Governing International Digital Trade:
Geoeconomics vs. Industrial Policy

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Short Discussion Paper

"The Systemic Impact of the Twin Digital and Green Tech Revolutions in the Indo-Pacific: Toward a New Industrial Policy Race"

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The international governance of digital trade is currently experiencing a proliferation of agreements. Stephanie Honey has termed this trend the "noodle bowl," in reference to Jagdish Bhagwati's "spaghetti bowl," which described the increasing number of bilateral and regional trade agreements, some overlapping, agreed to in the 1990s. Using noodles as opposed to spaghetti to characterize this trend for digital trade agreements is meant to emphasize that the Indo-Pacific region is the centre of gravity for digital trade agreements, as opposed to the transatlantic part of the world.

One might think that the "noodle bowl" trend for digital trade agreements is because there is no comprehensive agreement on digital trade at the WTO, where negotiations for a plurilateral agreement on trade-related aspects of electronic commerce have been under way since 2017. But, looking back to the mid-1990s, bilateral and regional trade agreements proliferated despite the Marrakesh Agreement that led to the WTO's creation. So, something else must be at play here. It could be that countries do not think that a WTO agreement on trade-related aspects of electronic commerce, should it ever be concluded, would be effective at ensuring digital trade flows "with trust" (to use the now adopted G7 terminology originally proposed by Japan).

Although there are serious doubts about the effectiveness of a WTO agreement digital trade, the noodle bowl of digital trade governance is the result of two strategic imperatives: one geoeconomic, the other industrial (see Figure 1).

For the United States, the logic behind its approach to governing international digital trade is a geoeconomic one with China and the EU in sight. For example, the Global Cross-Border Privacy Rules Forum is a response to the EU's GDPR influence while attempting to take privacy rule governance out of APEC because it includes China. The likely inclusion of the Global CBPR Forum and specific digital trade agreements within the US Indo-Pacific Economic Framework is a response to draw countries in the region away from China's digital orbit.

Canada, for its part, also follows a geoeconomic logic, driven by its dependence on the US economy: stay close to the US to maintain access while improving access to other markets to limit dependence on the US economy. In Japan's case, there is also a geoeconomics logic to its approach to governing digital trade, similar to Canada's "uneven balanced" approach to the US except that the balance is between preventing China's political and economic domination of the Indo-Pacific region (i.e., keeping it free and open) while continuing to do business with China, which is an important economic partner for Japan. To achieve this balance, Japan needs the United States as well as other countries in the region.

For smaller countries like New Zealand and Singapore, digital trade agreements follow industrial logic, namely, to position their economies for the digital revolution and try to influence its international governance by being first movers (e.g., the DEPA between Chile, NZ and Singapore and the DEA between Australia and Singapore).

In the middle, you have the European Union, whose focus has been on governing the digital part of the economy and society to promote a digital single market within its borders. Any influence on governance standards beyond its borders through the so-called "Brussels Effect" (Bradford 2020) was secondary and primarily aimed at supporting the EU's internal market. However, the EU has recently begun negotiating bilateral digital partnership agreements (e.g., Singapore), which can only be understood in response to other such agreements being negotiated and the fear that it will be left out of China and the United States' attempt to dominate digital trade governance in other parts of the world, especially the Indo-Pacific, which has the fastest growing digital markets.

Finally, China's approach to governing digital trade follows the EU's mixed logic. It began with an industrial logic in that the Digital Silk Road would be a means to support its home-grown digital giants in their competition with US giants in the Indo-Pacific as well as Africa. More recently, it has responded to US actions on digital trade by asking to join the CPTPP, which has a digital trade chapter, and the DEPA. On the other hand, it has also strengthened the governance of its domestic digital economic space to promote/protect the latter.

Figure 1: Strategic Logics for Governing International Digital Trade