

Project Syndicate: The Coming Global Technology Fracture

Today's international trade regime was not designed for a world of data, software, and artificial intelligence. Already under severe pressure from China's rise and the backlash against hyper-globalization, it is utterly inadequate to face the three main challenges these new technologies pose, **writes Dani Rodrik for [Project Syndicate](#)**



Source: Shutterstock

Today's trade regime is utterly inadequate

The international trade regime we now have, expressed in the rules of the World Trade Organization and other agreements, is not of this world. It was designed for a world of cars, steel, and textiles, not one of data, software, and artificial intelligence. Already under severe pressure from China's rise and the backlash against hyper-globalization, it is utterly inadequate to face the three main challenges these new technologies pose.

First, there is geopolitics and national security. Digital technologies allow foreign powers to hack industrial networks, conduct cyber-espionage, and manipulate social media. Russia has been accused of interfering in elections in the United States and other Western countries through fake news sites and the manipulation of social media. The US government has cracked down on the

Chinese giant Huawei because of fears that the company's links to the Chinese government make its telecoms equipment a security threat.

Second, there are concerns about individual privacy. Internet platforms are able to collect huge amounts of data on what people do online and off, and some countries have stricter rules than others to regulate what they can do with it. The European Union, for example, has enacted fines for companies that fail to protect the EU residents' data.

Third, there is economics. New technologies give a competitive edge to large companies that can accumulate enormous global market power. Economies of scale and scope and network effects produce winner-take-all outcomes, and mercantilist policies and other government practices can result in some firms having what looks like an unfair advantage. For example, state surveillance has allowed Chinese firms to accumulate huge amounts of data, which in turn has enabled them to corner the global facial recognition market.

A common response to these challenges is to call for greater international coordination and global rules. Transnational regulatory cooperation and anti-trust policies could produce new standards and enforcement mechanisms. Even where a truly global approach is not possible – because authoritarian and democratic countries have deep disagreements about privacy, for example – it is still possible for democracies to cooperate among themselves and develop joint rules.

The benefits of common rules are clear. In their absence, practices such as data localization, local cloud requirements, and discrimination in favour of national champions create economic inefficiencies insofar as they segment national markets. They reduce the gains from trade and prevent companies from reaping the benefits of scale. And governments face the constant threat that their regulations will be undermined by companies operating from jurisdictions with laxer rules.

But in a world where countries have different preferences, global rules – even when they are feasible – are inefficient in a broader sense. Any global order must balance the gains from trade (maximized when regulations are harmonized) against the gains from regulatory diversity (maximized when each national government is entirely free to do what it wants). If hyper-globalization has already proved brittle, it is in part because policymakers prioritized the gains from trade over the benefits of regulatory diversity. This mistake should not be repeated with new technologies.

Countries may define their own national security requirements

In fact, the principles that should guide our thinking on new technologies are no different from those for traditional domains. Countries may devise their own regulatory standards and define their own national security requirements. They may do what is required to defend these standards and their national security, including through trade and investment restrictions. But they have no right to internationalize their standards and try to impose their regulations on other countries.

Consider how these principles would apply to Huawei. The US government has prevented Huawei from acquiring American companies, restricted its operations in the US, launched legal proceedings against its senior management, pressured foreign governments not to work with it, and, most recently, banned US companies from selling chips to Huawei's supply chain anywhere in the world.

There is little evidence that Huawei has engaged in spying on behalf of the Chinese government. But that does not mean that it will not do so in the future. Western technical experts who have examined Huawei's code have been unable to rule out the possibility. The opacity of corporate practices in China could well obscure Huawei's links to the Chinese government.

Under these circumstances, there is a plausible national security argument for the US – or any other country – to restrict Huawei's operations within its own borders. Other countries, including China, are not in a position to second-guess this decision.

The export ban on US companies, however, is harder to justify on national security grounds than the ban on Huawei's US-based operations. If Huawei's operations in third countries pose a security risk to those countries, their governments are in the best position to assess the risks and decide whether a shutdown is appropriate.

Moreover, the US ban confronts other countries with severe economic repercussions. It creates significant adverse effects for national telecoms companies like BT, Deutsche Telekom, Swisscom, and others in no fewer than 170 countries that rely on Huawei's kits and hardware. Perhaps worst hit are poor countries in Africa that are overwhelmingly dependent on the company's cheaper equipment.

In short, the US is free to close its market to Huawei. But US efforts to internationalize its domestic crackdown lack legitimacy.

The Huawei case is a harbinger of a world in which national security, privacy, and economics will interact in complicated ways. Global governance and multilateralism will often fail, for both good and bad reasons. The best we can expect is a regulatory patchwork, based on clear ground rules that help empower countries to pursue their core national interests without exporting their problems to others. Either we design this patchwork ourselves, or we will end up, willy-nilly, with a messy, less efficient, and more dangerous version.

The full and original article first appeared on Project Syndicate [here](#) on the 8th September 2020.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com