

# Deepening Digital Trade Rules to Promote the Upgrading of Guangdong Regional Value Chain

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## ABSTRACT

At this stage, with the treacherous situation of international economic and trade relations, the trend of anti-globalization and the resurgence of trade protectionism, the traditional global multilateral trade negotiation system within the framework of the world trade organization is blocked, and a new pattern of the world economy with bilateral trade cooperation and regional economic integration as the main body is taking shape. China's formulation and deepening of digital trade rules is an important factor in realizing the leap in the embedded status of the global value chain. Only by fully understanding the game situation of global digital trade rules can we find out the pain points and difficulties of China in the negotiation of digital trade rules. The game focus of International Digital Trade Rules Negotiation mainly involves four aspects: tariff barriers, non-tariff barriers, consumer rights protection and digital trade facilitation. The current digital trade rule templates of developed countries such as the United States, Japan and Europe have some problems, such as the difficulty in dividing the ownership of tax rights and profits, the "two-level differentiation" of data value-added, the "catch-up trap" of low-end contract manufacturers, and the "technology gap" between chain owners and local enterprises in the global value chain. In this regard, it is suggested to establish and improve the data element market system, establish a supporting system for digital trade tax supervision, establish a support system conducive to the development of key digital technology industries, strengthen the talent agglomeration effect, promote the in-depth cooperation between industry, University and Research Institute, deeply tap the interests of the agreement, focus on the key nodes of the network, pool the rule consensus of developing countries, deepen the research on key digital trade rule issues, and explore a win-win model with developed countries.

## KEYWORDS

Digital trade rules; Tariff barriers; Digital divide; Value chain upgrading

## 1. INTRODUCTION

At this stage, with the treacherous situation of international economic and trade relations, the trend of anti-globalization and the resurgence of trade protectionism, the traditional global multilateral trade negotiation system within the framework of the world trade organization is blocked, and a new pattern of the world economy with bilateral trade cooperation and regional economic integration as the main body is taking shape. The "report of the 20th National Congress of the Communist Party of China" proposed that "we should implement the strategy of upgrading the pilot Free Trade Zone, expand the global network of high-standard free trade zones, and constantly promote China's high-level opening-up". At the same time, in order to achieve the strategic goal of foreign trade transformation and upgrading, Guangdong should adhere to the theme of promoting high-quality development, realize the rise of the value chain, and put the construction of digital trade rules on the agenda. In the global supply chain system, the depth of digital trade rules can reduce the cost of information sharing,

coordination and transaction in the process of trade, promote the effective embedding of digital products into the global value chain through cost effect, improve the accessibility and relevance of trade, and then promote the transformation and reform of the global value chain.

The development of digital trade rules has gone through a process from point to surface and from shallow to deep (Bai Guangyu, 2022). At present, the game situation of digital trade rules mainly forms the development pattern of the parallel WTO multilateral framework and APEC regional framework, the dominance of "American rules" and "European rules", the "Asia Pacific model" and the rise of China's practice. At present, China has been largely integrated into the international division of labor system and deeply embedded in the East Asian production network. However, it is undeniable that China's deep participation in the value chain system led by developed economies such as Europe and the United States has made it difficult for China to rely on the export of low value-added industries to achieve economic growth. In addition, the Reindustrialization strategy implemented by the "chain leader" countries in recent years has issued a series of industrial policies to strengthen and protect its manufacturing industry to ensure its technological advantage in the industrial chain, strengthen the discourse power of value chain governance, and make it difficult for China to realize the transformation and upgrading of its manufacturing industry.

## **2. PROBLEMS FACED BY DEEPENING DIGITAL TRADE RULES AND PROMOTING THE UPGRADING OF REGIONAL VALUE CHAIN**

### **2.1. Differences in Tax Rules Lead To Difficulty in the Division of Tax Rights and Profits**

From the perspective of interest distribution in international trade, tax policy is directly linked to the actual income of the country, and will indirectly affect the interest distribution among countries through the division of labor in the value chain. Reshaping the tax rules related to digital products or services in international trade has been strongly concerned by countries. Related issues mainly include two aspects of Taxation: one is international tax, that is, whether to permanently exempt electronic transmission tariff. Under the WTO framework, member states have reached a consensus on the temporary exemption of electronic transmission tariffs, but the controversial point is whether it should be permanently exempted. On the other hand, it is the domestic tax. The main difference is whether to levy a digital service tax. Due to the uneven development level of digital economy in various countries, the selective imposition of a domestic tax on digital services will affect the distribution of interests in the value chain of digital trade. The differences between electronic transmission tax and digital service tax make it difficult to divide the tax right and profit ownership. The United States has always insisted on permanent exemption from electronic transmission tariffs and domestic digital service tax; The European Union and China also advocate the exemption of electronic transmission tariffs, but they disagree with the United States on the exemption period, and advocate the regular extension of the exemption provisions for electronic transmission. Many developing economies, such as South Africa, India and Indonesia, believe that exemption from electronic transmission tariffs and digital service taxes will erode their tax base and profits, resulting in large-scale tariff losses. Therefore, the proposition that both electronic transmission tariff and digital service tax should be levied will create trade barriers, which is not conducive to creating a deterministic and predictable trade environment for enterprises and consumers.

### **2.2. Data Value Chain Flow Is Prone To "Two-Level Differentiation" of Data Value Added**

As a new factor of production, data security is related to a country's digital economy development, data privacy protection and national security. At present, there is a "digital divide" between different economies, and there are great differences in the level of development of digital trade, the importance

of security and development, and the costs and benefits behind data openness. In this issue, the United States unilaterally emphasizes cross-border data flow and ignores the demands of data regulation and governance in other countries. It advocates that Member States should not prohibit, restrict and discriminate the cross-border data transmission of individuals and enterprises, and should not force enterprises to build or use specific digital infrastructure in jurisdictions. At the same time, it does not put forward clear personal privacy protection claims. The free flow of cross-border data and information is a double-edged sword. On the one hand, it can promote the innovation of digital economy and the development of digital trade; On the other hand, the free flow of cross-border data and information represents the exponential expansion of the scope and scale of data flow, and the cross-border transmission of data not only contains commercial data and information, but also contains a large number of personal information. Without reasonable supervision and regulation, the cross-border flow of data can bring potential risks to data security, privacy protection and data sovereignty, which is prone to "two-level differentiation" of data value-added.

### **2.3. Excessive Protection of Digital Property Rights Widens The "Technology Gap" Between Chain Owners and Local Enterprises in the Global Value Chain**

From the perspective of rules, the dispute over technological development largely stems from the conflict between the property protection of technology leaders and the innovation rights of technology latecomers in the design of intellectual property protection system. In order to maintain their leading position in technology, developed economies such as the United States and the European Union attach great importance to the protection of digital intellectual property rights, and generally advocate the establishment of a strict digital intellectual property protection system, especially on the source code issue. However, excessive protection of digital property rights is not conducive to the state's supervision of network security and terrorism. Based on concerns about security and investigation, Internet service providers and telecom operators are obliged to provide technical interfaces and support for the prevention and investigation of terrorist activities in accordance with the law, which is the institutional manifestation of the legitimate security demands of general sovereign states. In addition, too high market access standards will extend the digital divide to the technology gap. Global data governance needs to integrate national, regional and international decision-making, and fully involve developing countries. At the same time, developing countries should also receive the necessary technical assistance to develop their own data acquisition capacity, so as to enhance their position in the data value chain. Strong intellectual property protection may prevent global innovation and technology transfer. Global innovation companies are expected to slowly lose their original technological advantages, leading to low-end contract manufacturers falling into the "catch-up trap" and widening the "technology gap" between chain owners and local enterprises in the global value chain.

## **3. COUNTERMEASURES AND SUGGESTIONS ON DEEPENING DIGITAL TRADE RULES AND PROMOTING THE UPGRADING OF GUANGDONG'S INDUSTRIAL "BELT AND ROAD" REGIONAL VALUE CHAIN**

### **3.1. Establish and Improve The Data Element Market System**

Cross border data flow is the core issue of digital trade negotiations. To participate in the negotiation of data rules, China should first improve the domestic data storage, circulation and protection rules, and establish a domestic market for data elements with perfect rules. First, clarify data property rights. On the basis of full consideration of personal privacy, industrial development and state supervision, the ownership of all kinds of data, especially the ownership of data generated by digital service providers and consumers, is clarified through legislation; The second is to solve the problem of data

pricing. Encourage the big data trading market to try various pricing modes such as agreement pricing, fixed pricing and real-time pricing, and explore the optimal pricing rules and standards for different types of data; Third, promote data sharing applications. Promote the sharing and exchange of government data and the open flow of public data, encourage and support digital service enterprises to provide services based on their data, and cultivate new scenarios for the development and utilization of data in agriculture, industry, transportation, etc; Fourth, strengthen data security protection. Establish a list of shareable data and tradable data, clarify the circulation mode and application scope of data sharing, and formulate a data privacy protection system and security review system.

### **3.2. Establish a Supporting System for Digital Trade Tax Supervision**

China's traditional foreign trade service system is biased towards trade in goods and pays relatively little attention to trade in services, which is not in line with the development trend of servitization of Global trade and is not conducive to the export of digital trade rules. We should build a policy system for digital service trade: first, improve the supporting system of foreign trade supervision. Promote the regulatory authorities in the relevant fields of digital services such as culture, finance, communications and intellectual property rights to accelerate the development of regulatory systems that facilitate the trade in digital services, and appropriately extend the supervision and services of traditional foreign trade regulatory authorities such as customs to the field of digital services; The second is to improve the supporting system of tax supervision. Research on tax incentives and regulatory policies to support cloud computing, basic software, integrated circuit design, blockchain and other information technology outsourcing, crowdsourcing, cloud outsourcing, platform subcontracting and other new models and new formats.

### **3.3. Establish a Support System Conducive to the Development of Key Digital Technology Industries**

The international competitiveness of key technologies and industries is often bound with the right to formulate international rules. In the context of the current international economic and trade environment, the competition in key digital technologies and industries such as 5g, artificial intelligence and quantum communication is extremely fierce, and the traditional international trade norms such as free market and fair competition have basically failed, replaced by oligopoly based on national or super large multinational technology enterprises. Even some developed economies advocating free trade have frequently taken non market economic measures such as restricting the export of domestic key technology services, restricting investment in domestic key technology services, preventing the import of products and services from other countries, and exclusive government procurement. We need to increase support for China's key digital technology industries: first, optimize the innovation system and mechanism to support key technology innovation. We will promote the reform of streamlining administration and delegating powers, combining decentralization with regulation, and optimizing services, reduce institutional transaction costs, stimulate innovation, focus on breaking through basic, general, and asymmetric technologies in the field of information technology, advance the layout of cutting-edge and disruptive technologies, and build an independent and advanced technology system; Second, develop key digital service industries. Encourage enterprises to "go to the cloud and use digital intelligence", build an open and independent cloud economic ecosystem, and cultivate a number of leading digital service enterprises with international competitiveness.

### **3.4. Strengthen the Talent Agglomeration Effect and Promote The In-Depth Cooperation Between Industry, Universities and Research Institutes**

In order to break through the upgrading dilemma of technology intensive products, China should strengthen scientific and technological cooperation with digital trade rule partners. On the one hand, China should strive to build a platform for scientific and technological exchanges and cooperation with its partners in digital trade rules, actively hold scientific and technological academic forums, carry out cooperative learning projects between colleges and universities, set up government funds for talent exchange in Colleges and universities, support transnational scientific and technological talents to form scientific research teams, improve fund management and scientific research rating mechanism, and strengthen the support of technology intensive industry talent chain. On the other hand, we should solidly promote the in-depth cooperation between industry, University and research of technology intensive enterprises in the free trade zone, actively guide foreign capital to flow into China's domestic innovative enterprises, grasp the reverse technology spillover effect of foreign direct investment, guide domestic enterprises engaged in core technology research and development to actively carry out technology seeking OFDI in technology intensive industries such as information technology, artificial intelligence, bioengineering, high-end equipment in economically developed digital trade rule partners, and provide financial support such as easing the restrictions on loan guarantees for such enterprises, so as to promote the organic integration of innovation chain, capital chain and talent chain, so as to break through China's bottleneck in upgrading the quality of technology intensive products and eliminate the export barriers of technology intensive products between China and its digital trade rule partners.

### **3.5. Dig deep Into the Interest Fit and Focus on the Key Nodes of the Network**

China should continue to pay attention to the role of digital trade rules in enhancing the stability of trade policy, and expand the radiation scope of high-standard digital trade rules network by cooperating with existing digital trade rules partner countries and potential digital trade rules partners. First, strengthen close ties with existing digital trade rule partners. Based on the original agreement on digital trade rules, we will carry out upgrading negotiations, improve the quality of cooperation in issues such as trade in goods, cross-border trade in services, investment and market access issues in the negative list, accelerate the in-depth creation of the upgraded version of digital trade rules between China and Peru, China and Switzerland, promote the full implementation and entry into force of RCEP in member countries, deeply explore new points of interest, and strive to achieve the stability and sustainability of trade policies of existing digital trade rules. Second, establish digital trade rules with more economies, accelerate the signing and implementation of the China Japan South Korea digital trade rules under negotiation, improve the quality and level of China's digital trade rules network, and enhance China's leading position in the Asia Pacific economic integration cooperation. In depth analysis of the cptpp negotiation guidelines and trade rules model, accelerate the start of digital trade rules negotiations with Mexico and other relevant axle countries, and actively strive to become the key node of the global digital trade rules network. In addition, seizing the opportunity of China and the EU to comprehensively restart exchanges at all levels, we will focus on launching a joint feasibility study on the construction of digital trade rules between China and the EU, so as to continuously expand the global network of high-standard digital trade rules, unite countries with Chinese style modernization to create a mutually beneficial and win-win situation, jointly resist foreign trade risks, and provide stable development conditions for China to upgrade the quality of export products.

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