

MIDDLE POWERS COOPERATION: TRADITIONAL AND DIGITAL ECONOMY

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Traditional economy

U.S. under
President Trump:
Return to
protectionism

- Trade war with China: affecting middle powers' economic interests
- Raising tariff or threatening to do: Japan (automobiles), South Korea (automobiles, washing machines, steel), Canada (steel), Australia (steel)

China: Economic
coercion to
achieve foreign
policy goals

- South Korea: restrictions on entertainment services, tourism, consumer products over THAAD deployment (Meick and Salidjanova, 2017)
- Japan: rare earth export restrictions, anti-Japan vandalism, decline of tourists (Nagy, 2013)

Traditional economy

Shared interests

- Benefiting from free trade
- Protecting against economic coercion from large states
- Making middle powers keyholders for shaping Indo-Pacific's economy

Cooperation for middle powers

- Joining multilateral trade agreements (CPTPP)
- Promoting bilateral trade agreements

Bilateral trade agreements

Countries	Bilateral trade agreements
Japan	Japan-EU Economic Partnership Agreement (2018) Japan-Australia Economic Partnership Agreement (2015)
South Korea	South Korea-Australia Free Trade Agreement (2014) South Korea-UK Free Trade Agreement (2019)
Australia	Australia-South Korea Free Trade Agreement (2014) Australia-Japan Economic Partnership Agreement (2015)
Canada	Comprehensive Economic and Trade Agreement (CETA) (2017)

Comprehensive and Progressive Agreement for Trans-Pacific Partnership

11 members, 3.5% of global GDP, economics gains of \$147 billion (by 2030)
(CPTPP)

Extensive trade deal, covering e-commerce, IPP, data protection, SOEs

Institutionalizing new trade rules for trade deals (Kim, 2018)

Helping members alleviate pressure from U.S. tariffs (Kim, 2018)

Preventing China from setting trade rules (Kim, 2018)

Advocating other states to join and lobbying for U.S. return (Nagy, 2019)

Taiwan in CPTPP: sub-state actors joining without national government (Nagy, 2019)

Digital economy

U.S.-China competition: Bifurcation of systems
(Economy, 2018; Nagy, 2019)

Implications (Nagy, 2019)

- Disrupting global supply chains due to duplicating and localizing business platforms for two systems
- Rising production costs
- Reducing consumption and economic growth
- The role of Chinese government in digital economy, data privacy, IPP

Digital economy

Shared interest: Promoting shared standards, rules and good governance



Cooperation for middle powers

- Working together and along with U.S. and China to develop a shared regulatory mechanism for digital economy.
- Example: Free Trade and Data Free Flow with Trust (DFFT)

Chinese government's role in digital economy

- ▶ China's National Security Law (Article 11) and Cyber Security Law (Article 18) allows far-reaching powers for security agencies
- ▶ China's Digital Silk Road (Cheney, 2019)
 - ▶ Providing digital infrastructure (5G technology)
 - ▶ Development of advanced technologies (AI, quantum computing, satellite navigation systems)
 - ▶ Promoting e-commerce
 - ▶ Establishing international rules that conform "cyber-sovereignty"

Data Free Flow with Trust (DFFT)



Proposed in 2019 G20 summit in Osaka



Part of Osaka Track, aims to standardize rules in global movement of data flows with better protection in personal information, intellectual property and cybersecurity.



Balancing between free flow of data and growing public distrust of how companies and governments handle data governance (Carter, 2019)



Keeping the global production network and existing supply chains intact



Acting as middle power firewall against economic coercion, the weaponization of trade and tourism.

Key takeaways



Middle powers facing challenges from the rise of China and U.S.—China competition



Challenges ranging from economic coercions to being forced to choose sides



Mutual interests in maintaining an open, rules-based system and boosting middle powers' influence in the Indo-Pacific



Strengthening cooperation among middle powers and with China and the U.S.



Active diplomacy to promote shared mechanisms

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