

OUR GLOBAL DIGITAL FUTURE IS UNDER THREAT - FROM PROTECTIONISM

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The standard weaponry of so-called trade wars are tariffs and quotas - observe the most recent tensions between the US and China where both have been spurring each other on in increasing tariffs on aluminium, steel, and aircraft parts.

Our [Protectionism 2.0](#) report considers something different in the trade landscape - the threat of digital protectionism - that is, those measures that restrict the data flows crucial to businesses in this digital age. As explored in the report, these measures pose as much a threat to international trade as their cruder 'traditional' tools of trade protectionism.

The parallel rise of both traditional and digital forms of trade protectionism means international businesses are now faced with a challenging regulatory environment comprising a double-whammy of measures that threaten the free trade of both goods, services and information. This briefing explores the principal findings of our report and sets out some practical suggestions for business in the light of those findings.

Digital protectionism

Our report shows that China's average tariff rate is a moderate 3.2%. So on that basis, China would appear to be one of the 'good guys'. However, as explored in the report, digital protectionism is on the rise in China, where it has recently passed a raft of measures restricting the transfer of intellectual property and new technologies. This includes legislation mandating the use of domestic technologies in public procurement projects, requiring data localisation^[1], and censoring foreign companies' websites.

China is not alone in imposing these types of measures; indeed, our report shows that many nations have imposed similar digital protectionist measures, including Argentina,

India, Russia, South Africa, Thailand and Turkey. Data-driven businesses are and will be increasingly reliant on the flow of data between their international operations, suppliers and customers - such measures undermining data flows therefore threaten to stifle business innovation and expansion.

State measures that restrict the flow of data - such as those requiring data to be stored domestically - affect all businesses operating across borders, not just tech companies. Many countries have implemented data localisation laws on the belief that data is held more securely within their borders, without any protectionist motivation.

However, our research has indicated that these localisation measures can be coupled with burdensome bureaucratic procedures, such as setting up a local data processing centre, to create an unequal playing field for domestic and foreign businesses.

For instance, the report highlights the approach of Australia - a traditionally liberal country in the context of protectionism - to internet-enabled devices. Australian law requires that health data gathered on Australian nationals must be stored and processed domestically. Consequently, a foreign business selling fitness tracking smart watches, for example, must invest in local Australian infrastructure in order to offer health data analytics services to Australian consumers. Our report illustrates that, because Australian fitness trackers are not subject to this requirement - and the associated cost of compliance - Australian health-tech companies have a competitive advantage over non-Australian health-tech companies. [\[2\]](#)

Resource nationalism

That all said, the impact of traditional protectionism should not be neglected when considering the digital economy - this applies in particular in relation to so-called resource nationalism. This occurs where resource-rich nations impose high tariffs and import quotas in order to maximise the economic benefit for themselves, often at the expense of importing nations.

Our report demonstrates that countries with vast reserves of the raw materials necessary for the manufacture of new technology are already enacting traditional protectionist measures, restricting the export and use of these materials.

In many cases, these same countries have imposed digital protectionist measures in parallel with traditional trade measures. China and India, for example, hold a combined 25% share of the global reserves of lithium, crucial for the manufacture of phone batteries and energy storage. As one of the world's largest consumers of new technology, China is

also home to a vast amount of consumer data. China's deep integration within the global supply chain for the production of digital products - coupled with laws requiring that information is stored on local servers - put China in pole position in the digital resource race.

While Trump's 'America First' agenda is drawing media focus, our Protectionism 2.0 report notes that the US maintains relatively few digitally protectionist measures. Trade barriers therefore appear to be driven by two separate agendas - traditionalist measures targeting established industry, and digital measures targeted at the resources required for the digital economy.

Double whammy of traditional and digital protectionism

The blending of traditional and digital protectionism creates a pincer-like effect for businesses as they find themselves faced with a double-whammy of increased costs to move goods across borders and the burden of complying with complex regulatory landscapes in relation to the transfer data and knowledge between nations.

However, there are a number of measures that businesses can take today to minimise their exposure to rising protectionism. Importantly, the first step is to understand at a geopolitical level the approach that different countries are taking with regard to protectionism.

With this knowledge mapped out, businesses will be able to identify where protectionist threats are within their own supply chains as well as identify countries with low levels of protectionism. Understanding which countries adopt lower levels of protectionism is invaluable in the evaluation of future investments and will help reduce the costs imposed by traditional tariffs and digital trade barriers.

Equally, the separate digital and traditional protectionist agendas are driven at a political level. Ensuring that the voice of business is heard is vital to the promotion of free trade and shaping future trade policy. Trade associations have a key role in conversations around policymaking, lobbying governments, and assessing the impact of protectionism on their members.

Finally, in light of the constantly changing landscape, businesses should consider protectionism at the contract negotiation stage. Ensuring regular review points in long-term arrangements will grant businesses the freedom to navigate away from future protectionist

policies if necessary.

Footnotes:

[1] [Chinese cybersecurity: Questions remain despite new guidance](#)

[2] [Protectionism - Digital forces driving the new protectionist agenda](#)

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