

Financial Times (April 23, 2021)

Technology wars are becoming the new trade wars

‘Analogue sovereignty’ is no longer sufficient — countries must find a new compact with digital power

John Thornhill

Technology has turned geopolitical. The US has blocked semiconductor exports to China. In turn, China has looked to limit US access to rare earth minerals, crucial to the manufacture of many tech products. Several countries have banned China’s Huawei from running their 5G telecommunications networks. India has also banned the Chinese-owned viral social media app TikTok, following border clashes between the two countries. The British government is, meanwhile, investigating Nvidia’s proposed acquisition of Arm, the chip designer, on national security grounds.

For some trade economists, schooled in the quaint idea that humans are rational actors, such developments have come as something of a shock.

The interconnections of the digital age have blurred the distinctions between economic and security issues. Dominant tech companies are both engines of economic growth and channels of security risks. They also enjoy outsized profits, global market penetration and the ability to set industry standards. **Trade and industrial policies are therefore easily hijacked by broader security and geopolitical priorities.**

“Technology wars are becoming the new trade wars.” write Garcia-Macia and Goyal.

In the past, many countries have blocked imports to protect national champions and their often monopoly profits. What makes the latest technology disputes unusual, and unnerving, is that the dominant players are trying to block exports from third countries, too.

The decoupling of the US and Chinese economies and the fragmentation of the internet, the so-called splinternet, threatens to entangle the rest of the world. Other countries will have to find ways to preserve free trade in as many areas as possible and agree common rules to protect cyber security.

Some strategists argue that we should accept a return to a neo-Westphalian world order in which the US and China will define and control their own spheres of influence, as happened between Europe's great powers after the Peace of Westphalia of 1648 ended the Thirty Years War.

But Luciano Floridi, a professor at the Oxford Internet Institute who has written widely on digital sovereignty, says that this would be to misunderstand the nature of power in the 21st century. "The modern age is over," he tells me. "It is no longer 'my place, my rules'. It's goodbye Westphalia."

Traditional analogue sovereignty, as he calls it — which controls territory, resources and people — remains a necessary function of modern states, but that is now insufficient. It must also reach an accommodation with digital power, which controls data, software, standards and protocols and is mostly in the hands of global tech companies.

As Democratic representative David Cicilline said in his US congressional antitrust hearings last year, the big technology companies can sway the lives of millions of people in lasting ways and have assumed the powers of a "private government".

Floridi argues that analogue governments do still have the power to shape digital sovereignty to their own ends and suggests the EU should partner with like-minded democratic countries such as the UK, Japan, Canada and Israel. The EU already took the lead in 2018 by adopting the General Data Protection Regulation, which has in effect defined global data usage standards.