

**Hearing before the United States House of Representatives Committee on Foreign Affairs, Asia, the
Pacific, Central Asia, and Nonproliferation Subcommittee**

“Strategic Importance of Digital Economic Engagement in the Indo-Pacific”

Christine Bliss

President

Coalition of Services Industries

January 19, 2022

Chairman Meeks and Ranking Member McCaul, subcommittee Chairman Bera and Ranking Member Chabot, thank you for the opportunity to appear before you today to discuss the strategic importance of digital economic engagement in the Indo-Pacific.

My name is Christine Bliss, and I am the President of the Coalition of Services Industries, a non-profit trade association that represents the international objectives of the U.S. services sectors. Our members include companies that provide services both domestically and internationally, including information and communication technology services, financial services, express delivery and logistics, media and entertainment, distribution, and professional services. CSI members operate in all 50 states and over 100 countries.

Allow me to frame my comments by first stating support for the Biden administration's intention to develop an Indo-Pacific Economic Framework (IPEF) to demonstrate renewed U.S. leadership in the world's fastest growing region, which accounts for 60 percent of global GDP, and is home to longstanding U.S. economic partners and the world's three fastest growing emerging economies.

While we believe that all potential aspects of the IPEF, including digital trade, sustainability, supply chain resilience and labor are all important, my testimony focuses on the importance of the digital trade component of the IPEF in line with the topic of today's hearing. Indeed, it is my belief that high-standard digital trade commitments with economic partners that share our values can make a significant contribution to the Biden Administration's Build Back Better World agenda by supporting economic growth that is inclusive, fair, and sustainable, while promoting core democratic values, raising living standards, and creating new economic opportunities for people domestically and globally. Strong digital trade principles and binding disciplines in the IPEF and an associated digital agreement are critical not only to services and digital firms, both large and small, but also to reinforcing supply chain resilience, solutions to address climate change, and the promotion of worker rights. Trade in digital goods and services are very interdependent; promoting one also reinforces and promotes the other.

Importantly, an Indo-Pacific digital trade agreement has received bipartisan Congressional support thanks to the leadership of this Committee and other members of Congress in both chambers that recognize the strategic imperative of taking swift action to reassert U.S. leadership in the Indo-Pacific region. I also note that USMCA provides a strong model for inclusive and robust stakeholder engagement, a process which undoubtedly contributed to its passage with unprecedented bipartisanship and the endorsement from the labor community.

This is an urgent exercise for multiple reasons. Digital and services trade barriers are on the rise: U.S. companies are increasingly at a disadvantage because of digital protectionist policies and unfair support from non-market economies. This will come as no surprise to Members of this Committee. But particularly concerning is that we are seeing a proliferation of blatantly discriminatory policies from some of our closest allies. Companies in China are making strategic investments in digital infrastructure across the globe, supported by massive subsidies and low interest loans that skew the market and disadvantage American offerings. Increased Chinese investment in e-commerce and other digital goods and services in the region pose serious risk to U.S. security interests. Data localization and data residency requirements are also proliferating, placing U.S. companies, workers, and innovators at an

even greater disadvantage. These policies also create opportunities for increased authoritarian influence and censorship, while leaving networks vulnerable to cybersecurity risks and interference.

All the while, China has launched a whole of government effort to export its economic model and shape the rules of the road for digital trade. In fact, just last week, the Chinese government released a 5-year digital economy plan, which aims to make China less reliant on foreign partners while its partners' resilience on China increases. China has also ramped up its activities in multilateral institutions like the WTO and the International Telecommunications Union (ITU), as well as bilaterally and regionally, recently concluding the Regional Comprehensive Economic Partnership (RCEP) which represents 30% of global GDP and entered into force on January 1st. And of course, China recently submitted its application to accede to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and to join the Digital Economy Partnership Agreement (DEPA). It is vitally important that RCEP's digital disciplines—which are weak, self-judging and replete with exceptions—do not become the rules of the road on digital trade in the Asia Pacific. In particular, RCEP's provisions regarding data localization, restrictions on cross-border data flows, and policies that champion domestic industry are highly concerning and will not provide an effective means to rein in China's discriminatory, authoritarian approach to digital regulation. U.S. allies like Japan, the UK, Australia, Singapore, New Zealand and nations other than the United States are expanding their networks of digital trade disciplines and innovative new approaches. The U.S. is at serious risk of being left behind.

American trade and economic leadership in the region is sorely needed. A U.S.-led high-standard digital trade agreement in the Indo-Pacific region will advance Biden Administration foreign policy goals to promote the interests of micro-, small and medium-sized enterprises (MSMEs), middle class workers and also facilitate greater economic inclusion in the U.S. and Asia Pacific region. MSMEs increasingly depend on access to broadband, internet platforms, and the latest digital applications in the cloud to expand their domestic and international markets. U.S. workers, particularly middle-class workers, also benefit from the creation of new jobs in digital and digitally enabled services and through their participation in supply chains. To have a meaningful impact in promoting the current benefits and future growth of digital flows in the region, the Administration's Indo-Pacific Economic Framework must include strong digital principles and binding disciplines, as well as market access commitments. In the words of Singapore's Deputy Prime Minister Heng See Keat, "the U.S. cannot afford to be absent from the region's evolving economic architecture" – "if not through the CPTPP, then it must have an equally substantial alternative." With that in mind, we offer the following recommendations on the scope and shape of the IPEF itself and any subsidiary digital trade agreement along with specific provisions we believe should be both reflected in overall principles and commitments in the IPEF and any subsidiary digital trade agreement.

Scope

Digitally related aspects of the IPEF and any associated digital agreement should include world class provisions applying to all sectors, including services and financial services sectors, with no exclusion of audiovisual services or digital content. It should cover all aspects of digital trade flows and digitally

enabled services and technologies—including protection of cross-border data flows; prohibitions on data localization and mandatory transfer of source code and algorithms; measures to expand government access to open government data; commitments to use international standards, coverage of paperless trade and measures to facilitate interoperability in areas such as digital identity, electronic authentication, and electronic signatures; and to promote cybersecurity and interoperable approaches to personal data protection as well as coverage of newer areas such as principles regarding ethical use of AI And measures to promote data innovation such as regulatory sandboxes. It should also include investments in digital skill training to ensure that workers have the necessary skills to succeed in the digital economy while advancing the promotion of digital trade opportunities for women and small businesses.

Architecture

Indo-Pacific Framework

We understand that the IPEF is likely to consist of two parts: a broad political level framework with a large group of Indo-Pacific countries and associated bilateral or regional agreements. With regard to the broad IPEF framework, longstanding trade principles of non-discrimination, transparency, openness and interoperability should take center place. Such a framework should also include a consultation mechanism and other means to raise member concerns and to hold members accountable. On digital trade, we believe it should include a political commitment to a standstill and rollback with regard to digital trade barriers.

Economic Agreements

The cornerstone of the IPEF should be a regional digital agreement with like-minded countries that will establish high standard digital disciplines. All Indo-Pacific nations that are willing to agree to high-standard principles and binding commitments should be included, and we believe that the Biden Administration should prioritize including Japan, Australia, Singapore, New Zealand, and Korea in this group. We are skeptical about India's willingness to meet such high standards.

We believe it is important to avoid a patchwork of non-binding bilateral TIFAs, which might have differing provisions and would overall have less force in combatting the rise of digital protectionism in the region. Therefore, we believe that any digital agreement under the IPEF should be binding and enforceable, and include coverage of all sectors.

Substantive Provisions: Digital Principles and Disciplines for Promoting Inclusiveness and Growth

A digital trade agreement under the IPEF should cover core elements of the USMCA digital trade and financial services chapters, the U.S.-Japan Digital Trade Agreement, the Singapore-Australia Digital Economy Agreement, as well as disciplines and principles included in updated digital chapters in Australian FTAs, recently concluded UK FTAs with Singapore and Australia, and the Digital Economy

Partnership Agreement. These contain innovative new provisions for easing trade barriers for SMEs and services, and the creation of a regulatory sandbox for work on emerging technologies and digitally enabled services. It should also align with and enhance efforts to realize Data Free Flows with Trust (DFFT) and expand the APEC Cross-Border Privacy Framework system. We also recommend a political level standstill and rollback commitment with *respect to data localization and other protectionist digital measures*. These principles and disciplines will generate benefits for workers and SMEs and facilitate greater economic growth in the U.S. and Indo-Pacific regions. We have enclosed an Annex with a comprehensive list of suggested principles and disciplines for a digital trade agreement as part of the IPEF. Below we highlight key elements.

Principles

A. Liberalization of digital trade

The benefits of liberalized digital trade for both SMEs and U.S. workers have been well-documented.¹ Due to enhanced productivity and lower trade costs, digitally intensive industries have led to increased U.S. GDP, job creation and increased real wages. As detailed by the ITC, “[h]igher demand for workers in the digitally intensive industries drives up wages in the labor market, draws workers from other sectors of the economy, and can also increase aggregate employment as more workers are brought into the labor force.”² Access to online marketplaces and online stores enables companies of all sizes to export. Cloud services democratize access to technology, enabling minority- and women-owned small businesses and startups to scale their businesses faster and more seamlessly. Liberalized (digital) trade has been demonstrated to provide SMEs with access to diversified markets and new consumers, and to increase sales.³ Digital trade agreements also promote investment in the U.S. economy by innovative companies that understand the tremendous potential of such agreements to grow their global customer base.

Digital and services firms are a core element of domestic and international supply chains. As noted in a 2019 McKinsey Report on the role of services in supply chains, supply chains are becoming increasingly digitized and data driven. In addition, services and digital technologies are critically important to

¹ See, e.g., U.S. International Trade Commission, *Digital Trade in the U.S. and Global Economies, Part 2*, August 2014, available [here](#), p. 17; Congressional Research Service, *Digital Trade and U.S. Trade Policy*, May 2019, available [here](#), pp. 7-8 (and the studies cited therein).

² US International Trade Commission, *Digital Trade in the U.S. and Global Economies, Part 2*, available [here](#), p. 16.

³ See, e.g., *What Do CPTPP Member Country Businesses Think about the CPTPP?*, Kati Suominen, Centre for Strategic and International Studies, August 2021, available [here](#), pp. 2-5 (finding that the surveyed SME online sellers in the CPTPP region report an increased ability to diversify into new markets, with 51% of micro (1-10 employees) online exporters and 36% of small (11-50 employees) online exporters reporting increased sales).

manufacturing in terms of both the manufacturing process itself in terms of robotics, data analytics and use of smart technologies and supporting manufacturing exports and competitiveness.

B. Trade facilitation through digital trade agreements

Recently negotiated digital trade agreements include trade facilitation obligations that benefit U.S. companies, including SMEs, by lowering export costs and red tape at the border through digital tools. U.S. companies, including SMEs that export, are more productive, more competitive and pay higher wages.⁴ Increased access to inputs and technology from foreign markets also allows U.S. SMEs to increase productivity, and manufacture and export more sophisticated high-value products.

C. Trust in the digital economy

Along with its tremendous benefits and efficiencies, digital trade creates certain risks for the consumers and SMEs that rely on it.⁵ Through digital trade agreements, countries can reduce such risks and inject trust into the digital economy by recognizing the importance of consumer protection in digital trade, developing principles and standards that can promote trust in emerging technologies and use consistent with democratic norms, and otherwise limiting the dangers that can potentially arise from online transactions.

D. Promoting Inclusion in the digital economy

The newest generation of trade agreements has begun to include provisions that promote inclusiveness of the digital economy. Through these provisions, parties emphasize that the benefits from digital trade should be equitably shared throughout the population of each of the parties, regardless of race, gender, or socioeconomic status. U.S. digital trade agreements should aim to ensure that no U.S. worker or consumer is left behind as technology advances and digital trade increases.

E. Sustainability

An Indo-Pacific digital agreement could advance the Biden Administration's sustainability objectives. Provisions could establish commitments for parties to provide open access to energy markets for renewable electricity suppliers, consumers, and corporate buyers and link those markets across borders; increase consumer options for sourcing renewable energy beyond the existing grid mix; and promote common accounting tools to track renewable energy such as renewable energy certificates (REC) or other similar instruments. Such provisions could enable U.S. investors and local companies alike to reach renewable energy goals across the region.

Conclusion

The suggested elements to be included in an IPEF and a regional digital Asia Pacific agreement are intended to encourage further discussion and development of a robust digital agenda for the region. The principles could be used in whole or in part on a binding or hybrid binding and non-binding approach.

I thank you for the opportunity to testify today and the committee's attention to these critical issues.

ANNEX: Digital Principles and Disciplines for Promoting Inclusiveness and Growth

Liberalization of digital trade

1. PROHIBITING DIGITAL CUSTOMS DUTIES
2. SECURING BASIC NON-DISCRIMINATION PRINCIPLES particularly with respect to digital products, content and services.
3. SECURING ROBUST MARKET ACCESS COMMITMENTS ON INVESTMENT & CROSS-BORDER SERVICES, INCLUDING THOSE DELIVERED DIGITALLY
4. ENABLING CROSS-BORDER DATA FLOWS consistent with regulations based on legitimate public policy objectives.
5. PREVENTING LOCALIZATION BARRIERS
6. BANNING FORCED TECH TRANSFERS & PROTECTING CRITICAL SOURCE CODE AND ALGORITHMS
7. FOSTERING INNOVATIVE ENCRYPTION PRODUCTS
8. ENSURING TECHNOLOGY CHOICE
9. PROMOTING A FREE & OPEN INTERNET
10. SUPPORTING DATA INNOVATION
11. ADVANCING STRONG & BALANCED PROTECTION OF IP RIGHTS
12. PROMOTING TRANSPARENCY & STAKEHOLDER PARTICIPATION IN THE DEVELOPMENT OF REGULATIONS & STANDARDS.
13. PROMOTING SUPPLY CHAIN RESILIENCY

Trade facilitation through digital trade agreements

14. ENCOURAGE EXPORTS OF GOODS SOLD ONLINE WITH HIGHER TAX-FREE & TARIFF-FREE THRESHOLDS
15. ADVANCING INNOVATIVE AUTHENTICATION METHODS
16. ENABLE PAPERLESS TRADE
17. REQUIRING CROSS-BORDER INTEROPERABILITY OF E-INVOICING SYSTEMS
18. ENHANCING SECURE & INTEROPERABLE E-PAYMENT SYSTEMS
19. FOSTERING DIGITAL TRADE THROUGH INTERNATIONAL STANDARDS

Trust in the digital economy

20. ENSURE ENFORCEABLE CONSUMER PROTECTION
21. ENSURE ADEQUATE PROTECTION OF PERSONAL DATA
22. PROMOTE COOPERATION ON CYBERSECURITY
23. CREATE A SAFE ONLINE ENVIRONMENT
24. DEVELOPING ETHICAL & GOVERNANCE FRAMEWORKS FOR THE USE OF AI TECHNOLOGIES

Inclusiveness of the digital economy

25. WORK TO INCREASE TRADE & INVESTMENT OPPORTUNITIES FOR SMES, AND CREATE NEW JOBS FOR WORKERS
26. ENSURING LABOR RIGHTS ARE A KEY CONDITION FOR LIBERALIZATION OF TRADE (INCLUDING DIGITAL TRADE)
27. RECOGNIZE DIGITAL INCLUSION AS A DRIVER OF ECONOMIC & SOCIAL DEVELOPMENT :
28. MUTUAL RECOGNITION OF DIGITAL IDENTITIES
29. PROMOTING EQUALITY OF OPPORTUNITY IN DIGITAL ECONOMY
30. INCREASING ACCESS TO RETRAINING & DIGITAL SKILLS
31. COOPERATION ON DIGITAL CAPACITY BUILDING