

PERSPECTIVE

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The Geopolitics of Digital Trade and Sustainable Development

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EXECUTIVE SUMMARY

- Technology and sustainability have become key arenas of geopolitical competition. Big powers have no hesitation in using economic pressure in these fields to achieve their foreign policy goals. This has severe implications for Southeast Asia.
- Especially with regard to data, its free flow, and privacy rights, different approaches and models exist in the US, China and Europe.
- In light of the lack of international norms and standards in the digital sphere as well as the existing challenges to the multilateral rules-based order and cooperative problem-solving, international trade and trust between parties are likely to decline.
- Free Trade Agreements can be a vital means for advancing cooperation between countries committed to the current international system, and increase confidence as well as predictability if no progress is made at the multilateral level.
- In particular, small and medium powers can strengthen their economic sovereignty and diversify their relationships through such agreements.

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INTRODUCTION

Over the past years and months, trade and sustainable development have become major arenas of geopolitical contestation between the great powers. This is not a new phenomenon. Throughout history, powerful states have used other areas as proxies in order to avoid direct confrontations and have not hesitated to use economic pressure as a tool of their foreign policy.

However, with the technological evolution and increasing importance of digital trade, the digital sphere and use of data have become a new terrain for war, or at least contestation. Data have become the key feature for the future of the economy, for trade and for governance, and determines the quality of a respective product or service. But there is little agreement among states as to who owns, controls and manages data. Three distinctly different models have emerged. In the *United States of America*, it is mainly private companies that retain access to data and a free flow of data is desired. This creates private-sector-led large-scale innovation and the country is able to remain competitive, but to a certain extent, at the expense of consumer and privacy rights. In *Europe*, priority is given to citizen and consumer rights. Although privacy can be a competitive advantage, this model may decrease economic competitiveness and hinder innovation. Europe advocates for a free flow of non-personal data, and the General Data Protection Regulation (GDPR) is the key example of this approach. The third model is the one implemented in *China*. State-backed tech companies drive innovation there, but the state still has access to the data. Since the government does not face a trade-off with privacy and consumer rights, can invest huge financial resources, and has a comparatively protected market, the country has been able to compete and in parts even overtake the other two economic centres. The outcome of this is a more fragmented and competitive tech landscape with more protective policies and a possible retreat of globalization. This development does not happen in a vacuum, but goes along with broader shifts in geopolitics such as a relative decline of Europe and the US in military power and political influence. Since new technologies might no longer build upon older ones, these two long-time centres of innovation which benefited economically from intellectual property rights and market power, are losing some of their competitive advantage.¹

INCREASED GEOPOLITICAL COMPETITION OVER DIGITAL TECHNOLOGY

The reason for the competition over technology and digitalization currently taking place between the US and China can be broadly characterized into four sets.

Firstly, there is *China's industrial and trade policies* which are perceived as unfair and not reciprocal – exemplified by restricted market access, forced technology and intellectual property transfer due to joint ventures and direct government investments into tech companies through venture capital firms.²

Secondly, given the limited number of service providers and the relatively high number of Chinese companies among these, *supply chain security and dependence* have become key concerns. This is closely linked to the possible loss of economic sovereignty, competitiveness and in the end, market dominance due to over-dependencies on Chinese information and communication technologies, 5G or semiconductors.³

Thirdly, many states are worried over the use of technology for *security and military purposes*, especially cyber espionage. This fear is further fuelled by domestic laws in China such as the 2016 Cyber Security Law⁴ and the 2017 National Intelligence Law which allow the government access to data⁵ and require citizens as well as companies to cooperate with the state on questions of national security.⁶ This all creates a high level of mistrust towards China which is further increased by the stronger push for more military-civilian fusion in the technology sector under President Xi since 2015.⁷

Fourthly, Western states perceive the Chinese model as a threat to democratic systems, values, freedom and human rights,⁸ and expect an *export of the Chinese-style model* with more authoritarian use of technology for surveillance and suppression of political dissent.⁹ For instance, by 2018, Huawei claimed to have delivered surveillance technology to more than 230 cities and this included several authoritarian countries, such as Ecuador.¹⁰ The challenge is hardened by the fact that there is usually very limited space for compromise when values and normative attitudes are concerned.¹¹

This has resulted in a number of concrete actions by the US government which should not be mistaken for a containment strategy, but are rather red lines that have been drawn.¹² They include tariffs on Made in China 2025 products, reducing Chinese investments in US tech industries and more reviews of such investments (revision of the Foreign Investment Risk Review Modernization Act and Export Control Reform Act), prohibiting the Pentagon from purchasing Huawei products and a full ban in May 2019, and stricter export controls on sensitive dual-use technologies such as Chinese supercomputer companies. In October 2019, Artificial Intelligence (AI) companies that are active in Xinjiang were included in the list, reflecting the abovementioned justification of norms and human rights abuses.¹³ The result of this could very well be a stronger decoupling between the two countries and, if countries should opt for Chinese products, a “design out” of US technology or vice-versa.¹⁴ The decoupling could push China to aim for technological independence and self-sufficiency sooner. At the moment, companies often still rely on supplies from abroad. Chinese state offices have already been instructed to remove foreign hard- and software.¹⁵ On the other hand, the US has urged third countries not to use, produce for or cooperate with Chinese technology companies. Semiconductor companies, for example in Taiwan which the US is now relying on more than before, and 5G are crucial cases in point.¹⁶

THE SITUATION IN SOUTHEAST ASIA

To be clear, technology and data have become political tools in many countries; not only in China. But the Chinese approach to issues such as data localization has been extremely comprehensive and non-transparent, resulting in a fear of surveillance through the state.¹⁷

Data localization and restrictions on cross-border transfer are two of the main components of the debate as these increase trade costs and some require companies to duplicate facilities for local data storage. While the free flow of data is a key characteristic and requirement for the digital economy, this comes with a number of security risks such as espionage, privacy theft or foreign interference. Consequently, several countries have introduced restrictions.¹⁸ This is no different for countries in Southeast Asia where data governance is one of the key issues of the day as governments think about the management and usage of data, and how this fits into their respective society.¹⁹ The three main challenges for the ASEAN region and the huge potential of its e-commerce market are data localization/restrictions on cross-border data flow, different levels of digital transformation, and diverging views on the threat perception in the digital sphere. Malaysia, Vietnam, Indonesia, and Brunei have some form of data localization law, while Thailand and the Philippines restrict data transfer via privacy legislations.²⁰ Singapore is at the other end of the spectrum, arguing for a more open-data policy and free flow of data, understanding localization as being harmful to the regional digital economy and as a limiting of access to the digital commerce network. The country tries to strike a balance by taking privacy concerns and restrictions on the transfer of certain data into account. The ideal solution for this problem would be the creation of an ASEAN-wide regulatory framework, or at least guidance on the free-flow of non-personal data. The ASEAN Framework on Personal Data Protection and ASEAN Framework on Digital Data Governance, which Singapore and the Philippines have been developing since last year,²¹ were therefore important deliverables of the 2018 Singapore Chairmanship.²² The goal of both frameworks is and must be to strengthen the data ecosystem, align domestic regulations on personal data protection and boost data-driven innovation through cross-border data flow.²³ For this to work and enhance safe digital trade, ASEAN will also need to improve its cybersecurity capabilities. The ASEAN-Singapore Cybersecurity Centre of Excellence (ASCCE) which was launched in 2019 and shall be ready later this year is a first step into this direction.

INCREASED GEOPOLITICAL COMPETITION OVER SUSTAINABILITY

Sustainability, in all its forms from environmental to fiscal, societal and labor, has become a second aspect of geopolitical competition. This is due to three main reasons. Firstly, new geopolitical conditions are created by environmental changes. Droughts and sea-level rises have become at least contributing factors for migration. Fluctuation in food and raw material prices impact trade relations and can fuel conflicts.²⁴ Secondly, world politics has become more closely linked to questions of climate and environmental change as well as resource exploitation.²⁵ But countries have very different approaches on how to address these issues if at all and try to set the agenda by externalizing their own domestic approach. While certain international norms and standards, for example on emission levels and labor practices, have been developed, many states do not feel obliged to meet them as there are no costs involved for disrespecting the targets. Similar to the case of digital market integration, some states feel that sustainable development is not an opportunity for prosperity, but a threat to its competitiveness, especially if they follow internationally agreed targets such as the Paris Climate Agreement while other states might ignore them. Again, China is one of the countries accused of not playing by the rules. Several reports²⁶ on labor practices,

environmental standards and the financial sustainability of projects under its Belt and Road Initiative (BRI) have increased the mistrust of other states in Beijing's willingness to couple sustainability with economic progress and investments. However, the second BRI Forum and the downscaling of BRI projects in Myanmar and Malaysia show that international pressure and the availability of alternatives can force a big power like China to re-think its approach. A third reason is the relationship between the two geopolitical arenas - digitalization and sustainable development. Digitalization is likely to increase the demand for energy and resources further.²⁷ It is thus important to synchronize digitalization and sustainability by using technology for a more efficient energy use, e.g. through smart grids, artificial intelligence, big data and analytical tools. It will also impact social sustainability as people will have to prepare for societal changes due to technology, for instance in the work place or education. Therefore, governments must use technology to provide basic services and make sure risks such as security and surveillance concerns are mitigated in order to avoid a backlash against digitalization.

IMPLICATIONS OF THE RETURN OF GEOPOLITICS

The return of geopolitical competition has direct effects in reality. It disrupts digital and traditional trade as well as global supply chains, all of which can lower economic growth and impact people's daily lives. As a result of the mistrust between big powers and more nationalistic policies, connections and feedback loops between them can get lost. This will decrease the insights into other states and the understanding they have of each other, thus increasing the risk of miscalculations and pre-emptive economic or military strikes.²⁸ If major countries are less likely to cooperate, this will also reduce the chances for the development of global norms, standards and common ground. Smaller countries will face more pressure to choose sides, which will strain existing alliances and trade relationships. It is possible that the current debate on 5G is only a preview of the politics of the future. For instance, both the EU and ASEAN feel at "the danger of being crushed between the two superpowers"²⁹ as they have trade and economic connections to both side. Their production and supply chains are intertwined with both countries. In light of increased pressure from both great powers, ASEAN and the EU struggle to keep their unity and both fear they could become the site of proxy confrontations.

To be clear, the EU shares many of the views and concerns of the US on digital, economic and sustainable developments with regard to China as they were outlined above. But the approach it chooses is less confrontational since it is economically highly dependent on China. Yet, the new March 2019 EU-China Strategic Outlook of the European Commission reflects a certain change in this approach as China is declared a partner for cooperation, but also an economic competitor and systemic rival – a stark revision of the previous cautious tone vis-à-vis Beijing.

OPPORTUNITIES FOR ASEAN-EU COOPERATION

This somewhat dire situation, however, provides a lot of opportunities for an improvement of the ASEAN-EU relations.

In general, both sides should work towards building more trust and confidence. Both of these are needed when intangible goods and services, which are at the heart of the digital economy, are traded. The existing mistrust is one of the factors contributing to the new geopolitical competition. In the absence of any advancements at the multilateral level, countries from both regions can use bilateral free trade agreements (FTA) such as the EU-Singapore Free Trade Agreement (EUSFTA) or other forms of partnerships to build a safety net. This is not to be a substitute for the WTO, but if there should be a failure of the WTO system or further disregard for its rules, such a safety net can mitigate ripple effects and ensure smooth trade between selected countries. Through such agreements, European and ASEAN countries can also push for standards and norms on digital and sustainability. The EU has already been using this approach in its recent FTA negotiations. As long as there is no region-to-region FTA, a situation that is quite unlikely to change despite recent pushes to restart negotiations, the parties can use Singapore and the ASEAN cumulation mechanism included in the EUSFTA as a gateway to and as bridge between the regions.³⁰ This would also help to reduce transaction costs due to market heterogeneity and promote further economic integration in ASEAN, at least as long as non-tariff barriers are not built up.

In the digital sphere, the states can exchange ideas and experiences on regulatory frameworks that allow for intra-regional free-flow of non-personal data. The EU's experience with its GDPR could provide critical lessons for ASEAN's approach and show a third way in handling data besides the US and China. Both sides should further support global interoperability of networks and platforms to ensure smooth flow of data. In light of missing global norms and guidelines, ASEAN and the EU could be ambitious, and lead by example. In 2018, ASEAN members voluntarily and in-principle accepted the eleven norms proposed by the UN GGE (Group of Governmental Experts on Information Security), and in October 2019, the countries agreed to establish a new working-level committee for the implementation of these norms. The EU could do something similar. Two big blocs sharing an understanding of norms and standards will be something that is difficult for other states to ignore. Although most technological innovation takes place in China and the US, third countries still have sufficient time to move independently of the big powers. The EU and ASEAN have many complementing capabilities. European companies actually have developed 5G technology and countries in Southeast Asia have proven that they are good testing grounds for innovations and that they want to have a first-mover advantage. Building upon the recently launched EUSFTA, Singapore and the EU could spearhead the future enhancement of EU-ASEAN cooperation in digitalization. The two parties could duplicate two recent initiatives that Singapore was involved in. They should work towards a Digital Economy Agreement similar to the one Singapore is currently negotiating with Australia and that aims at establishing a seamless environment for digital trade that ensures protection of personal data.³¹ Secondly, in January 2020, Singapore, New Zealand and Chile concluded talks on a Digital Economy Partnership Agreement to establish international

standards and practices for digital trade.³² While it will be important to upscale such projects to the region-to-region level, it might be easier to use the EUSFTA and the eventually completed EU-Vietnam FTA as a basis to make them operational. At the same time, the EU and ASEAN should not give up on the multilateral track, but embrace developments such as the WTO Joint Statement Initiative on E-Commerce and the G20 Osaka Track.

With regard to sustainable development, cooperation between ASEAN and the EU can also mitigate the dilution of international norms and standards. The EU can use its Connectivity Strategy with Asia and the announced cooperation with Japan on sustainable and quality infrastructure as a vehicle to balance the dominance of Chinese BRI projects, and to offer sustainable alternatives. The new European Commission has made a European Green Deal one of its priorities, next to making this a geopolitical Commission that is more active on the international stage. The EUSFTA already underlines the need for trade to contribute to the fight against climate change and to other areas of sustainability.³³ It also offers concrete areas in which the EU and Singapore, and in a wider context ASEAN, can cooperate. These include circular economy, water resources, smart/green cities, ocean governance, marine litter and plastics. This can be combined with technological and digital solutions to ensure a higher efficiency.

Moving forward, it will be important for the EU and ASEAN not to contain technology, ignore sustainability or turn their back on globalization, despite the challenging geopolitical environment. Instead, they should be optimistic and confident, and establish rules, standards and strengthen their own capacities through FTAs. Ultimately, this will help them not only to ensure their economic security, but also gain economic sovereignty from the big powers.

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