding risk analysis and mitigation strategies. Overall, a balanced approach must weigh security and privacy against the imperatives of openness, inclusion and technological innovation, ensuring the laws and regulations enhance – not hinder – the development of the global digital economy.

1. **Legal and regulatory mechanisms:** Mutual recognition agreements (MRAs) offer structured pathways for recognizing equivalency in data protection laws and reducing regulatory barriers. Standard contractual clauses (SCCs) and binding corporate rules (BCRs) further enable companies to transfer data across borders

while ensuring compliance with security and privacy requirements. These mechanisms complement existing regional frameworks such as the APEC CBPR System and the European Union's adequacy decisions, contributing to a more cohesive global data landscape. The G7 should continuously align on interoperable data governance frameworks and standards as a baseline effort, even if not the primary strategy.

2. **Institutional mechanisms**: Multilateral, plurilateral and regional frameworks and agreements also play an essential role in strengthening trust. Those promoted by the OECD, WTO and regional organizations like the ASEAN Digital Economy Framework Agreement provide structured avenues for cooperation while allowing the policy space for the necessary restrictions based on security, privacy and sovereignty concerns. The IAP also presents a unique opportunity to operationalize trust by developing data-sharing standards and expanding participation to developing economies to bridge the digital divide. To enhance global interoperability and resilience, G7 initiatives should avoid exclusivity and engage other economies including BRICS members through multilateral fora and intergovernmental organizations (IGOs).
3. **Technical mechanisms**: PETs, accountability-based and risk-based approaches offer innovative solutions for cross-border data sharing while minimizing security and privacy risks. Tools such as data obfuscation, encrypted data processing and data accountability help ensure compliance with regulations without obstructing data flows. Those that emphasize proportionality can further address security and privacy concerns without resorting to overly restrictive measures. However, high implementation costs, computational complexity and legal uncertainty may hinder adoption. In the short-term, regulatory sandboxes and pilot projects feasibility, while medium-term efforts should target integrating these mechanisms into regional frameworks and agreements.
4. **Implementation mechanisms**: Compliance support, technical assistance and capacity-building programs should complement institutional efforts under the IAP, particularly for partner countries and developing economies. These initiatives can be delivered through IGOs, the G7, the G20 and public-private partnerships, focusing on infrastructure development, digital skills training, and legal and regulatory alignment and coordination. Funding can come from the IAP's pool and each G7 government's funding programs to ensure sustained support. Beyond dialogue, meaningful engagement with businesses and civil society is essential for the medium- to long-run for securing broad-based buy-in and fostering practical implementation of DFFT.

Recommendations to G7 for Realizing DFFT

To realize DFFT in an era of rapid digital transformation, geopolitical uncertainty and economic fragmentation, the G7 must take decisive political and policy leadership to address legal and regulatory fragmentation, demonstrate how national interests and policy objectives can coexist with openness and trust, and ensure that all economies – especially developing ones – can benefit from DFFT.

Legal and regulatory coordination on cross-border data governance is critical to fostering trust and confidence in the global digital economy while avoiding unnecessary compliance burdens that stifle innovation. Governments should also consider alternatives to data localization measures that address security, privacy and competitiveness concerns

without disrupting cross-border data flows. Finally, sustainable progress on DFFT can only be made in lockstep with targeted efforts to close the digital divide, ensuring that developing economies can still benefit from the global digital economy.

To meet these challenges, the G7 should adopt a pragmatic, phased approach, prioritizing coordinating with regional frameworks and agreements and innovative trust-based mechanisms rather than seeking global harmonization. Engaging international fora such as the G20, IGOs like the OECD and the WTO, as well as regional organizations like APEC, ASEAN, the African Union, CELAC, the Digital Cooperation Organization (DCO) and the GCC, will be key to fostering inclusive policy dialogue, increasing political will, enhancing policy capacity, and scaling cooperation in the medium- to long-run.

- Approach a phased approach to legal and regulatory coordination on data governance: The G7 should prioritize leveraging existing initiatives at the G20, the OECD, the WTO and other regional organizations to build greater interoperability, transparency and cohesion of laws and regulations. A phased approach means focusing on incremental progress rather than aiming for immediate global alignment, which is difficult given the current geopolitical and geoeconomic climate. This involves advancing bilateral, regional and plurilateral frameworks and agreements, sector-specific governance frameworks and mechanisms such as MRAs, SCCs and BCRs. Establishing common standards in specific policy areas such as data security, data privacy and AI can also build synergies and trust, which feed into DFFT. Regional frameworks and agreements offer a more practical and achievable solution at this stage, as they allow for tailored approaches that reflect the unique needs, capacities and realities of different countries while still fostering broader alignment over time.
- Promote trust-based alternatives to data localization measures: Digital sovereignty and an open and trusted global digital economy are not mutually exclusive. The G7 could champion the use of PETs to balance security, privacy and economic interests. Risk- and accountability-based approaches also provide flexible and scalable solutions for companies. The G7 should work towards pushing for greater transparency in data localization measures, ensuring that restrictions are proportionate, evidence-based and minimize unnecessary barriers to data flows. One actionable proposal could be the creation of a compendium of data localization measures and trust-based alternatives at the G20 with the support of the OECD and the WTO. This could serve as a practical resource for policy makers, businesses and IGOs to compare and adopt best practices, providing clarity on the most effective alternatives to data localization that promote security, privacy, data access and data flows.
- Prioritize digital inclusion, technical assistance and capacity building: For the DFFT to be truly global and inclusive, the G7 should support developing economies in designing and implementing effective data governance frameworks. This would require targeted technical assistance and capacity-building programs through cooperation with the G20, the OECD, the WTO, and regional IGOs like APEC, ASEAN, the African Union, CELAC, the DCO, and the GCC. A dedicated funding pool within the IAP, supplemented by each G7 country's initiatives, can provide the necessary resources to help developing economies establish DFFT-aligned frameworks while balancing digital development with sovereignty, security and privacy considerations.

By advancing these three strategic pillars, the G7 can drive a global digital economy that is open, inclusive, secure, and trustworthy. This would reinforce the G7's leadership in shaping a practical global data governance agenda that balances countries' growing need for policy space with the necessity for interoperability and coordination, thereby unlocking the potential of the global digital economy for all.

Conclusion

Global data governance is at a critical juncture, with AI-driven digitalization, geopolitical tensions and geoeconomic competition reshaping the landscape. The G7 must take the lead in advancing DFFT by supporting legal, regulatory and institutional coordination, promoting trust-based alternatives to data localization, and ensuring that developing economies and MSMEs can benefit. Achieving the right balance between openness, security, privacy and economic inclusion will require strong political will, concerted policy action, and targeted technical assistance and capacity building. By targeting legal and regulatory coordination, frameworks and agreements for cross-border data flows, and intentional digital inclusion, the G7 is well-positioned to drive a more open, inclusive, equitable, secure, trustworthy and innovative global digital economy, maximizing the benefits of DFFT for all in the world.

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