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
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    3. Artificial Intelligence
    4. Digital Tariffs and Taxation
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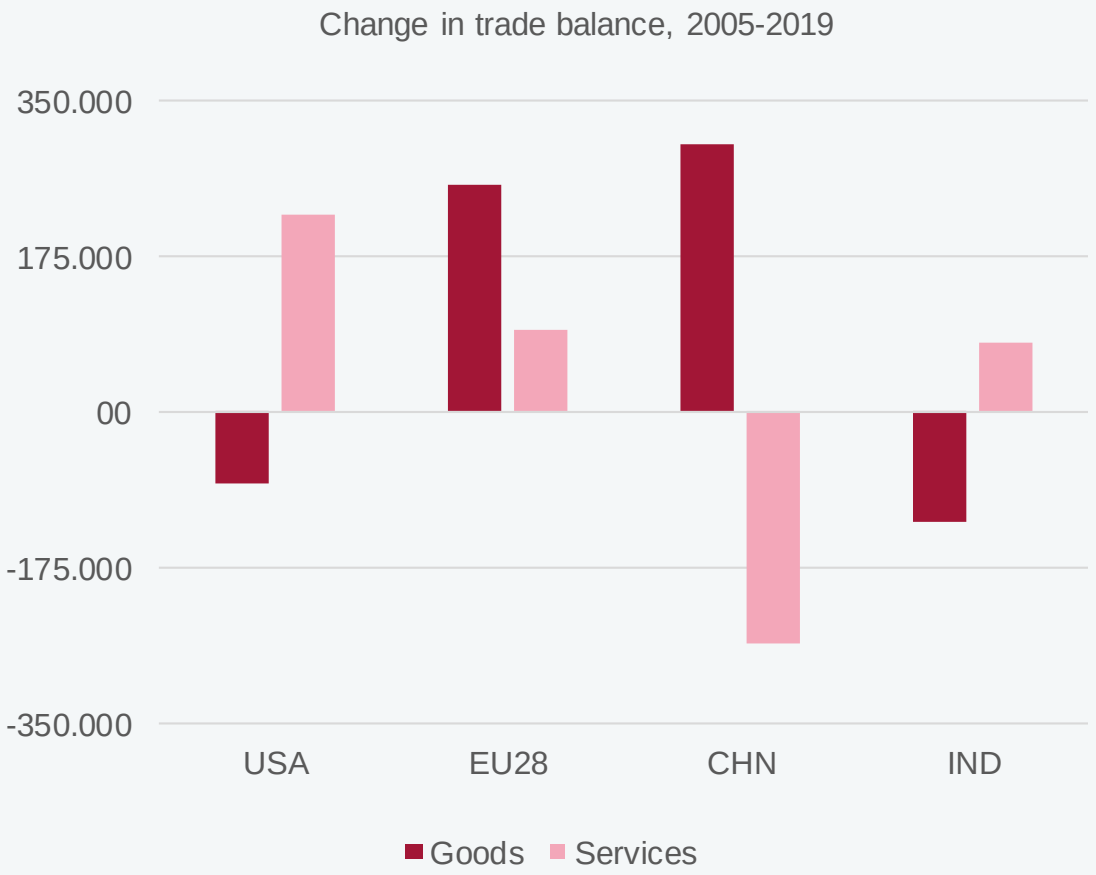
1. What is Digital Trade?

What is Digital Trade

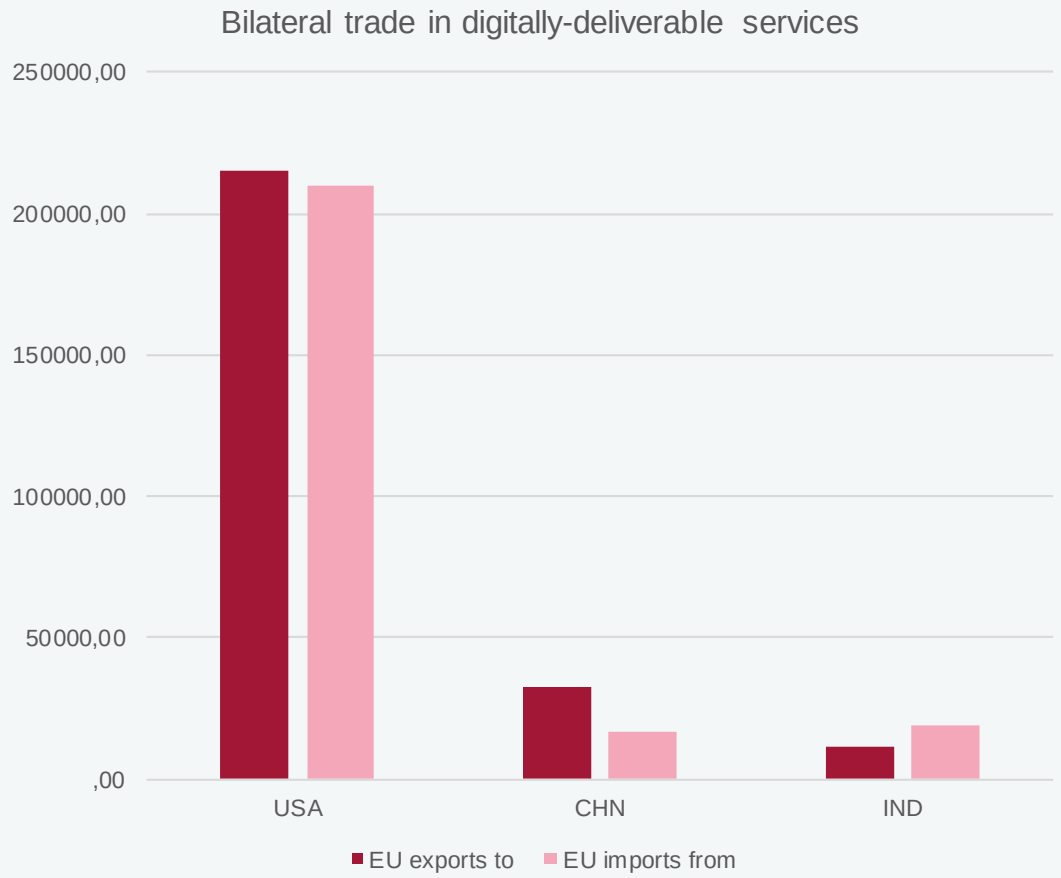
- Electronic Transmissions: goods or services?
  - Regulated in GATT or GATS?
  - Subject to tariffs?
- Early in the Discussion
  - WTO work program started in 1998 still ongoing
  - Digital chapters are starting to enter FTAs
    - EU Japan agreement
    - USMCA & US Japan agreement
- Role of data is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

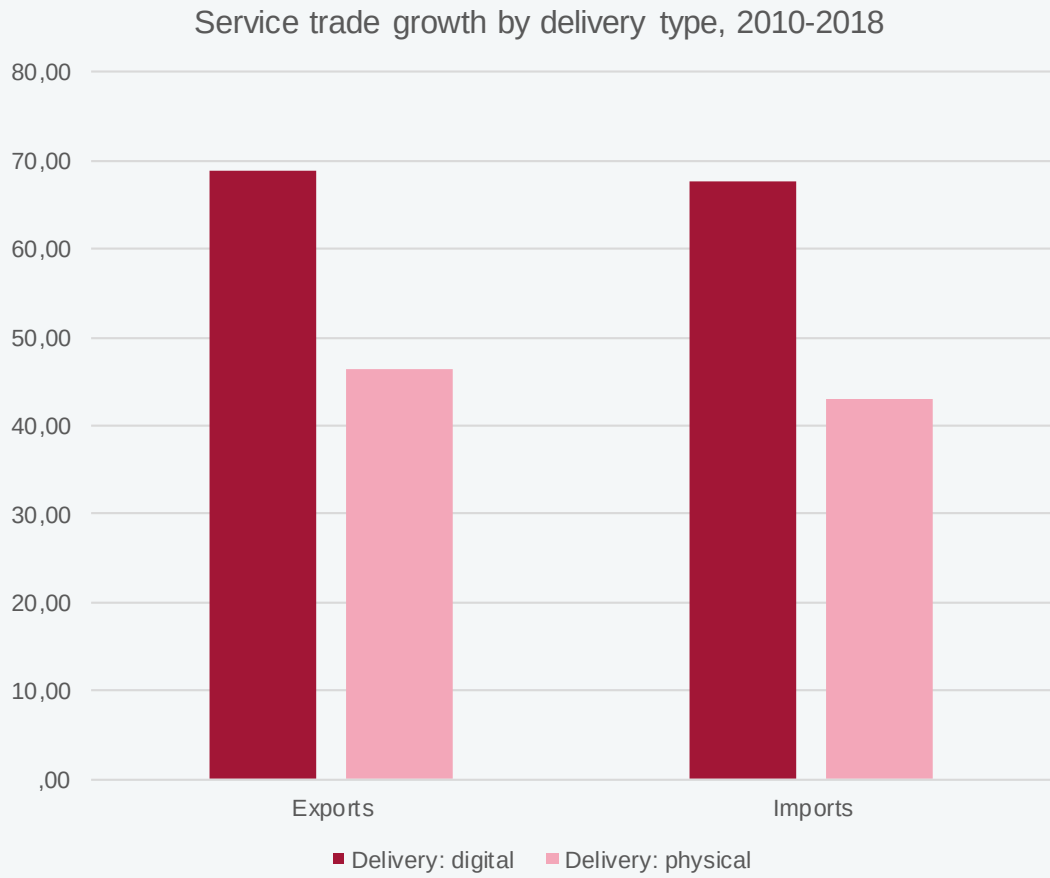
2. Role of Digital in Global Value Chains

Digital services trade

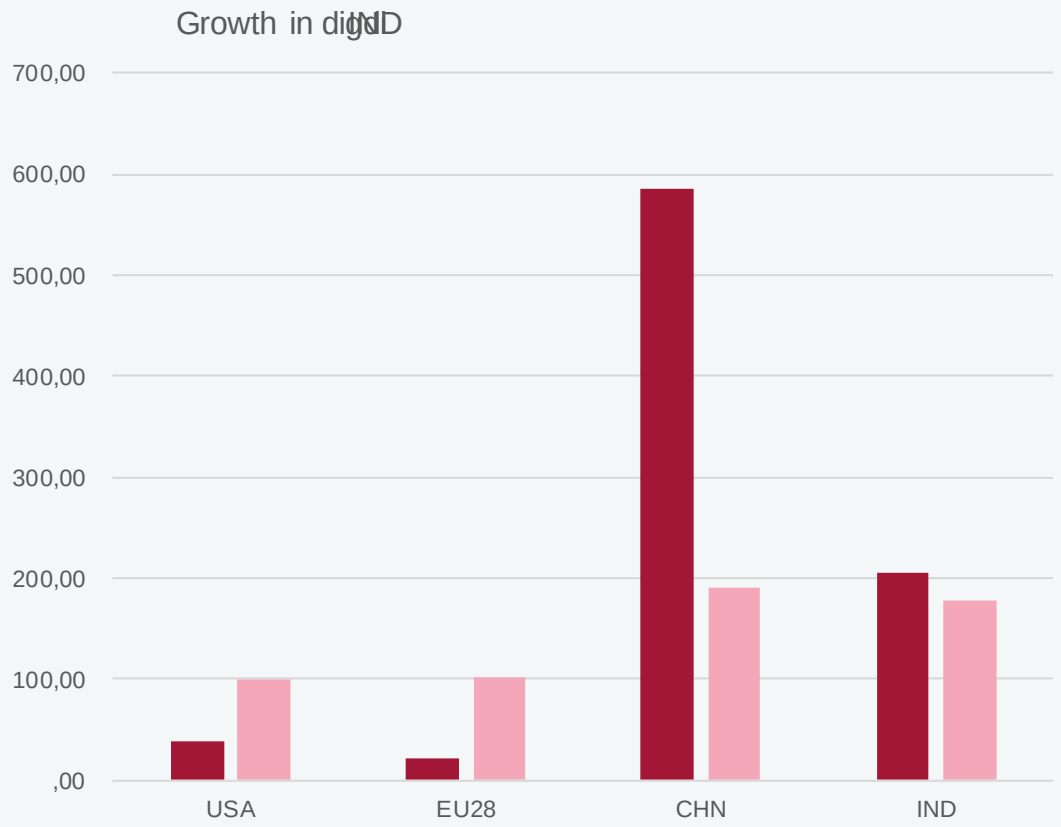


Bilateral trade in services

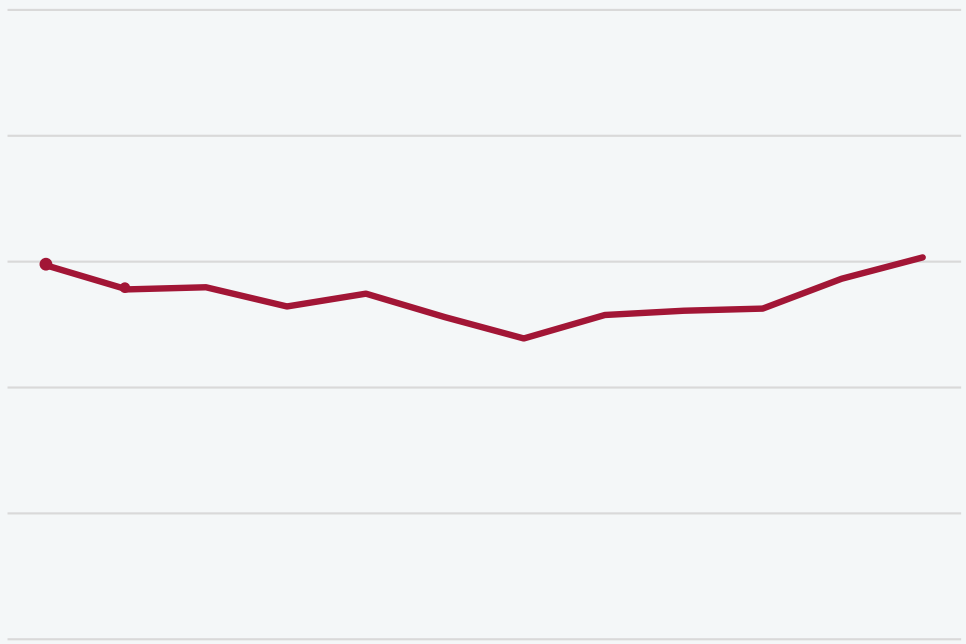




Digitally deliverable services



Services in Value Added



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

China: The ñGreat Firewallò

- ñGreat Firewallò
  - Chinese internet separated from its inception in 1994
  - Blocks access to foreign webpages and services
- Successful industry protection
  - Separate ñuniverseò of digital services
  - Closeness impediment for exporting services?
- Digital seen as vital for economic & political future
  - Import substitution part of ñMade in China 2025ò

4. Topics in Digital Trade

Privacy

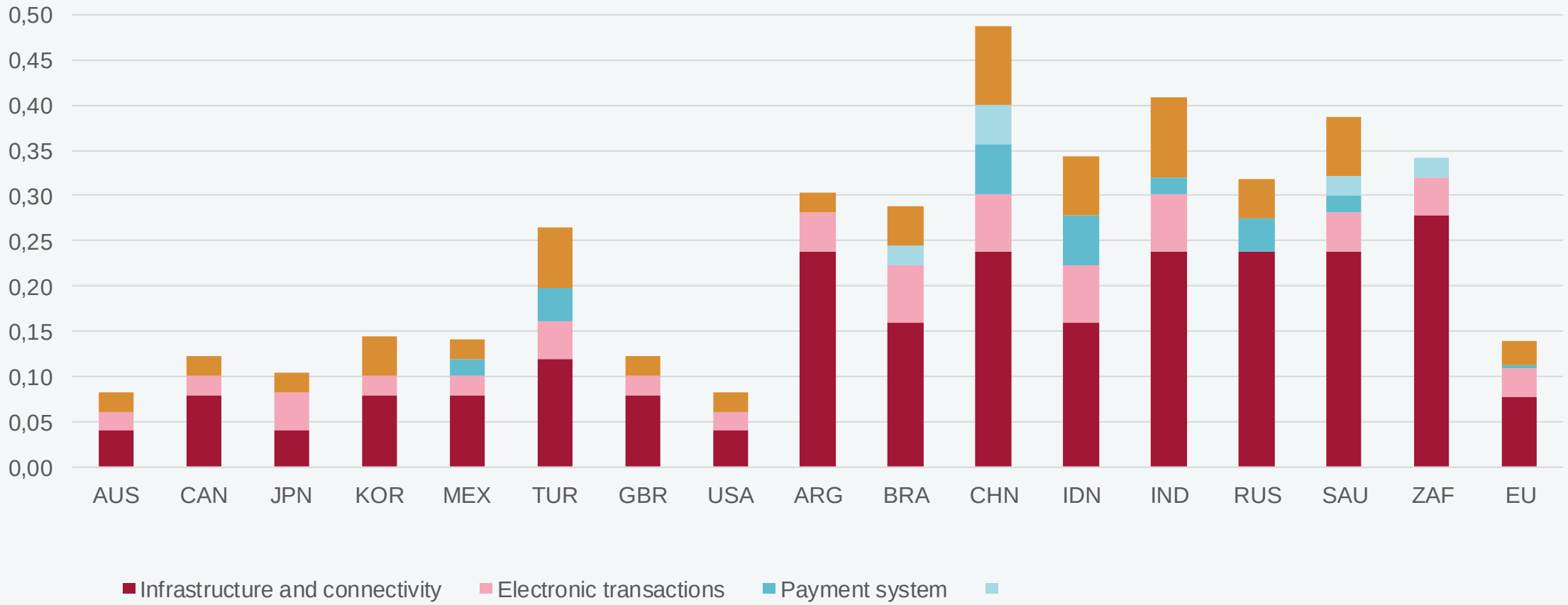
US, EU and Chinese approach incompatible:

- US negotiates privacy in FTAs
  - GDPR "alternative" CBPR largely unsuccessful

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 ñational securityò (surveillance) reasons
- Market access also sector specific

Digital Service Trade Restriction Index



Source: OECD

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
  - ñBrusselsô Effectòallows 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

Thank you for listening!