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The trade and digital diplomacy nexus: markets, connectivity and technology

EVENT REPORT



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Participants at the Friends of Europe roundtable, “The trade and digital diplomacy nexus: markets, connectivity and technology”, hosted on 16 March in partnership with HCL Technologies, discussed how the digital transition has created both opportunities and challenges across Europe, Asia and the world at large.

The debate highlighted the need to rethink the trade-diplomacy nexus in light of the multiple digital divides and vulnerabilities that were exposed by the COVID-19 pandemic. Against the backdrop of the ongoing war in Ukraine, discussants looked at the many ways in which digitalisation is transforming economies globally and explored possibilities for collaboration between Europe and Asia in promoting common regulations, interoperability and big data literacy, amongst others.

“How do we ensure that the role of Europe is not only to export goods and services, but also its model?” asked moderator and Director at Friends of Europe, **Dharmendra Kanani**. “How can it shape behaviour through its trade and diplomatic connections?”

Invest in resilience

“The invasion [of Ukraine] has brought up the importance of robust and sustainable digital connectivity and this has proven absolutely critical,” said **Romana Vlahutin**, Ambassador at Large for Connectivity at the European External Action Service (EEAS).

She explained how the Russian invasion has highlighted several “existential issues” when it comes to digital connectivity and that there is a need to invest more and better in three distinct issues, namely physical and human infrastructure, trust and security.

“If we really want to ensure the growth of economy-based data, we need to find common rules and interoperability”, she said, adding that trust is the most important commodity when it comes to digital connectivity.

According to the official, digital technologies have “created dependencies that can be weaponised” and there is a need to “invest in the resilience of these systems”.

“We have to understand the security side of things and how incredibly dependent we are on the system we have built,” she said. “For all this, you need diplomacy.”

“Leave no one behind”

“The pandemic has accelerated the adoption of digital technologies, but the digital revolution goes beyond communication,” said **Hong Huai Lim**, Ambassador of Singapore to the European Union.

“The digital revolution is going to be as profound and impactful on global prosperity as was the Industrial Revolution and will transform the social fabric of society,” he stated.

The Ambassador highlighted the need to “transform our economies and workers for the digital age” and said that countries need to do more to invest in the digital frameworks of the future. At the same time, the digital transformation will be very disruptive, particularly for those less skilled. He therefore advocated for providing “lifelong education” so that workers have the skills to compete.

“We need to work collaboratively with stakeholders and leave no one behind,” he said. There is an incentive to deepen global integration in the digital domain, he

explained, and referenced regional trade agreements that have established rules to facilitate e-commerce.

“Digital economy agreements can help provide common reference points on digital trade and serve as building blocks for architecture,” he said. “Digital technology has empowered millions, but the digital divide has also widened the gap between the haves and have-nots.”

The role of digital diplomacy

Tadej Rupel, National Coordinator for External Aspects of Digitalization, AI & Cyber Security at the Slovenian Ministry of Foreign Affairs, said we are currently living in a “TUNA” world – “turbulent, uncertain, novel and ambiguous”.

“What worked yesterday won’t necessarily work tomorrow,” he said. “Digital cooperation must keep pace with the accelerating shift towards a digital world, otherwise we risk a digital divide.” He explained how marginal countries risk being left behind as digital technologies reshape societies.

“The EU and its member states have the responsibility to show that there are alternatives beyond what China and the United States propose,” he explained. Digital diplomacy can help reach agreement on norms, he argued, rather than relying too much on state actors and technology companies.

The rapid rise in internet penetration

Cyn-Young Park, Director for Regional Cooperation and Integration at the Economic Research and Regional Cooperation Department of the Asian Development Bank, said she defined digital connectivity in terms of availability, accessibility and public trust.

“Everyone is mindful about how digital connectivity is very important to unlock the potential opportunities in this time of uncertainty,” she said.

She emphasised that digital connectivity means ensuring secure and reliable broadband infrastructure, and that connectivity is available to allow people to take advantage of this digital transformation. It also means building digital awareness and ensuring people have the necessary skills.

“Rules and regulations will be very important to protect consumers and provide a level playing field,” she explained, adding that there must be mutual recognition that allows the cross-border trade of services through digital technologies.

She also highlighted that Asia has seen rapid growth in all three of the above-mentioned dimensions of digital connectivity. Whereas internet penetration across Asia was less than 40% five years ago, it is now over 60% on average and closer to 80% in the ASEAN (Association of South-East Asian Nations) region.

Park described how this increase is largely due to the impact of the pandemic and that digital technology “has been availed even by the public sector to deliver public services or allow the transfer of income to very low income households”.

She concluded by saying that digital technologies “have the great potential of increasing the tradability of services. [T]hey were non-tradeable [before]. We need a lot more of this international harmonisation.”

Who will regulate?

“What the market does not need is uncertainty,” said **Didier De Baere**, Deputy Director-General of the Belgian Foreign Trade Agency. “This uncertainty can be due to political, sociological or natural causes.”

“The right question is: where is the regulation and who will take it up? We need to find a balance between the national and multilateral levels versus multinationals,” he said, explaining that any future framework “must be strong enough to provide certainty”.

Synergies between Europe and Asia

All actors have a role in pushing digital diplomacy, including the public and private sectors, nationally, regionally and globally, according to **Eduardo de Vega**, Ambassador of the Philippines to the EU.

He explained how the Philippines has experienced 24% growth in the digital economy and outlined the ongoing work at the World Trade Organization on e-commerce.

He described the ASEAN’s “masterplan” when it comes to the digital economy. The key elements include sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility.

The Ambassador also highlighted the synergies between the EU strategy for the Asia-Pacific region when it comes to the digital economy and said that the EU and the ASEAN were aiming to advance a statement on connectivity at the bilateral summit at the end of this year.

US and China dominance

Torbjörn Fredriksson, Head of the eCommerce and Digital Economy Branch at the United Nations Conference on Trade and Development (UNCTAD), recalled that we often “lose track of the production side” when we focus on connectivity.

Stressing that more countries should “capture and create value in digital societies,” he mentioned the “unusual world situation” where the US and China dominate.

“90% of market capitalisation of the world’s largest platforms relates to the US and China, compared to 4% for the EU,” he said. Similarly, more than 90% of funding for AI start-ups goes to the US and China, where 5G is being rolled out much faster.

“This should ring some bells,” he said, highlighting that data is the “most important resource in the digital economy and society”.

He described the “fragmented landscape when it comes to data”, whereas the digital economy is very global. “This is not the basis for constructive collaboration, which is why it’s difficult to come to a global agreement on data and explains why there is reluctance from poorer countries to engage in WTO negotiations on e-commerce,” he explained.

“Governance will be crucial if we want to build partnerships between Europe and Asia,” he concluded. “If we don’t manage to deal with the issue of data and platform governance, we risk seeing digitalisation not being an equaliser but adding to inequalities.”

Big data literacy

Sek Wannamethee, Ambassador of Thailand to the EU, mentioned how the digital economy in the ASEAN region is on track to grow to US\$1tn by 2030, with 60mn digital consumers added since the pandemic started.

He expressed concerns about “income polarisation” and insisted on the need to “put more focus on reskilling and upskilling the labour market to nurture new talent to benefit from digitalisation”.

The Ambassador stressed the importance of engaging all stakeholders and said we need to better understand the development dimension of emerging international rules on digital trade.

“We need to promote big data literacy, not only for commercial advantages, but also for implementing the UN SDG [Sustainable Development Goals] goals by 2030,” he said.

A frail peace

Jakob Haesler, Managing Director of Foxdixneuf and 2013 European Young Leader (EYL40), referenced the failure of the global order to produce order in Ukraine.

He said that the world is split between the realists, who assert great power rivalries, and the liberal world view, which espouses that trade can bring peace. “But the latter is not true,” he said. “Peace is quite frail, and these markets become winner-takes-all markets.”

Maria Castillo, EU Ambassador to Korea, noted the particularly good infrastructure across the country of Korea. She mentioned how there is “more of a focus on trade-related matters in ASEAN, whilst Europe looks at this in a broader cooperative sense encompassing infrastructure, skills, public services and education”.

“Community of shared values”

Ed Bithell, Second Secretary Services and Emerging Technologies at the United Kingdom mission to the EU, emphasised the importance of finding a community of shared values, be it at the OECD or the G7. “This is important because the question of who makes these rules is important,” he said.

Monica Sanders, Professor at Georgetown University, said it is important not to leave out the human element and referenced the fact that a quarter of the US population and 350mn people in Asia are “under-connected”.

“How do we reduce fragility?” she asked. “How can we include these under-connected segments of our society?”

Digitalisation to be the determining factor

Irene Ng, Professor of Marketing and Service Systems at the University of Warwick, explained that 95% of organisations globally are micro-SMEs. She noted that we need to remember that the economic life of a person is the economic life of a business, adding that a proper conversation on identity is required because business identity transcends state identity.

“Individuals are really becoming micro-businesses,” she said.

Barbara Plinkert, Head of South-East Asia Division at the EEAS, recalled that a lot of trade is happening online. “The level of digitalisation of a country will determine to what extent it can participate in e-commerce and benefit from the digital transition.”

She proposed that rules be made jointly between regions and pointed to the EU-ASEAN relationship as a good example.

“There is huge potential for connectivity between the two continents,” she said and referenced a number of initiatives that are currently being discussed between the two regions.

Asia-Pacific: the new “centre of gravity”

Marillia Maciel, Head of Digital Commerce and Internet Policy at the DIPLO Foundation, said that the centre of gravity for norm-making has moved from the US and Europe to the Asia-Pacific.

“Rules are being made inside trade agreements, but a large number of countries remain disconnected,” he said.

She added that “digital policy issues are migrating to trade settings, and it’s important to make trade negotiations more inclusive. Usually these happen behind closed doors, so we need to bring in other actors, such as civil society and companies.”

Mariam Mhadhbi, Co-Founder and CEO of Valueometrics, recalled that investors in the EU are obliged to look at the impact of their investments, which usually affect more significantly emerging countries, and highlighted the need for more support in this regard.

Determining the agenda

The discussion ended with a final intervention from **Romana Vlahutin**, Ambassador at Large for Connectivity at the EEAS. She raised a number of key questions, asking “what are the rules, who are the rule makers, and who are the rule keepers?”, and called for non-state actors to be brought into the conversation by offering the example of Elon Musk whose “audience”, she said, is “the 20th largest country on Earth”.

“The agenda will be determined by those whose ideas are acceptable to global majority,” Vlahutin said. “There are two basics where we are all the same: we all want to live a safe life and we all want to live life in dignity.” According to the Ambassador, these are the two elements that must cement all discussion in this regard.

“Time is of the essence,” she concluded, while appealing for international and cross-sectoral cooperation in finding answers and solutions to the many challenges of the digital transition that discussants at the Friends of Europe roundtable explored.

Recommendations

- Invest more in physical and human infrastructure, trust and security to ensure the resilience of digital technologies
- Provide lifelong education, promote big data literacy, and focus more on reskilling and upskilling the labour market to enable workers to compete
- Deepen global integration in the digital domain and find a community of shared values, be it at the OECD or the G7. Rules should be made jointly between regions, with the EU-ASEAN relationship being a good example
- Ensure that secure and reliable broadband infrastructure and connectivity is available to allow people to take advantage of the digital transformation
- Promote mutual recognition and interoperability to facilitate the cross-border trade of services through digital technologies
- Make trade negotiations more inclusive and engage more stakeholders

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+32 2 300 29 91

info@friendsofeurope.org

friendsofeurope.org

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