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China’s dangerous digital agenda

WASHINGTON, DC/BRUSSELS -- When the Chinese e-commerce juggernaut Alibaba listed on the New York Stock Exchange late last year, it became the world’s 17th largest publicly traded company overnight, with a market capitalization of $230 billion -- larger than Amazon, eBay, or Facebook. Europe, however, seems to have missed the news.

Indeed, instead of responding to China’s digital rise, the European Union has remained fixated on the global success of American platforms like Amazon, Facebook, and Google, even threatening punitive actions against them. A couple of months after Alibaba’s IPO, the European Parliament passed a non-binding resolution to prevent online companies like Google from “abusing” their market position. The resolution called for “unbundling search engines from other commercial services.”

But there is mounting evidence that the real competitive challenge for Europe will come from the East, especially China, which is taking a protectionist and expansionist approach to securing its future digital dominance. If the European Union and the United States do not collaborate to limit China on this front, they risk leaving the playing field wide open to a regulatory regime based on principles that directly controvert the fundamental values the West’s two largest economies share.

There is no doubting China’s success in the Internet economy. With Alibaba, China has 27 so-called unicorns (companies that are valued at $1 billion following an IPO, sale, or publicly declared round of funding), whereas Europe has only 21. China also boasts four of the world’s top ten most visited websites. Baidu, the country’s leading search engine, anticipates that half of its revenues will come from outside of China within just six years.

To be sure, China still lags far behind the US, with its 79 unicorns, in the digital sphere. But it poses a greater threat to the sector’s openness and competitiveness, as its leaders rely on mercantilism and protectionism to further their high-tech goals.

For example, the Chinese State Council’s plan to ensure that the country leads the world in semiconductor production by 2030 will involve the provision of at least €20 billion ($22.6 billion) in government subsidies to Chinese-owned firms, as well as discriminatory procurement to shut out their foreign competitors. Similarly, the Chinese government has committed €640 billion annually for five years to just seven “strategic emerging industries,” including information and communications technology.

Moreover, China employs technology standards as a market barrier, while using its anti-monopoly laws to harass US and European companies. Add to that the theft of valuable European and American intellectual property, including through the government-backed hacking of European companies’ computers, and the threat that China poses to open competition could not be clearer.

But the problem is not confined to China’s borders. The “Beijing consensus” -- China’s statist policy approach, often contrasted with the "Washington consensus" of market-friendly policies broadly favored by Europe and the US -- is inspiring a growing number of countries to shower domestic tech champions with privileges and subsidies. Perhaps more problematic, Chinese influence is fueling support for Internet balkanization -- the splintering of the global Internet into smaller, closed national networks -- in a number of countries, including key players like Brazil, Russia, and Turkey, and even has sympathizers in Europe.

Such data localization may sound harmless, especially when it is presented as a legitimate response to revelations of far-reaching surveillance by the likes of the US National Security Agency. And, in promising a "secure" national cloud, this is precisely what policymakers are attempting to do. But those are weak grounds for undermining one of today's greatest innovations and most effective economic-growth engines, especially given that hacking can, and does, occur from anywhere. Indeed, the gravest cyber crimes originate from precisely those countries, including China and Russia, that are leading the balkanization movement.

The surest way to accelerate China's digital rise is a transatlantic falling out over relatively small issues. Whether it is data or copyright, the Internet of Things, or privacy, the EU and the US must agree on a common path -- based on shared values like democracy, the rule of law, and freedom of speech. Otherwise, China will soon be dictating the terms of trade of the world's fastest-growing economic sector. If open and pluralistic societies do not stand up for an open Internet and market-based trade, who will?

PROJECT SYNDICATE

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