

# Geopolitical Aspects of Digital Trade

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# Outline

1. What is Digital Trade?
2. Digital Services in Global Value Chains
3. Philosophies and Objectives
4. Digital Trade Policy
  1. Privacy
  2. Market Openness to Digital Services
  3. Artificial Intelligence
  4. Digital Tariffs and Taxation
5. Geopolitical aspects of Digital Trade

# 1. What is Digital Trade?

# What is Digital Trade

- “Electronic Transmissions”: goods or services?
  - Regulated in GATT or GATS?
  - Subject to tariffs?
- “Early” in the Discussion
  - WTO work program started in 1998 still ongoing
  - Digital chapters are starting to enter FTAs
    - EU Japan agreement
    - USMCA & US Japan agreement
- Role of data is key

# The Role of Data in Trade

- Consumers do not pay *in specie* but with their data
  - Traditional trade exchange of good/service for currency
- Data is a “club good”
  - Non-rival in consumption but excludable
  - Excludability and control over data vital for their economic value
- Infinitesimal marginal costs → large returns to scale
  - Natural monopolies
- It's high mobility challenges territorial regulation

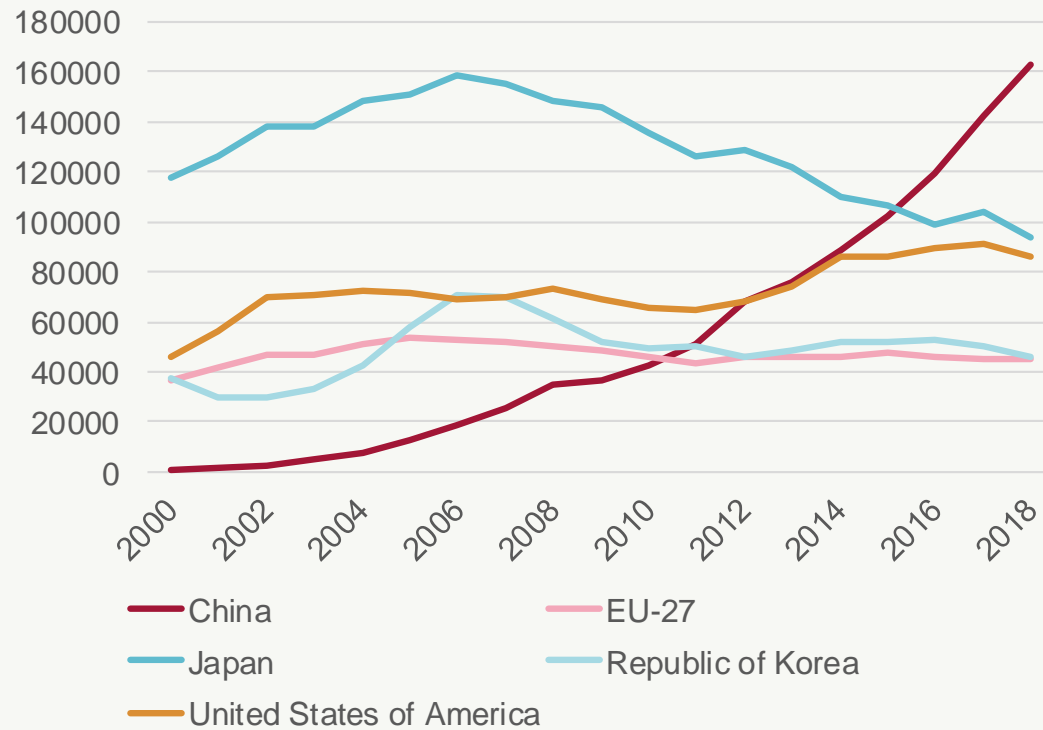
# What is Digital Trade II

- Digital technology reduces transaction costs and information asymmetries
  - Advantage or disadvantage for SMEs?
- Affects services in particular
  - Mode 1 instead of mode 4
  - Accelerated by COVID-19
- Trade restrictions at sectoral level becoming more important

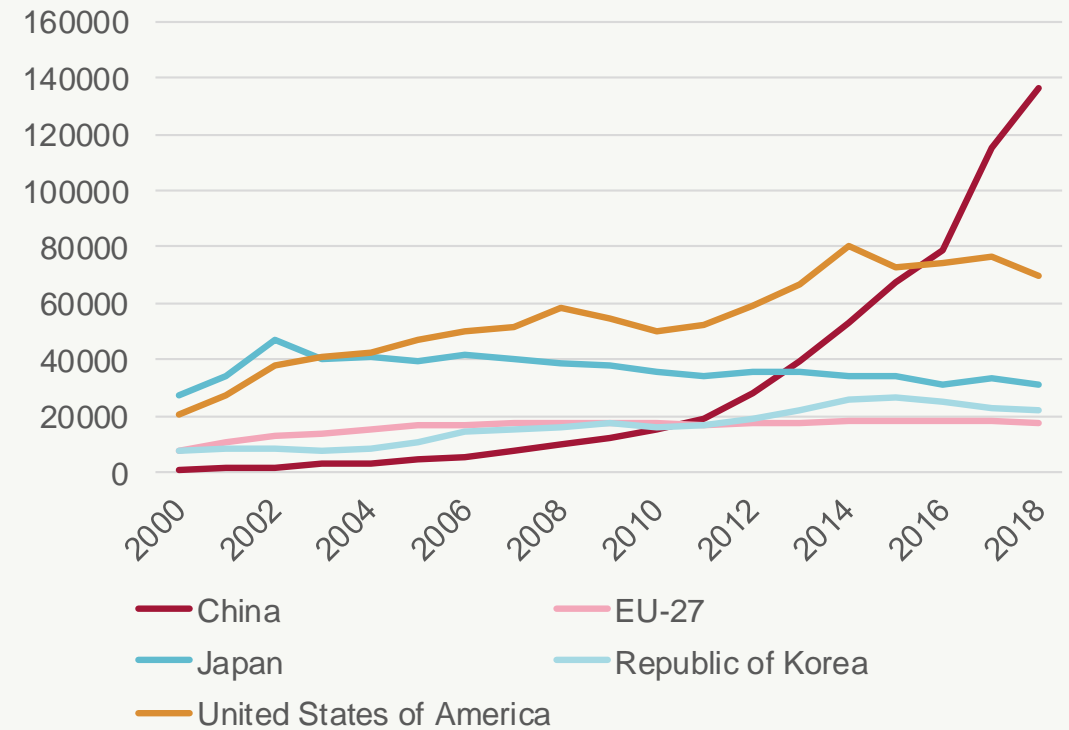
# 2. Role of Digital in Global Value Chains

# Europe in Digital Value Chains

## Patent Publications in "ITC"



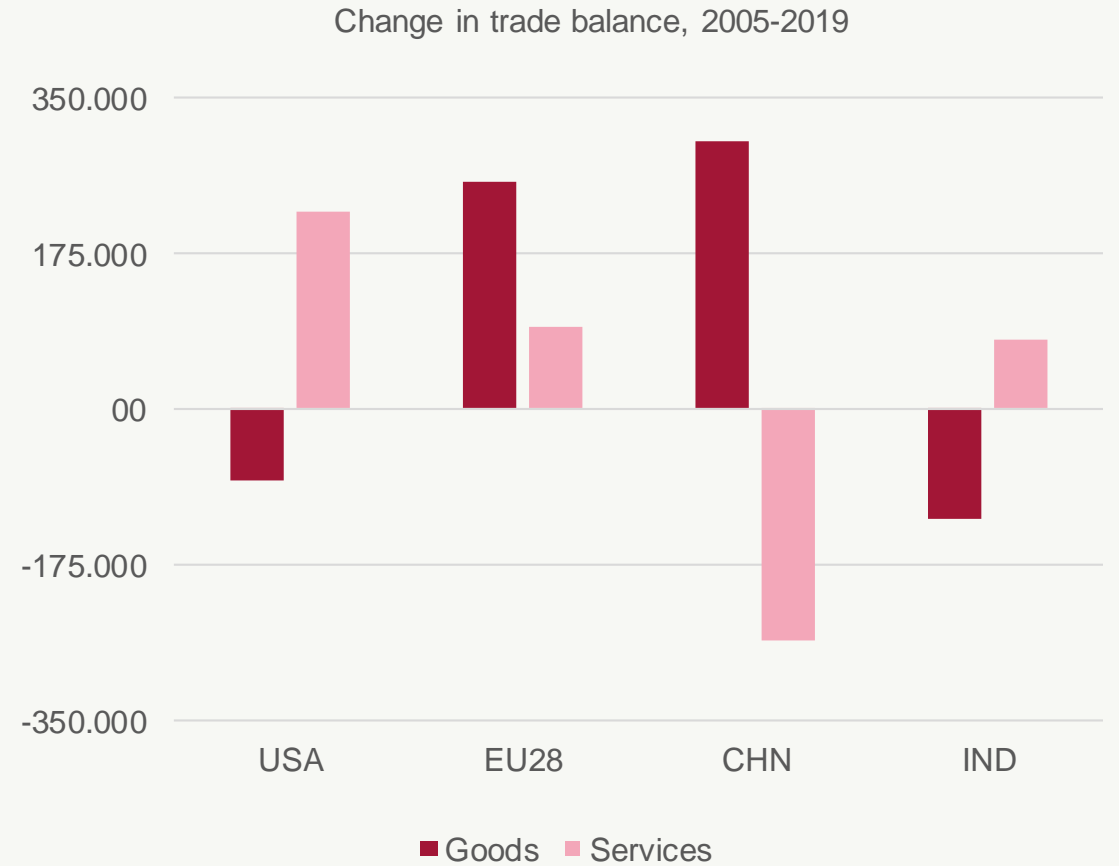
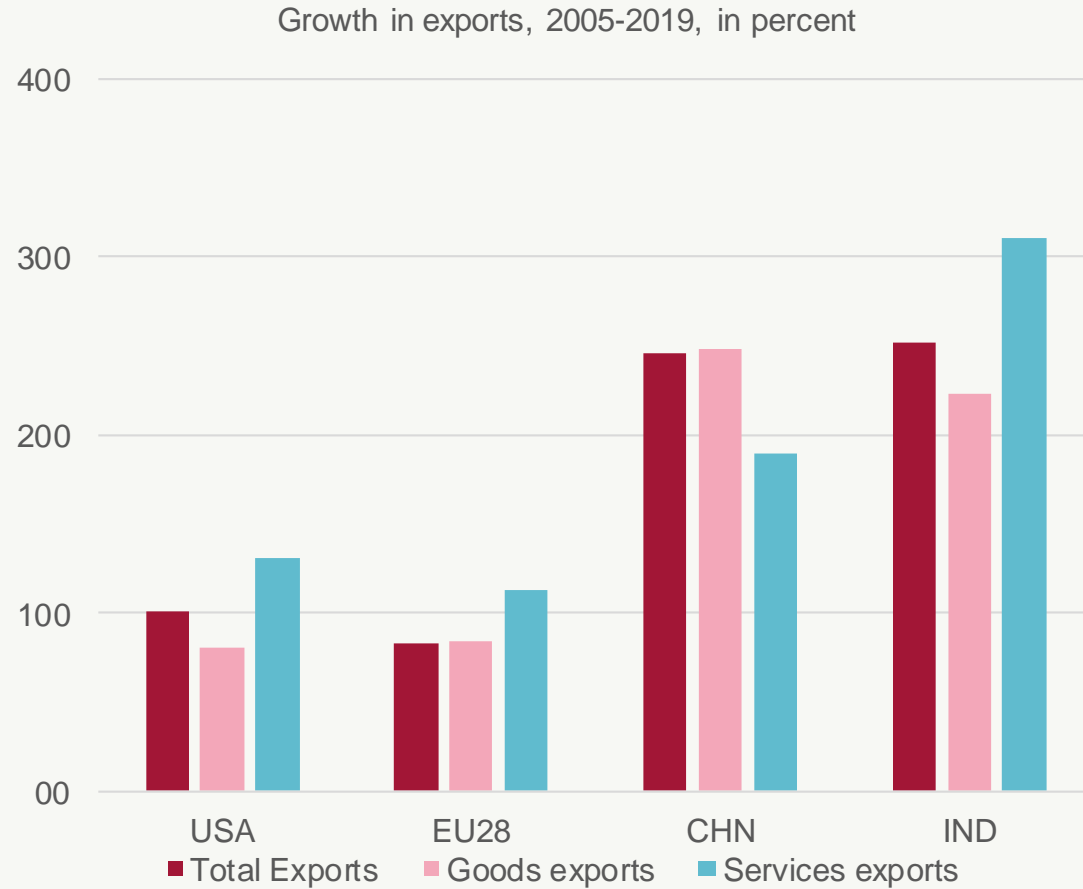
## Patent Publications in "Software"



Source: World Intellectual Property Organization

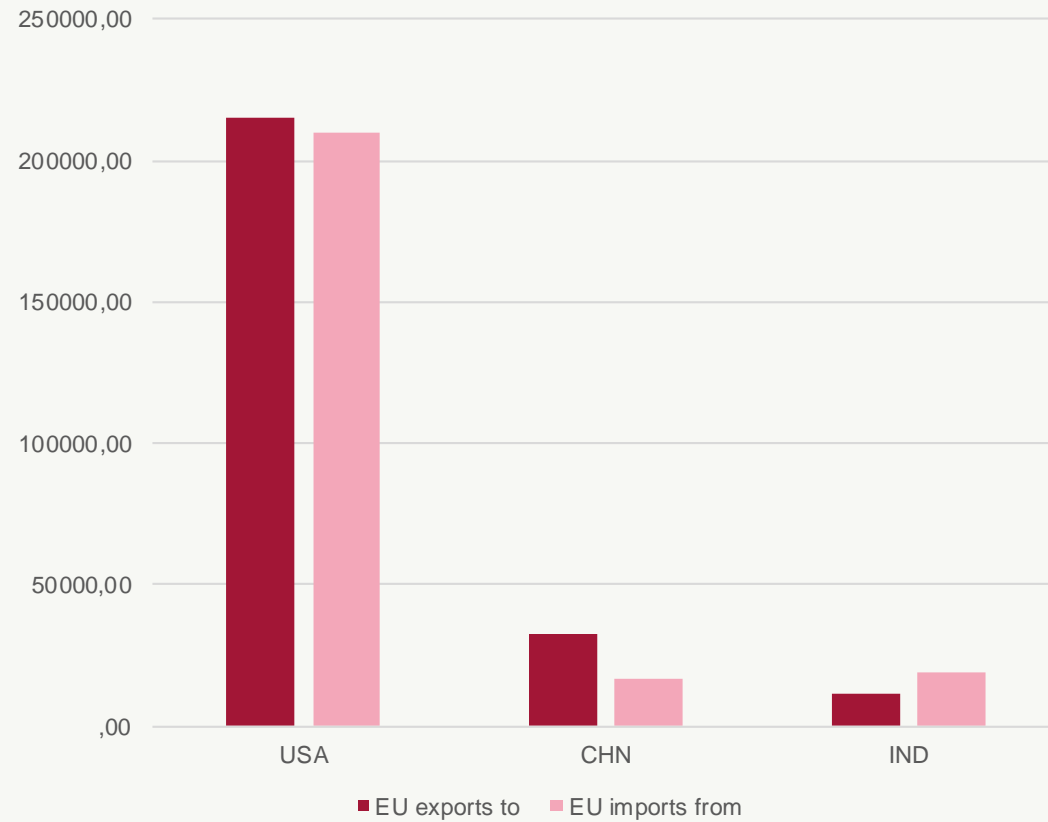


# Digital services trade

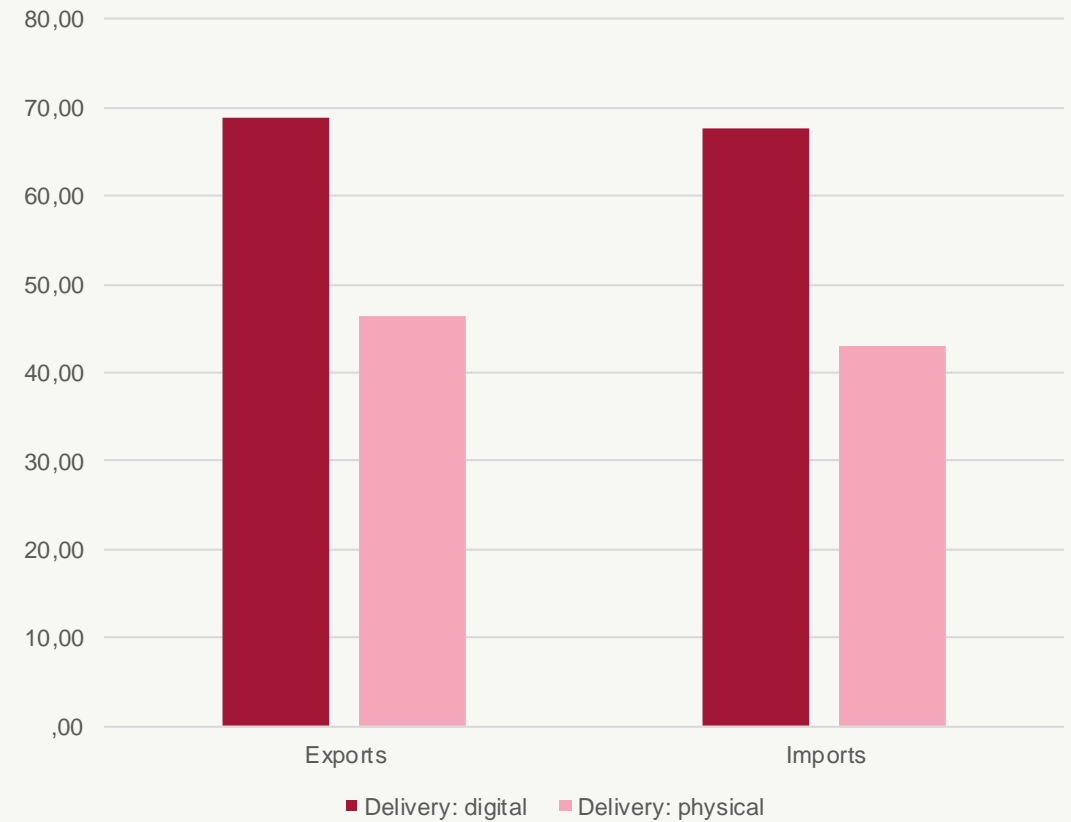


# Bilateral trade in services

Bilateral trade in digitally-deliverable services

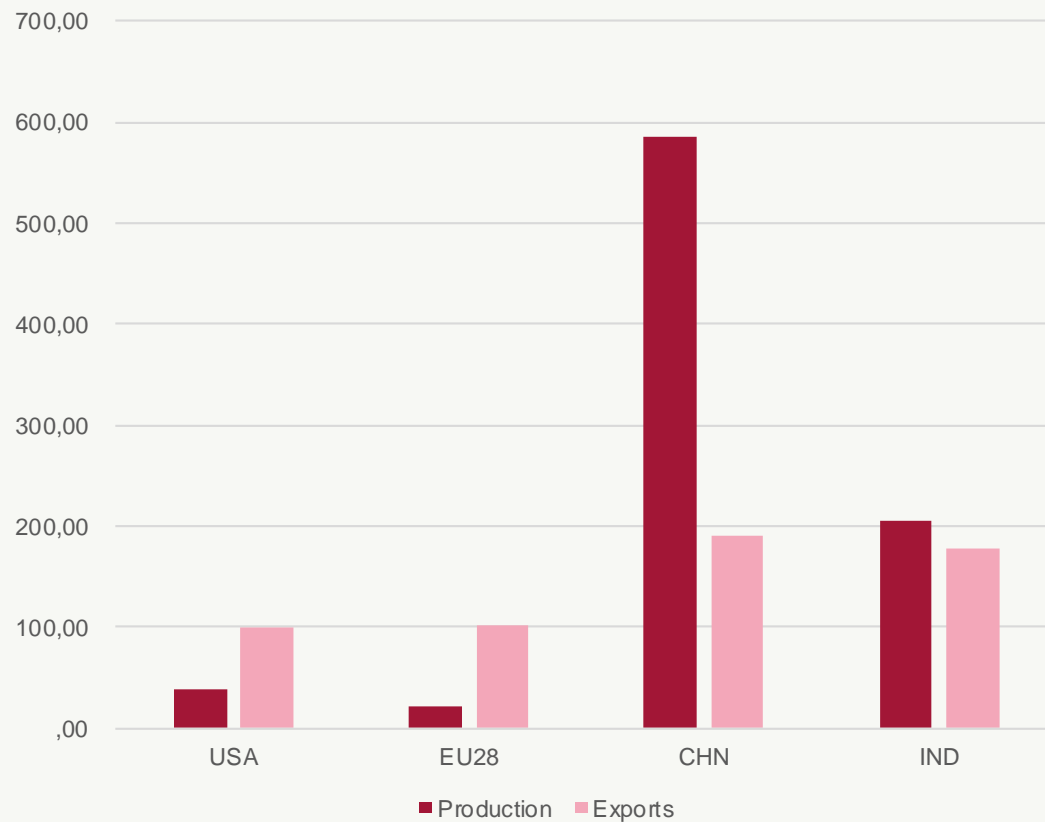


Service trade growth by delivery type, 2010-2018

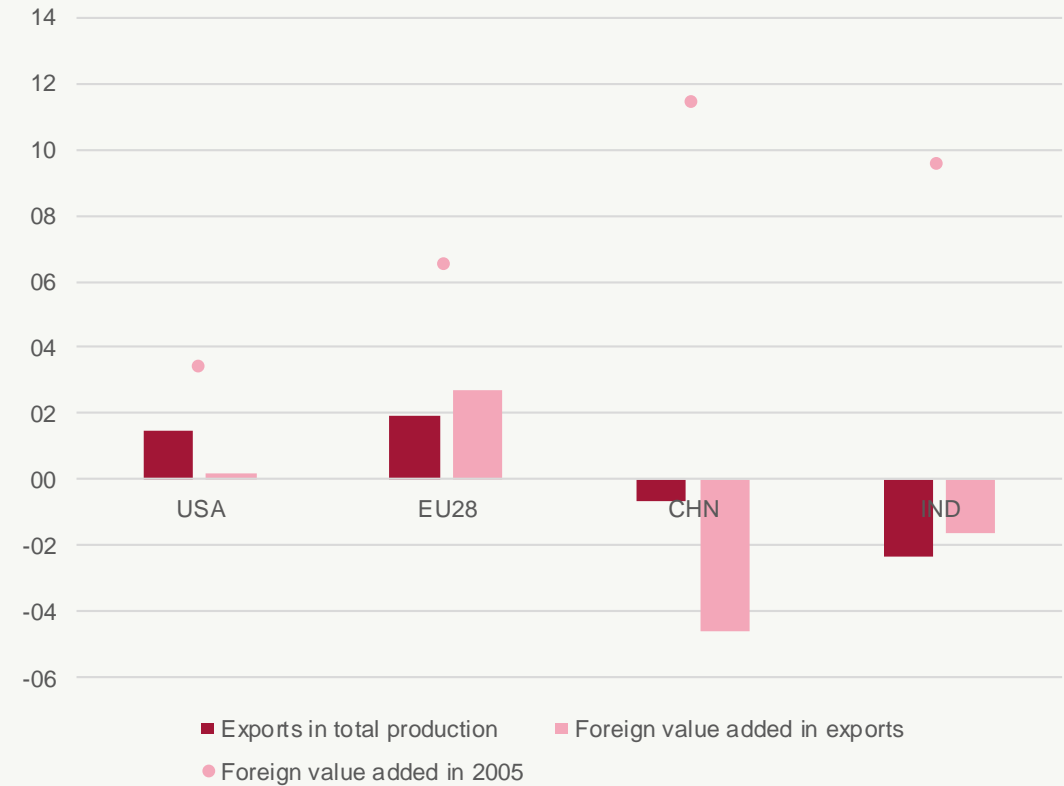


# Digitally deliverable services

Growth in digitally-deliverable services, 2005-2015

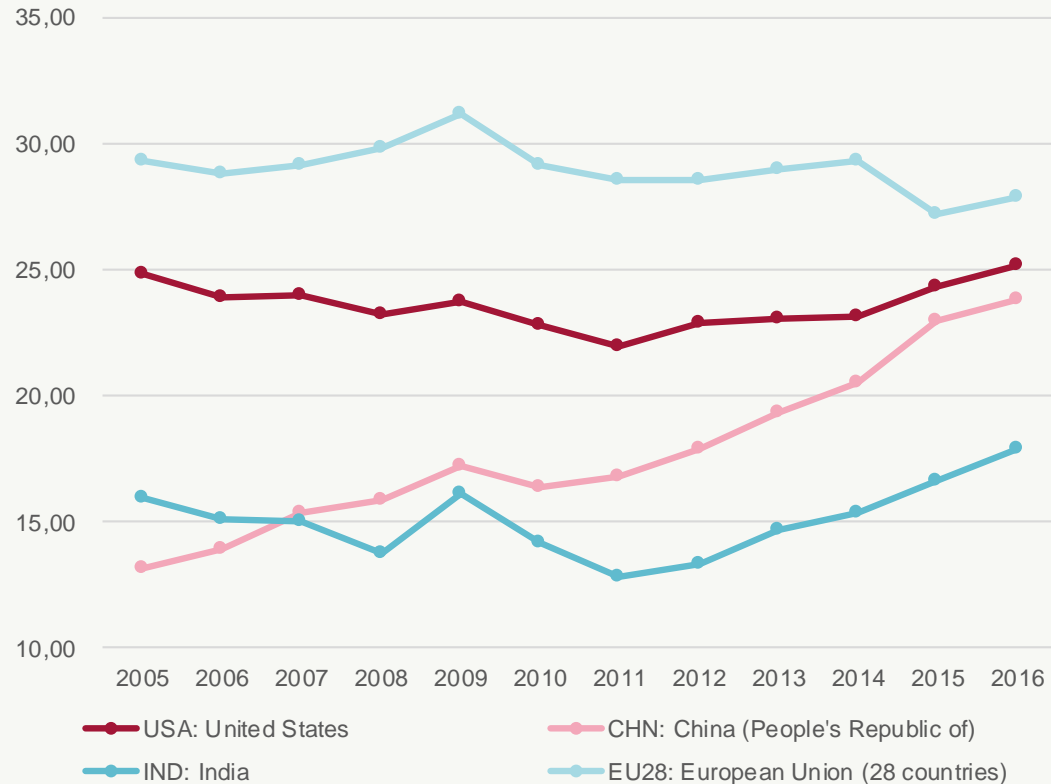


Change in share for digitally-deliverable services, 2005-2015

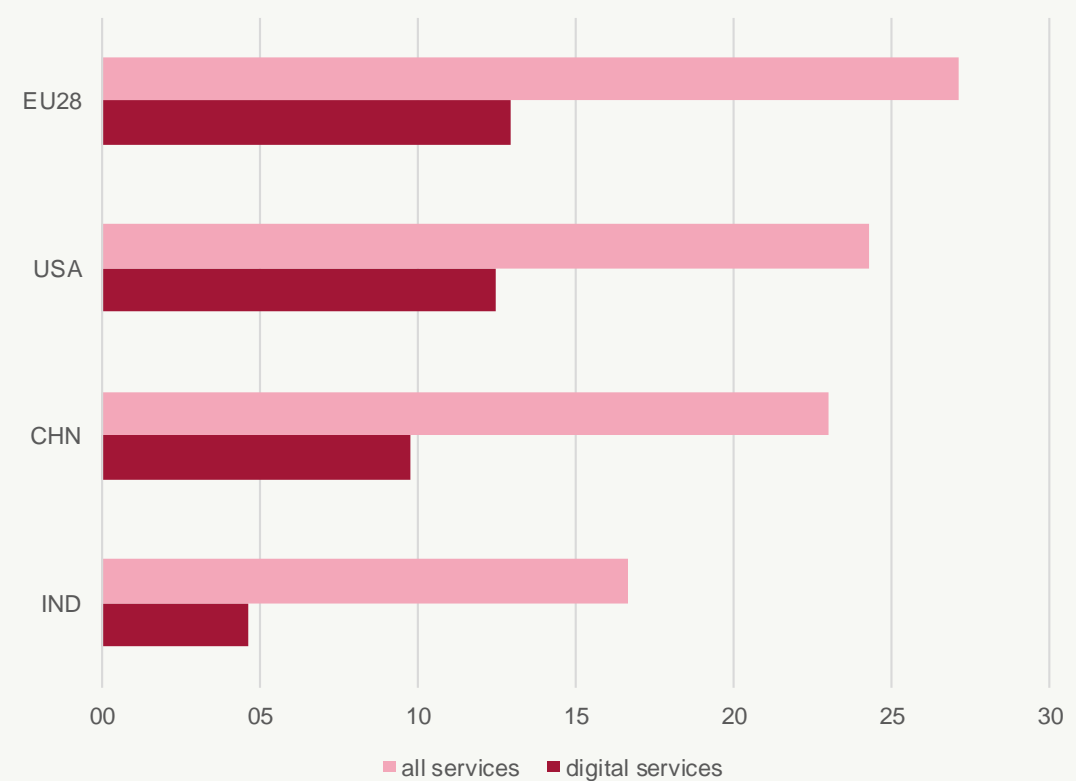


# Services in Value Added

Domestic services value added share of manufacturing exports, 2005-2016



Domestic services value added embedded in manufacturing exports, 2015



# 3. Philosophies and Objectives

# United States: Powerful Laisser Fair

- Clear technological primacy
  - US technological dominance both tool and goal
- Priority for free flow of data
  - Privacy restrictions to be “proportionate to the risks presented”
- Trade policy objectives: Market access for US companies, IP protection, and liability limitations for US platforms
- Data ownership with data gatherer
  - Freedom of contract

# Europe: Successful Referee?

- Privacy fundamental right
  - Schrems II: No trade-off between privacy and economic interests
- Relatively open to importing digital technologies
- Fragmented market for services
  - However European markets best placed in UNCTAD e-commerce index
- Lack of digital service “giants” a weakness?

# China: The “Great Firewall”

- “Great Firewall”
  - Chinese internet separated from its inception in 1994
  - Blocks access to foreign webpages and services
- Successful industry protection
  - Separate “universe” of digital services
  - Closeness impediment for exporting services?
- Digital seen as vital for economic & political future
  - Import substitution part of “Made in China 2025”



# 4. Topics in Digital Trade

# Privacy

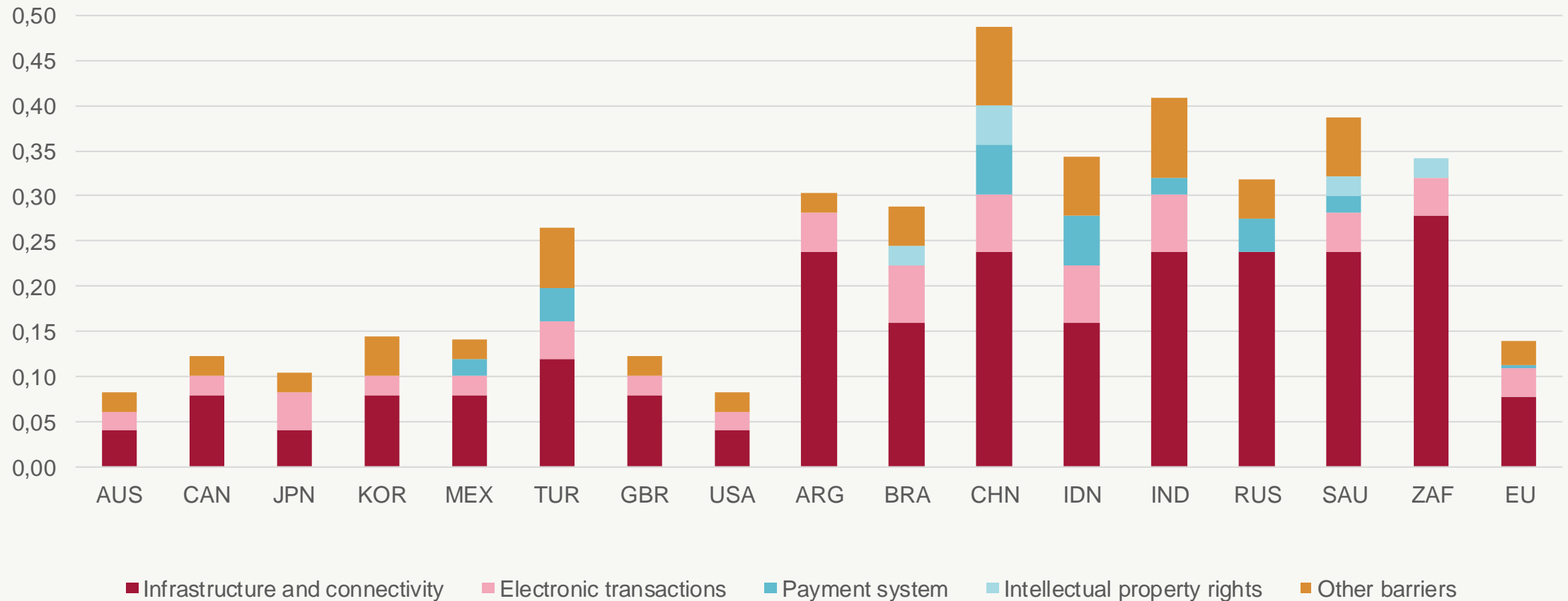
US, EU and Chinese approach incompatible:

- US negotiates privacy in FTAs
  - GDPR "alternative" CBPR largely unsuccessful
  - 31 companies registered vs >3000 in Privacy Shield
- For EU non-negotiable
  - Unilateral adequacy decisions
- Data for China of political importance
  - No interest in abandoning localization requirements
  - Privacy protection vis-à-vis companies, but not government.

# Market Openness to Digital Services

- IP protection and forced technology transfer complain against China
  - Protection of source code
- Localization requirements for data
  - EU because of privacy
  - China & Russia for “national security” (surveillance) reasons
- Market access also sector specific

# Digital Service Trade Restriction Index



Source: OECD

# Digital Trade Comparison

	EU	US	China	Australia	Canada	Japan	South Korea	Turkey	UK	Argentina	Brazil	India	Indonesia	Mexico	Russia	Saudi Arabia	South Africa
EU		0.25	0.50	0.06	0.14	0.07	0.16	0.21	0.07	0.24	0.28	0.30	0.34	0.14	0.27	0.35	0.20
US	0.25		0.55	0.20	0.12	0.22	0.26	0.42	0.24	0.18	0.32	0.42	0.38	0.22	0.36	0.39	0.30
China	0.50	0.55		0.51	0.51	0.49	0.45	0.45	0.55	0.73	0.34	0.37	0.21	0.41	0.39	0.20	0.52

Source: OECD STRI Heterogeneity 2019

# “Artificial Intelligence”

- Strategic technology in “technological cold war”
- Many implications for political discourse & civil rights
  - Facial recognition, machine evaluation, deep fakes etc.
- US *laissez faire* strategy w.r.t. consumer rights
  - Local restrictions on e.g. facial recognition
- China
  - Large scale application of facial recognition
  - Lack of privacy an advantage for Chinese technology?
- EU
  - “Human-Centric Artificial Intelligence”
  - Right for non-automated decision making already in GDPR (art. 22)

# Digital Tariffs and Taxation

- Moratorium on tariffs on electronic transmissions
  - Since 1998 renewed until next ministerial
- Loss of tariff revenue, in particular for developing countries
  - UNCTAD estimates developing countries loss around \$5 Bn p.a. in tariff revenues, but significance contested
- Profit shifting endemic
  - Ireland, Luxembourg and Netherlands primary EU tax havens
  - US withdrawal from BEPS puts it on collision course with EU

# 5. Geopolitical Discussion



# Challenges in Digital Geopolitics

- Trend of “nationalization” of the World Wide Web
- Territorial “fluidity” of data & services
  - Regulatory & tax arbitrage
- Technological dependencies
  - European sovereignty
  - Promotion of EU values in developing countries
- Cyber security
  - Not bound by physical proximity -- threat from China?
  - How to protect against foreign government surveillance?

# Geopolitical Discussion

- Incompatibility of US, EU & Chinese strategies
  - Little prospect for ambitious WTO treaty
  - Extraterritorial laws incompatible (GDPR & US CLOUD act)
- Economic gains from trade in services requires regulatory compatibility
- Regulatory approach successful
  - Can achieve EU objectives w.r.t. to consumer rights
  - “Brussel’s Effect” allows for adequacy strategy

# Strengthen Economic Sovereignty?

- Future of value added in services?
- Learning from Silicon Valley:
  1. Investment into research & development  
→ Horizon Europe
  2. Access to (venture) capital  
→ Capital markets union
  3. Market size matters  
→ Single market for services
- No large employment effects

# Policy recommendations

- Continue European regulatory approach
  - DSA & AI strategy
- Completing Single Market
- Investment into R&D
- Protection against surveillance & cyber terrorism
  - Prevention against gov. surveillance needs political solutions
- Digital connectivity strategy

Thank you for listening!