

Digital and development cooperation: the Global Gateway and a future EU-Japan Digital Partnership

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Theme

This paper presents the potential benefits and challenges in terms of development cooperation for linking the Global Gateway with a future EU-Japan Digital Partnership.

Summary

This paper offers an overview of the Global Gateway and the potential synergies in terms of development cooperation with a future EU-Japan Digital Partnership. Japan is a key digital partner and proactive advocate of connectivity initiatives and global digital governance, and the two actors have established bilateral initiatives and platforms upon which to deepen their digital cooperation at the bilateral and multilateral level and in third countries. Connecting the Global Gateway and the bilateral digital partnership would help the EU and Japan achieve their normative approach to digital connectivity globally. However, several challenges lay ahead: their limited influence in the digital economy, their uncertain comparative advantage against less normative approaches and the difficulties in attracting private investment.

Analysis

Introduction

Against the backdrop of the global infrastructure deficit and the disruption caused by COVID-19, the EU announced in December 2021 its initiative for global connectivity, dubbed the Global Gateway, which aims to mobilise up to €300 billion by 2027. Although essentially a branding exercise of the EU's main development instruments and financial tools, it provides a distinctive, comprehensive, normative and strategic tool for infrastructure development and global connectivity. The initiative relies on private investment and endorses a positive approach, highlighting its potential to bridge the global infrastructure gap and added value in terms of sustainability. It is also non-exclusive and open to cooperation with like-minded partners, such as Japan, and aims to shape global governance in a manner compatible with European standards, principles and interests. Digital cooperation is a key component of the Global Gateway that could complement the bilateral framework established by a future EU-Japan Digital Partnership (henceforth the Digital Partnership) currently under discussion. This paper explores this potential connection and briefly discusses some challenges ahead.

An open and multistakeholder approach to connectivity: shaping global governance with like-minded partners

With the Global Gateway, the EU showcases a comprehensive, normative and strategic approach to connectivity covering hard and soft infrastructure and the ongoing industrial, green and digital transitions, with guiding principles such as human rights, democratic values, high standards, transparency, economic openness, and the promotion of green and private investment. The Global Gateway provides a consolidated framework to disburse and lever investments, but also to establish an 'enabling environment' to attract investment in partner countries. Hence, the initiative is implicitly and symbolically contrasted with China's flagship connectivity initiative: the Belt and Road (BRI). In addition, the Global Gateway is 'security-focused', reflecting a rising strategic awareness since the EU's 2018 strategy on connectivity, with a greater emphasis on the links between normative principles and the EU's strategic interests, on the resilience of global supply chains, on cyber and hybrid threats, and on the risks of 'economic coercion' linked with connectivity. Nevertheless, the EU adopts above all a positive approach, which emphasises its added value in terms of sustainability and long-term benefits, rather than denouncing the BRI's normative shortfalls.

The Global Gateway merges the EU's current de-risking instruments, guarantees and blended finance –combining EU grants with other public or private financing– and, as such, it essentially constitutes a branding exercise. However, it also undertakes a double coordination effort through a Team Europe approach –member states and EU institutions– and with a holistic approach to several instruments for development cooperation and external action. This amounts to a significant volume of development finance, as the EU and EU members states remain the world's leading providers of official development assistance (ODA), on a par with conservative estimates of the volume of loans under the BRI. The EU funding in the Global Gateway framework will be mainly provided through the European Fund for Sustainable Development Plus (EFSD+), the financial component of the Neighbourhood, Development and International Cooperation Instrument (NDICI). In that respect, private investment will be a key factor for the EU initiative, as the EFSD+ is expected to lever €135 billion in investments from €40 billion EU guarantees. This 3.4 leverage factor is clearly within reach as regards previous EFSD planning (2017-2020), which achieved a ratio of one to 10, although this included funding from other public and multilateral sources, and actual figures in terms of private investment are probably significantly lower. In addition to the EFSD+, €18 billion will be disbursed under other EU external assistance programmes and €145 billion levered by European financial and development finance institutions.

A financial breakdown shows that, although global, the Global Gateway will focus on the European Southern and Eastern neighbourhood and Sub-Saharan Africa, reflecting the traditional priorities of the EU's ODA. It will build on past initiatives towards these regions, including the Economic and Investment Plans for the Western Balkans, the Eastern Partnership, the Trans-Mediterranean Transport Network and the Renewed partnership with the Southern Neighbourhood. Roughly half of the €60.38 billion budget of the NDICI will be allocated to Sub-Saharan Africa and €19.32 billion to the Neighbourhood. In February 2022 this distribution was confirmed during the 6th EU-African Union (AU) Summit, with the announcement of a €150 billion Africa-Europe Investment Package, ie, half the budget of the Global Gateway. However, the global reach of the EU's initiative

might be multiplied as it also provides a framework to engage with like-minded partners and their own connectivity initiatives, offering opportunities to pool resources and assets in different priority areas, and to achieve a greater impact on global governance. Among these are the US, Canada, Japan, South Korea and India. The initiative also seeks complementarity with the US-led Build Back Better World (B3W) announced during the 2021 G7 Summit. Connectivity initiatives from G7 partners share similar normative approaches and also depend on mobilising private funds. This contrasts with the BRI, which remains mainly based on public funding. These amounted to almost 90% of total financing during the first half of 2019, but their share was lower in 2018 (70%), and the Chinese initiative has also pledged 'new models of investment' and a greater role for private capital, with evidence of smaller-scale funding and the promotion of private enterprise. The Global Gateway does not preclude the participation of China, as it adopts a positive and open approach, conceivably more effective than a confrontational one, and is easier to endorse for partner countries seeking to avoid binary choices. However, its emphasis on values, high-quality standards and openness will place a limit on bilateral collaboration. Despite positive signals which suggest partial compatibility of the BRI with the EU's approach, for instance, the internationalisation of green principles and the halt to coal project financing abroad, and the persistent lack of transparency and open procurement pose systemic contradictions, and cooperation will be limited by the Global Gateway's mechanisms against 'abnormally low tenders' and 'foreign subsidies that undermine the level playing field'.

Complementing an EU-Japan Digital Partnership: a catalyst for global influence

Digital cooperation is a top priority for the initiative, which overlaps the EU's digital agenda and its Indo-Pacific strategy. Digitalisation was already one of the five priority sectors of the previous EFSD Guarantee, with 32% of total funds and 10% of the new NDICI budget being allocated to digital actions. The EU's communication on the Global Gateway mentions both soft and hard infrastructure, like submarine and terrestrial fibre-optic cables, as well as cooperation in emerging technologies, under a general scheme combining infrastructure investments with technical and regulatory assistance on cybersecurity, data privacy and 'fair and open digital markets', among others. Such a comprehensive and normative approach to digital cooperation is key to promoting the convergence on digital governance with third countries. The EU Indo-Pacific strategy has pledged to build a regulatory environment and mobilise funding for better digital (and physical) connectivity. In that respect, it proposes to sign 'digital partnerships' with Japan, South Korea and Singapore. These partnerships aim at enhancing cooperation and interoperability on emerging technologies, like 5G and artificial intelligence, but also on digital norms and supply-chain resilience.

Japan is a key partner for the EU in this field and has been proactive in global digital governance. For instance, Japan has promoted the concept of Data Free Flow with Trust and the principles of AI governance recognised in multilateral forums like the G7, G20 and the Organisation for Economic Co-operation and Development. The EU and Japan pledged to deepen their digital cooperation and promote global standards on emerging technologies at their bilateral summit in May 2021. A future EU-Japan Digital Partnership would expand and draw on a series of institutionalised bilateral platforms and agreements, among which are: (1) the Economic and Strategic Partnership Agreements

that championed shared values and covered e-commerce and cybersecurity; (2) the annual ICT Policy Dialogue and biannual ICT Strategy Workshops, covering emerging technologies and digital governance, that gathered together the Commission's Directorate-General for Communications Networks, Content and Technology (DG Connect), the Japanese Ministry of Economy, Trade and Industry (METI) and the Ministry of Internal Affairs and Communications (MIC), as well as European and Japanese business officials; (3) the EU Japan Adequacy Decision; and (4) the 2019 Partnership on Sustainable Connectivity and Quality Infrastructure (henceforth the Connectivity Partnership), which promotes the involvement of the private sector in developing cooperation in third countries and covers digital connectivity, with a stress on digital and data infrastructures, policy and regulatory frameworks, and the importance of an 'open, free, stable, accessible, interoperable, reliable and secure cyberspace'.

The outline of the digital partnership mainly includes two complementary aspects: bilateral cooperation on emerging technologies and on related standards, aiming to develop the EU and Japanese digital capacities and their influence on digital governance. This calls for connections with their global connectivity initiatives and their relationship with third countries, starting with the sustainability and resilience of chip supply chains. Discussions on the issue were held during a visit by Thierry Breton – European Commissioner for the Internal Market – to Japan and are a key aspect of the Digital Partnership and one of the three pillars of the upcoming EU Chip Act, aimed at decreasing the EU's vulnerability to supply-chain disruption through international partnerships. In that respect, the EU and Japan share the same strategic goal of increasing their chip production capacity, trebling the annual revenue of the national semiconductor industry to US\$114 billion by 2030 on the Japanese side. To address their limitations in the field, the two partners could coordinate their investments to achieve complementarities and foster innovation along the chain of production, leveraging on their respective capacities in terms of chip design and manufacturing and some EU member states' specific strengths, such as the Dutch and Spanish leadership in extreme ultraviolet lithography technology used for the manufacture of advanced chip making machines and in electronic components for passive keyless car entry, respectively. However, decreasing digital-related dependence would require action beyond the bilateral framework and the establishment of international partnerships with other suppliers and manufacturers. This could include Taiwan or the US, with a firm like Intel paving the way for cooperation to strengthen the chip industry in several EU member states, but also with third countries like Malaysia, which could be integrated in a global framework for supply-chain security and resilience. The latter would also require the EU and Japan to seek partnerships for rare earth, metal and raw material supply, which is critical for manufacturing technological capabilities and products. Likewise, even if the Digital Partnership Cooperation tackles emerging technologies and standardisation on a bilateral basis, increased influence and capacities would also require reaching third parties, including through digital ODA, with the possibility of pooling EU and Japanese resources, technologies, financing and respective business networks and expertise in third markets. From an EU perspective, this is of particular interest in the Indo-Pacific, which remains a secondary area under the new NDICI budget (14%), but which was the destination of over 60% of Japan's ODA in 2019, mainly allocated to South-East Asia.

The global reach of EU and Japanese digital cooperation will also increase through coordination with other digital-related initiatives, committed to deliver digital projects in third countries. The US will be a key partner in this respect through the B3W, its recent Indo-Pacific Economic Framework or the US Digital Connectivity and Cybersecurity Partnership, which aims to promote an open, interoperable, reliable and secure digital economy in emerging global markets. Some EU member states and, with more intensity, Japan have already engaged in several US initiatives, such as: the Clean Network, which also comprises European and Japanese businesses and telcos; the Japan-US Strategic Digital Economy partnership; the US-Japan Global Digital Connectivity Partnership; and the 2018 Australia-Japan-US Trilateral Partnership for Infrastructure Investment in the Indo-Pacific. Focusing on a broad range of sectors of the digital economy, these initiatives converge on the need to pool resources and adopt the same approach of leveraging on private investment. In the Indo-Pacific, India might also be a significant partner with existing initiatives both with Japan and the EU, such as the India-Japan Cyber Dialogue, the Asia-Africa Growth Corridor (AAGC), the India-Japan Digital Partnership and the EU-India Connectivity and Strategic Partnerships.

EU and Japanese financial institutions are also key actors for the implementation of the two countries' approaches to digital cooperation. European financial institutions will be peer partners to lever private investment under the Global Gateway Initiative, and crucial players to foster private investment in low- and middle-income countries. The EU and Japan have already established a series of agreements under their connectivity partnership to mobilise these institutions' experience and assets, lever private investment and develop infrastructure projects. This includes memorandums of understanding involving the European Investment Bank (EIB), the European Bank for Reconstruction and Development's (EBRD), the Japan International Cooperation Agency, the Japan Bank for International Cooperation (JBIC), and the Nippon Export and Investment Insurance (NEXI). These institutions have engaged in all aspects of digital cooperation to varying degrees. For instance: over the past decade the EIB's blended finance has covered fibre-optic networks and other telecom infrastructures; JICA is promoting an open, free and secure digital transformation encompassing smart agriculture, e-health, smart cities and e-government, among others; the EBRD has recently issued its approach on digital transition, which adds to its ICT strategy; and JBIC and NEXI have been involved in a submarine cable project connecting Palau under the Australia-Japan-US Trilateral Partnership. An EU-Japan digital partnership should also learn from the difficulties encountered by some of these initiatives, such as the impossibility of implementing further projects of digital infrastructure by the Australia-Japan-US Trilateral Partnership after announcing their infrastructure certification scheme, Blue Dot Network, due to a lack of consensus on certain technical certification standards.

Challenges and limits of a value-driven approach

The EU and Japanese approach to digital cooperation with third countries can offer added value in terms of sustainability, but it might nevertheless face constraints that could hamper its impact on global digital governance. Private investment is a crucial element under the EU's and Japan's digital connectivity initiatives and is indispensable to bridge the global infrastructure deficit. However, in terms of development cooperation,

attracting private investment poses certain challenges. Private investment in infrastructure in low- and middle-income countries has declined over the past decade and there is a disparity between the two groups, with the latter tending to attract more investment than the former. This might impact the reach of the Global Gateway as low-income countries with high-risk investment profiles will require greater financial support, decreasing the investment leverage ratio. In addition, these countries might prove more challenging partners when enabling investment-friendly environments and fostering private-sector development. This was apparent with the EFSD blending facilities from 2017-20, where the share allocated to private sector development was by far smaller under the [Sub-Saharan] African Investment Platform (10%), comprising three quarters of low-income countries, than under the [Southern and Eastern] Neighbourhood Investment Platform (39%), comprising middle-income countries only. However, for both categories, attracting private investment may be easier in some high-growth revenue sectors like telecommunications, which have additionally benefited from the pandemic.

In addition, both actors are quite strong in key elements for digital development such as capacity-building, technical assistance and regulation, and, eventually, in ensuring the sustainability of infrastructure investments. In addition, European and Japanese companies, unlike Chinese companies, tend to have an exit strategy once the projects have been implemented. Nevertheless, they may find themselves in relative difficulty in the field of hard infrastructure, especially faced with Chinese projects and the Digital Silk Road, while it is also essential to bridge digital skills and the technological gap and develop third-country local capacities. This might be a challenge, as it could decrease their attractiveness and comparative advantage with regard to Chinese initiatives, not least because China's approach under the Digital Silk Road itself pursues a comprehensive approach that incorporates elements of soft infrastructure. Similarly, the EU and Japan appear as second-tier powers in some sectors of the digital economy, compared with the US or China, for example, in cloud, blockchain and artificial intelligence, in terms of market share, business assets and investments. This could hinder their access to third markets, their capacity to provide normative alternatives and make it hard to deal with concerns that have been associated with Chinese infrastructure and the predominance of GAFAM, such as the misuse or dominance of emerging technologies, infringements of data privacy and the diminishing of digital sovereignty. China's engagement in digital infrastructure, for example, increases interoperability and compatibility with Chinese technology, equipment, norms and standards. This might well complicate European and Japanese digital cooperation efforts to shape digital governance in third countries, especially in regions such as Sub-Saharan Africa, where Chinese digital projects have gained significant traction. There, the EU-Africa Investment Package is expected to deliver both hard and soft infrastructure projects, including submarine and terrestrial fibre-optic cables, cloud and data infrastructure, and the development of human-centred regulatory frameworks. The NDICI multi-annual indicative programmes in Nigeria, Cameroon, Republic of Congo, Zambia, Kenya and South Africa mention digital inclusion, training, the development of ICT solutions, the development of regulatory frameworks and the reinforcement of digital ecosystems to favour a human-centric digitalisation. In the selected middle-income countries (Kenya, Nigeria and South Africa) last-mile digital infrastructure is also mentioned, especially in underserved and rural areas. However, European and Japanese actors will have to compete with Chinese companies, such as Huawei, engaged in multiple hard-

infrastructure projects, including national broadband network and data centres, but also training and capacity-building.

Finally, authoritarian countries may not be sensible to the benefits of normative principles, for instance in terms of data privacy or transparency. But low-income countries could also favour rapid access to digital infrastructures over values-driven and security-focused approaches and their apparent trade-offs, especially higher costs and longer timelines for project delivery. For the EU this could be problematic in terms of digital and development cooperation, given the NDICI's original focus on least-developed, low-income, fragile or crisis-struck countries. The EU and Japanese normative approaches appear time-consuming in order to operationalise normative principles, develop benchmarks and launch joint projects. In that respect, their Partnership on Sustainable Connectivity and Quality Infrastructure is yet to deliver concrete projects, and the same goes for other initiatives in which they are engaged, such as the AAGC or the Australia-Japan-US Trilateral Partnership, which has only engaged in the Palau submarine cable project mentioned above.

Conclusion

The Global Gateway offers the EU a comprehensive, normative and strategic platform for global connectivity. Based on leveraging on private investment and focused on its vicinity, it also provides a framework for collaboration on connectivity and development cooperation with like-minded partners. Its digital cooperation component partly overlaps the EU's Indo-Pacific Strategy, under which Japan is a key partner. EU-Japan bilateral digital cooperation has steadily increased over the years, and the EU is now undertaking discussions to conclude a Digital Partnership with the Asian country, focused on emerging technologies, standardisation and the resilience of chip supply chains. The Japanese and EU efforts to promote standards and norms under this agreement would be multiplied in coordination with the Global Gateway, which could help promote their value-driven approach to digital connectivity in third countries. Nevertheless, they might face challenges when doing so. Both partners are secondary actors in key sectors of the digital economy, behind the US and China, which could constrain their capacity to lead the development of digital infrastructures, deploy digital solutions in third countries and frame standards in emerging technologies. There are factors, such as stringent processes linked with their value-driven approach, which might translate into high transaction costs and slow planning and implementation, and the inherent complexities of attracting private investment to this kind of projects that could hamper the appeal and impact of their digital connectivity initiatives compared with alternatives like the BRI. In any case, the complementarity and the synergies between the EU-Japan connectivity and digital initiatives secure a multiplier effect to advance their vision on global digital governance. Therefore, their interrelation should be promoted.