

IV.-1 Digital Economy

Overview

The U.S.-Japan Business Council and Japan-U.S. Business Council (the Councils) share the view that digitally connected technologies will drive economic growth on a global scale for years to come. While the United States and Japan are well-positioned to realize the benefits of these new technologies and their applications, the Councils are in full agreement that our ability to do so will depend largely on the policy frameworks that are adopted and implemented—both domestically and around the world.

While we maintain our support for the high-level priorities jointly outlined last year, the Councils are observing an increase in worrisome approaches to privacy and cybersecurity in many jurisdictions. In some countries, data privacy regimes are increasingly looking to limit cross-border data flows and establish arduous localization barriers in the name of privacy and cybersecurity. Such approaches create an uneven playing field by severely hindering the ability of U.S. and Japanese companies to operate in these jurisdictions—by limiting choices, driving up costs for their customers, and ultimately reducing their competitiveness.

In addition to serving as non-tariff barriers for U.S. and Japanese firms, they stunt the growth of the economies they are designed to be helping and thwart the regulatory objectives they are put in place to achieve. Data localization and local content requirements, for example, are often implemented with the stated objective to increase security with little evidence to support that the objective is ever achieved. Rather, such measures serve as self-imposed economic sanctions that limit a country's global competitiveness and economic growth, while inhibiting the ability of companies to store data where it is most secure.

The practical implications of these policies are not the only concern that the Councils share. Policies that unreasonably focus more on *where* rather than *how* data is stored risk fragmenting the Internet along national or regional borders. This will have major economic implications in a world where every economy's digital success will depend on scalability, interoperability, and the ability for data to move freely across borders. Economies that isolate themselves from the global economy by building regulatory roadblocks to technology will undermine the ability of digitization to fully drive economic growth and create jobs.

Given these realities, the Councils encourage the U.S. and Japanese governments to work with the private sectors of both countries to:

Take proactive and coordinated leadership roles to promote a multi-stakeholder model for Internet governance, privacy, and cybersecurity globally. This includes accelerating efforts to expand the interoperability of privacy frameworks around the world.

1. The Councils encourage the U.S. and Japanese governments to work closely with the private sector to leverage their combined expertise to influence the broader international community around these areas. We encourage the governments to prioritize efforts to implement global best practices in domestic economies while institutionalizing those best practices through international cooperation and trade agreements.

2. To combat these trends, the U.S. and Japanese governments should work together in international fora such as the G7, G20, and OECD to ensure that we are actively promoting the benefits of multi-stakeholder approaches to privacy in line with the APEC Cross Border Privacy Rules (CBPR). Similarly, the governments should work with partners to promote an approach to privacy in these forums that is focused on interoperability and the cross-border movement of data rather than members adopting one entity's approach to privacy. Clear and consistent digital trade rules in the Asia-Pacific would help promote freer cross-border data flows, and could counter digital protectionism in the region, as would pursuing an interoperability mechanism between the APEC CBPR and European GDPR systems.

Explore opportunities to enhance digital trade in the Asia-Pacific through negotiated agreements.

3. We would encourage the U.S. and Japanese governments to explore opportunities to enhance digital trade in the Asia-Pacific through negotiated agreements. Any rules linked to digital trade in Asia, whether negotiated in a bilateral or multilateral context, should prohibit localization requirements across all sectors, as a baseline. We believe that steps taken by the United States and Japan to demonstrate a commitment to those rules would help create a global standard on digital trade that is able to compete with the problematic approaches to digital trade mentioned previously.

Promote U.S.-Japan cooperation to counter cyber risks.

4. Concurrently, the risk of malicious cyberattacks has dramatically increased in the IoT era, where a wide variety of products are connected to the Internet. Additionally, various kinds of systems, including core systems, are exposed to the risk of information leaks and system failures through backdoors and security holes in telecommunication equipment and software. The Councils recognize that, in order to tackle these threats, both governments have continued to engage in R&D and capacity building and have promoted the development of counter measures in the private sector by sharing the latest information and best practices. We urge both governments to play a leading role in establishing comprehensive and powerful countermeasures in cooperation with other allies.