

# Economic Answers to Internet Policy Challenges in Asia

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# The Internet and Growth in the Asia Region

- Asia currently has the majority of subscribers on the Internet and by 2025 fully 80 percent of all global Internet users will reside in either Asia or Africa.
- Projections are that in 2016, the Internet will account for 8 percent of Korean GDP, nearly 7 percent of Chinese GDP and just under 6 percent of Japanese GDP.
- Alibaba in 2014 had a net worth larger than Amazon and Ebay combined.
- Singapore again has topped the WEF's Network Readiness Index; Japan entered the top ten; and Korea was 12

# Roadblocks to an Asian Internet Economy

- “Capacity” remains a key roadblock; need to build the infrastructure for the Internet before the economic, social and political benefits of connectivity can be fully realized – and that requires money. The Philippines and Indonesia are good examples where infrastructure bottlenecks hamper growth.
- A related problem is the growing “diversity” of the Internet in Asia. By one estimate, there are over 3000 languages in the Asia Pacific region and these communities big and small are increasingly “online”. This presents challenges for the emergence of a common legal and economic framework to support the free flow of information and slows the diffusion of Internet technologies and innovation in the region.

# Cyber Sovereignty and the Internet

- National policies asserting control of cyber space are appearing with more frequency in Asia. Currently, there are concerns that Chinese authorities are tightening control over the Internet through introduction of a new terrorism law, new regulations on transfers of banking data and toughened cybersecurity standards that require in certain instances access to source code.
- The US political commitment to an “open” Internet is undermined by US law enforcement efforts to unilaterally require US companies to surrender on request data on customers held at data centers outside US borders, ignoring traditional mechanisms for law enforcement cooperation among countries, such as Mutual Legal Assistance treaties (MLAT).
- These policies have their roots in national security concerns, but they need to be balanced against the importance of preserving the free flow of data in the region and globally.

# The Danger of Fragmentation of the Asian Internet

- Over the coming decade, the Internet in Asia will likely look increasingly “diverse” as more countries, more languages, and more cultures come online. The “risk” is that this “diversity” and the political, economic and social tensions associated with it can undermine the “ubiquity” of the Internet in Asia.
- Mitigating this is a powerful Internet-led trend toward greater “integration” especially in the areas of the service and manufacturing economies.
- The basic engineering of the Internet, the IP address system, is not immediately threatened. But national government assertions regarding access, surveillance and data localization are real problems that can derail innovation and growth on the Internet and open the door to “fragmentation” of the Internet in Asia.
- Both governments and business need to reinforce a commitment to an “open” Internet by drawing on decades of experience in managing trade to avoid “fragmentation” and to better “govern” the Internet economy.

## Role of “Pathfinders” within APEC

- The role of “pathfinders” especially within APEC needs to be encouraged and expanded on Internet related policy issues.
- “Pathfinders” are governments that take steps unilaterally or in conjunction with like-minded partners on issues that have yet to gain broad consensus in the region.
- Countries like Japan, Korea, Australia and Singapore, which are advanced economies and whose companies depend critically for their growth on the Internet, need to show example and take the lead on contentious issues related to privacy, security and intellectual property.
- Singapore’s new hybrid cyber security standard is a model for the region, but progress has been mixed in other areas.

## An “Economic” Dialogue on the Internet in the Asia Pacific

- Need to get academic economists and legal experts on international trade more involved in questions of managing the Internet economy and in providing analysis of how existing institutions and trade regimes can be updated to reflect the way the Internet is transforming our economies.
- For example, the original text of the GATS adopted in 1995 was explicit in stating that the rules should be “technology neutral” and committed signatories to safeguarding the “movement of information” across borders and to access information stored outside national borders.
- Need more research and discussion about the relevance of the GATS to issues such as data localization rules or privacy frameworks that impede the flow of data across borders.
- Goal should be to expand discussions about the management of the Internet beyond the UN based ITU and IGF process and give it more prominence in economic fora such as APEC and emerging free trade arrangements such as TPP. The current proposal to establish an Internet Economy Steering Group is a step in the right direction.

# Steps to Promote Cross Border Data Flows

- A great deal of attention is going to discussions within TPP and APEC with regard to new rules and principles for supporting cross-border data flows in the region, particularly with the advent of the Internet of Things.
- Promoting the digital economy in the Asia Pacific requires a mixture of agreed principles and regulatory reforms, including:
  - Commitment to a “free and open” Internet
  - Non-discrimination among service providers
  - Eliminating localization barriers
  - Ensuring technology choice
  - Delivering enforceable consumer protections
  - Safeguarding network competition

## Some Takeaways

- Asia may be the new center for the Internet, but lagging infrastructure capacity and the increasing “diversity” within the Asian Internet leave a still large digital divide and present obstacles to the emergence of the common framework for supporting the free flow of information in the region.
- Growing assertions of cyber sovereignty by advanced countries, such as China and the US are compounding the problem and pose a real risk of “fragmenting” the Internet in Asia.
- Regional economic institutions, such as TPP and APEC, can help support closer alignment of national policies related to the Internet in the region , drawing on decades of international experience in managing cross-border trade issues.