



# Trade Policy for the Age of AI

## A component to strengthen EU competitiveness

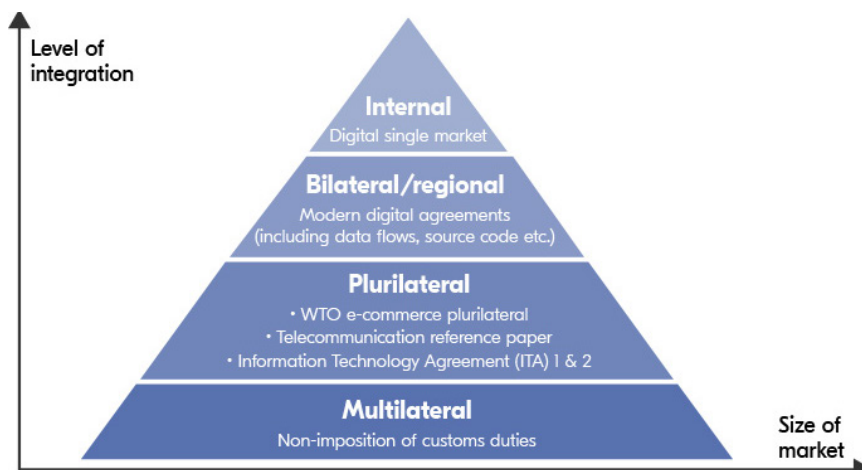
The world has entered the age of AI, with potentially significant effects on economic growth and prosperity. Beyond immediate signs, such as the widespread use of large language models, the age of AI is expected to be characterised by an improvement in production processes for goods and services across the economy (World Economic Forum, 2024). This will drive an increased demand for the inputs needed for AI-related goods and services. Moreover, many of these inputs will also be needed for the development of other emerging technologies, such as quantum computing and next-generation connectivity.

The purpose of this text is to outline how trade policy can help the EU improve its access to these inputs and thus strengthen its competitiveness in the age of AI.

The main inputs needed to boost the development of AI and other emerging technologies are data, computing power, connectivity, energy, capital and skilled labour. While countries have varying degrees of access to these inputs domestically, sourcing enough to achieve competitiveness will require international trade. However, the digital economy is increasingly subject to regulations that vary across countries and sometimes hamper the flow of goods and services across borders (Digital Policy Alert, 2024). Moreover, geopolitical tensions mean that security aspects of digital technologies, data, and know-how can impact the ability to trade with certain countries. This creates a dilemma where some of the inputs that have the biggest impact on competitiveness are among the most challenging to trade between countries.

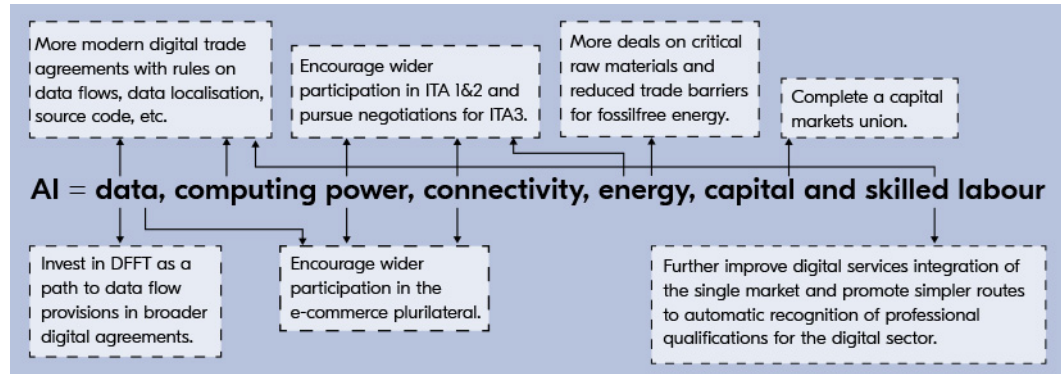
Digital trade policy can help overcome this challenge. The EU's digital trade policy currently relies on a number of building blocks (see Figure 1 below), ranging from basic agreements on the plurilateral and multilateral level via modern bilateral digital agreements with a few countries such as Singapore and Japan, to deep internal integration on the single market.

Figure 1. The EU's digital trade policy



While the EU’s approach has evolved in recent years, we believe additional changes are needed to better promote competitiveness in the age of AI. In the remainder of this text, we provide trade policy recommendations for the EU, with initiatives ranging from the single market to the multilateral level. These recommendations are framed around our concept *Trade policy for the age of AI* (see Figure 2 below).

**Figure 2. Trade policy for the age of AI**



## The single market’s role for digital trade policy

The single market has helped the EU’s digital transformation, but there is still room for further development in this area. Competitiveness in the age of AI requires large amounts of capital, which in turn requires a deeply integrated capital market spanning the entire union. Additionally, improvements can be made to simplify the supply of digital services across the single market and to facilitate the supply of relevant skills across the EU. Among other measures, simpler routes to automatic recognition of professional qualifications should be explored to facilitate the free movement of professionals in the digital sector across the single market.

The EU also needs to improve its approach to the regulation of the digital economy. Over the past decade or so, the EU has promoted a regulatory agenda that has often been unilateral in its approach, introducing regulations sooner than other countries and sometimes going further. This approach may have harmed the EU’s external trade (National Board of Trade, 2024a). Therefore, a priority should be the implementation and improved evaluation of digital legislation hitherto decided, rather than swift adoption of additional rules (National Board of Trade, 2024b). For example, we have proposed that any new EU legislation could be subject to a ‘data flow test’ to evaluate how it may impact digital trade. This could be implemented as part of a broader competitiveness test of EU rules (National Board of Trade, 2024c).

## The EU’s bilateral digital trade policy

Given the need to de-risk our technological trade relationship with countries such as China, the EU should pursue meaningful digital trade integration with more countries. While the EU has made important progress by signing modern bilateral digital agreements with countries such as Singapore and Japan, deeper integration with more markets is needed. For example, we believe that the EU should try to deepen its digital relationship with the US, which could improve access to inputs such as computing power and boost EU exports of digital services (National Board of Trade, 2024c; National Board of Trade, 2024d). The EU should also continue to pursue discussions on data free flow with trust (DFFT) as a potential path forward for data free flow provisions in a broader digital

agreement. One way for the EU to help those discussions could be by improving its approach to digital regulation.

Moreover, the EU should continue to pursue and finalise bilateral deals on critical raw materials and explore new trade agreements that could improve access to inputs needed to boost fossil-free energy production (National Board of Trade, 2023a; National Board of Trade, 2020).

## **Pluri- and multilateral digital trade policy**

Due to geopolitical concerns and recent technological and demographic developments, many developing countries have an opportunity to upgrade their role in digital value chains. This is especially true for digital services, as pointed out in the WTO's (2024) recent report on AI. The EU should invest in ways to help developing countries seize this opportunity, which would contribute to economic development in these countries, while also helping the EU access important inputs such as skilled labour.

One important component is helping more countries participate in trade agreements of importance for the age of AI. For example, the EU's commitment to drive plurilateral e-commerce negotiations forward in the WTO is a positive step, and it should now seek to help more countries participate in the agreement (National Board of Trade, 2024e). The EU should also invest in broadening geographical participation in the Information Technology Agreement (ITA). Development resources are needed to achieve broader participation in both of these agreements, and initiatives such as Global Gateway can help by funding digital infrastructure and the digitalisation of customs procedures. However, technical assistance and capacity development in trade policy are also needed, and these factors may play a larger role in the EU's development policy (National Board of Trade, 2023b).

Moreover, we believe it is time to start exploring another expansion of the Information Technology Agreement – an ITA<sub>3</sub> (National Board of Trade, 2024f). This could help bring in more goods of importance for the digital economy, such as robotics, and include more goods needed to expand the supply of fossil-free energy. In addition, the EU should be an active and constructive partner in the ongoing Trade and Environment Sustainability Structured Discussions (TESSD) and potential future plurilateral and multilateral negotiations on goods and services needed for the clean energy transition.

While it is difficult to foresee that substantive multilateral progress will be made in the near future, the EU should ensure that current headwinds do not endanger the important role that the WTO can continue to play for the digital economy. For example, finding a lasting multilateral solution for the non-imposition of customs duties on electronic transmissions is essential to avoid widening the digital divide. Moreover, with the range of security initiatives WTO members are currently adopting for digital technologies, such as AI and quantum computing, the WTO should serve as a platform for a discussion of strategies to minimise harm to trade and development.

## **Concluding remarks**

The age of AI could deliver growth and competitiveness to those countries that have ample access to inputs such as data, computing power, connectivity, energy, capital, and skilled labour. By prioritising deeper integration within the single market, pursuing strategic bilateral and multilateral digital agreements, and ensuring that its regulations support rather than hinder digital trade, the EU can secure access to the critical inputs needed for the development of AI and thus strengthen its competitiveness.

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This paper is authored by Hannes Berggren, Trade Policy Adviser at the National Board of Trade Sweden. National Board of Trade is an independent government agency and its views do not necessarily reflect those of the Swedish government.

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