S'pore leads new approach to digital trade

Digital Economy Partnership Agreement sets new path for international cooperation

Robert Holleyman and Clark Jennings

For The Straits Times

Minister for Trade and Industry Chan Chun Sing (above) signed the Digital Economy Partnership Agreement electronically via video conference with New Zealand's Minister for Trade and Export Growth David Parker and Chile's Minister of Foreign Affairs Teodoro Ribera Neumann on June 12. PHOTO: MINISTRY OF TRADE AND INDUSTRY

On June 12, with the fitting stroke of their e-signatures in an online-only signing ceremony, the trade ministers for Singapore, New Zealand and Chile virtually inked a new trade agreement that will guide their multilateral cooperation on a wide range of emerging technologies and related digital trade issues.

The Digital Economy Partnership Agreement (Depa) is a first-of-its-kind, digitally focused trade agreement. Its goals are to enable seamless, end-to-end digital trade, facilitate secure cross-border data flows, and promote consumer trust in the broader digital ecosystem.

This innovative approach could harken a new era for trade negotiations and collaboration between like-minded partners on the issues defining the global digital economy. The United States – and its innovative, digitally intensive multinational companies operating in Asia – should take notice.

For companies and organisations that rely on the global data flows that underpin the digital economy, this agreement creates a more cohesive digital ecosystem and sets a new model for collaboration on data between governments.

Beyond its actual binding trade commitments, the Depa is, at its core, a statement outlining a shared vision of like-minded allies who seek to advance international collaboration and shared economic growth in today's digitalised world.

Its 11 "modules" cover a range of issues for which current trade rules and policies have often struggled to keep up. This includes binding provisions on digital trade facilitation efforts, such as the promotion of paperless trade, e-invoicing and e-signatures, and new payment systems.

FORWARD-LOOKING COMMITMENTS

But the real innovation is in the more forward-looking commitments to cooperate and set interoperable standards on emerging technologies such as ethical and trusted artificial intelligence systems, fintech and digital identities, and to develop regulatory "sandbox" approaches for data innovation.

The three countries have stressed that new partners are welcome to join the Depa. But they have also encouraged other countries to use the Depa modules as building blocks within their own trade negotiations, or as frameworks to which to align their domestic policy regimes. Either way, the agreement is meant to be a "living text" which will evolve to address new technologies, and provide new opportunities for the Depa partners to collaboratively tackle emerging policy challenges.

Free trade agreements (FTAs) long ago evolved beyond "traditional" trade policy matters such as tariffs, market access and investment protections, to include a broad scope of cross-cutting issues, including those created by the rise of e-commerce and Internet-enabled services.

Such "e-commerce chapters" in many existing trade agreements (which, in recent FTAs, have been broadened to be called "digital chapters") have included provisions related to privacy and data protection, cross-border data flows and cyber security.

It is worth noting that the US has long been the leading global advocate for the inclusion of such digital provisions in trade agreements.

The innovative "Digital Two Dozen" – 24 provisions covering everything from the open Internet to barring forced technology transfers – were considered a landmark feature of the Trans-Pacific Partnership, or TPP, when its negotiations were concluded in 2015. Despite the US withdrawal from that agreement, the 11 other Asia-Pacific nations (including all three founding Depa nations) retained those provisions when they ratified its successor agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, in 2018.

Beyond its actual binding trade commitments, the Digital Economy Partnership Agreement is, at its core, a statement outlining a shared vision of like-minded allies who seek to advance international collaboration and shared economic growth in today's digitalised world.

For its part, the US also advanced a similar set of obligations into the US-Mexico-Canada Agreement – which the White House has called "the gold standard" for digital trade – and in last year's US-Japan Digital Trade Agreement. The newly adopted Depa, however, may signal that the US' approach is no longer the vanguard for international collaboration in today's digital world. The Depa covers much of that now-familiar ground, but expands into newer, more "frontier" areas for digital trade policy.

THE MAIN GOAL

While some observers have fairly pointed out that many of Depa's provisions are non-binding and take a light-touch approach towards collaboration on emerging issues, such a view mistakes the main goal of the agreement.

In today's increasingly fractured and contentious global policy environment, in which economic, trade and national security interests are blurred and often merge, international cooperation is vital. Too many countries continue to adopt unilateral approaches that draw new battle lines around contentious issues. Questions around how to regulate emerging technologies, as well as divisive policy approaches around issues such as data governance, cyber security and cross-border data flows, continue to be flashpoints – with multinational companies often left in the middle between sparring, non-complementary regulatory approaches.

The Depa is a clear signal that these trading allies intend to proactively collaborate on thorny, next-generation trade issues. Most importantly, in a rebuke to the unilateral, often nationalistic trade measures popping up around the globe, the Depa partners will work to jointly create rules and standards to govern trade in our digital world.

Finally, this commitment to intergovernmental collaboration is even more timely, amid an era in which many broad, truly multilateral efforts are slow to reach (or even outright failing to achieve) consensus on emerging issues. The Depa governments have noted that this agreement is meant to complement other cooperative efforts around digital issues, such as the World Trade Organisation's (WTO) Joint Statement Initiative on e-commerce negotiations, and digital workstreams within the Asia-Pacific Economic Cooperation forum.

But, critics worry that the WTO e-commerce discussions are moving slowly, largely due to fault lines between the developed and developing world, and that the Organisation for Economic Cooperation and Development's efforts to broker a harmonised global approach for digital services taxation matters have yet to garner a consensus, and may not meet aspirational deadlines.

These challenges set the context for why innovative regional and plurilateral approaches could provide a pathfinder for future collaboration. The entrepreneurial efforts by the Depa partners set a new high-water mark for how trade negotiations can help countries, companies and citizens navigate the issues implicated by digital transformation.

With South-east Asia's digital economy projected to surpass US$300 billion (S$418 billion) by 2025, multinational companies and small and medium-sized enterprises alike can leverage Depa's provisions and should encourage other governments in the region to adopt its approach. More importantly, policymakers around the world should take notice. A new model has emerged.

stopinion@sph.com.sg

• Ambassador Robert Holleyman is president of C&M International and former deputy US trade representative. Clark Jennings, managing director for C&M International's South-east Asia regional office in Singapore, is a former policy adviser for international trade at the National Economic Council of the Obama White House.

When bosses shared their profits

Since the 1980s, profit-sharing has declined. It deserves to make a comeback.

Robert B. Reich

After the bruising crises we're now going through, it would be wonderful if the United States could somehow emerge a fairer nation. One possibility is to revive an old idea: sharing the profits.

The original idea for businesses to share profits with workers emerged from the tumultuous period when the US shifted from farm to factory. In December 1916, the Bureau of Labour Statistics issued a report on profit-sharing, suggesting it as a way to reduce the "frequent and often violent disputes" between employers and workers, thereby "fostering the development of a larger spirit of harmony and cooperation, and resulting, incidentally, in greater efficiency and larger gains".

That same year, Sears, Roebuck and Co, one of the US' largest corporations, with 30,000 to 40,000 employees, announced a major experiment in profit-sharing. The company would contribute 5 per cent of net earnings, without deduction of dividends to shareholders, into a profit-sharing fund. (Eventually the company earmarked 10 per cent of pre-tax earnings for the plan.)

Employees who wished to participate would contribute 5 per cent of their salaries. All would be invested in shares of Sears stock. The plan's purpose, according to The New York Times, was "to engender loyalty and harmony between employer and employee".

In reviewing its first three years, The Times noted that 92 per cent of Sears' employees had joined up and that "the participating employee not only found an ever-increasing sum of money to his credit, but eventually discovered he was a shareholder in the corporation, with a steadily growing amount of stock to his name".

Sears' plan was admirably egalitarian. Distributions of shares were based on years of service, not rank, and the longest-serving workers received nearly US$3 for every dollar they contributed. By the 1950s, Sears workers owned a quarter of the company. By 1968, the typical Sears salesman could retire with a nest egg worth well over US$1 million in today's dollars.

Other companies that joined the profit-sharing movement included Procter & Gamble, Pillsbury, Kodak, S.C. Johnson, Hallmark Cards and U.S. Steel – some because it seemed morally right, others because it seemed a means to higher productivity.

Profit-sharing did give workers an incentive to be more productive. It also reduced the need for layoffs during recessions, because payroll costs dropped as profits did. But it subjected workers to the risk that when profits were down, their pay cheques would shrink. And if a company went bankrupt, they'd lose all their investments in it. (Sears phased out its profit-sharing plan in the 1970s and filed for bankruptcy protection in 2018.) The best profit-sharing plans came in the form of cash bonuses employees could invest however they wished, on top of predictable base wages.

Profit-sharing fit perfectly with the evolution of the American corporation. By the 1950s, most employees of large companies had spent their entire working lives with the company. Companies and their employees were rooted in the same communities. Chief executives typically worked their way up, and once at the top rarely earned more than 20 times the average wage of their employees (now they're often paid more than 300 times more). Over a third of private-sector workers were unionised. In 1958, the United Auto Workers demanded that the nation's automakers share their profits with their workers.

Some remnants of profit-sharing remain today. Both Steelcase, an office-furniture maker in Grand Rapids, Michigan, and the Lincoln Electric Company, a Cleveland-based manufacturer of welding equipment, tie major portions of annual wages to profits. Publix Super Markets, which operates in the south-east, and W.L. Gore, the maker of Gore-Tex, are owned by employee stock ownership plans. The US still harbours small worker cooperatives owned and operated by their employees, such as the Cheese Board Collective in my home town Berkeley, California.

But since the 1980s, profit-sharing has almost disappeared from large corporations. That's largely because of a change in the American corporation that began with a wave of hostile takeovers and corporate restructurings in the 1980s. Raiders like Carl Icahn, Ivan Boesky and Michael Milken targeted companies they thought could deliver higher returns if their costs were cut. Since payrolls were the highest cost, raiders set about firing workers, cutting pay, automating as many jobs as possible, fighting unions, moving jobs to states with lower labour costs and outsourcing jobs abroad. To prevent being taken over, CEOs began doing the same.

This marked the end of most profit-sharing with workers. Paradoxically, it was the beginning of profit-sharing with top executives and "talent". Big Wall Street banks, hedge funds and private-equity funds began doling out bonuses, stock and stock options to lure and keep the people they wanted. They were soon followed by high-tech companies, movie studios and start-ups of all kinds.

Even before tens of millions of Americans lost their jobs and incomes in the current pandemic, the pay of the typical worker had barely risen since the mid-1970s, adjusted for inflation. Meanwhile, ever-greater wealth continues to concentrate at the very top.

Since 2000, the portion of total national income going to American workers has dropped further than in other rich nations. A steadily larger portion has gone into corporate profits, which have been reflected in higher share prices. But a buoyant stock market doesn't help most Americans. The richest 1 per cent now own half the value of all shares of stock; the richest 10 per cent, 92 per cent.

Those higher share prices have come out of the pockets of workers. Dr Daniel Greenwald of the Massachusetts Institute of Technology's Sloan School of Management, Dr Martin Lettau of the University of California, Berkeley's Haas School of Business and Dr Sydney Ludvigson of New York University found that from 1952 to 1988, economic growth accounted for all the rise in stock values, but from 1989 to 2017, growth accounted for just 24 per cent. Most came from "reallocated rents to shareholders and away from labour compensation" – that is, from workers.

Mr Jeff Bezos, who now owns 11.1 per cent of Amazon's shares of stock, is worth US$165 billion (S$230 billion) overall. Other top Amazon executives hold hundreds of millions of dollars of Amazon shares. But most of Amazon's employees, including warehouse workers, don't share in the same bounty.

If Amazon's 840,000 employees owned the same proportion of their employer's stock as Sears workers did in the 1950s – a quarter of the company – each would own shares worth an average of US$386,904.

There are many ways to encourage profit-sharing. During this pandemic, for example, Congress should prohibit the Treasury or the Federal Reserve from bailing out any corporation that doesn't share its profits with its employees.

It's impossible to predict what kind of US will emerge from the crises we're now experiencing, but the four-decade trend towards higher profits and lower wages is unsustainable, economically and politically. Sharing the profits with all workers is a logical and necessary first step to making capitalism work for the many, not the few. NYTIMES

• Robert B. Reich is a professor of public policy at the University of California at Berkeley, a former US secretary of labour and the author most recently of The System: Who Rigged It, How We Fix It.