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# Korea-China Digital Cooperation: Preparing for the Next Step

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As of October 13, 2021, the Korean drama "Squid Game" was reported to have attracted 111 million viewers around the world,[1] demonstrating the global enthusiasm for the series. "Squid Game" gained worldwide popularity in less than a month after it began airing on September 17, also showing the power of contents quickly transmitted worldwide in digital form.

Even though "Squid Game" was not aired in China, as Netflix services are not available in the country, China still remains the No. 1 importer of Korean contents. The proportion of exports to China in the Korean content industry's exports to the world has gradually increased from 26.6% in 2016 to 39.8% in 2020. In particular, in 2020 exports to China recorded $4.57 billion, up 10.1% year-on-year.

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[1] Euronews.culture (2021.8.11), "Squid Game becomes Netflix's biggest series with 111 million viewers in first month," https://www.euronews.com/culture/2021/10/13/squid-game-becomes-netflix-s-biggest-series-with-111-million-viewers-in-first-month

The accelerating growth of the digital economy in China can be a huge opportunity for Korea, given that content is mainly traded in digital form. China's digital economy in 2020 is estimated at around 40 trillion yuan, making it the world's second-largest market after the United States. Until 2017, the average annual growth rate of China's digital economy was 15.9%, higher than the 7.2% GDP growth rate during the same period. China's economy grew only about 3% in 2020 due to the COVID-19 pandemic, but the digital economy recorded a growth rate of 9.7%, becoming a new growth engine for China. The amount of data generated by the use of digital services by about 1 billion people in China has recorded 44 million Mbit/s as of 2020,[2] and the service sectors such as artificial intelligence and finance are also growing rapidly.

However, the Chinese government is tightening regulations on the digital economy as social problems arise in hand with the fast-growing digital economy in China. Data leakage incidents in China increased by about 26 times in the 12 years leading up to 2020, from 800 to about 21,000 cases. Recognizing this cybersecurity problem as a social problem that threatens China's national safety, the Chinese government is gradually strengthening its regulations in the digital field. President Xi Jinping also emphasized cybersecurity at the national security level, saying, "We should improve national security systems with a focus on strengthening early-warning, prevention, and control mechanisms for security risks in the digital economy." He also stressed the need for regulations on the rapidly growing digital economy, such as to "guard against platform monopolies and unregulated expansion of capital, and crack down on monopolistic practices and unfair competition in accordance with the law."[3]

In fact, starting with the enactment of the Cybersecurity Law of the People's Republic of China in 2016, China enacted the Data Security Law of the People's Republic of China and Personal Information Protection Law of the People's Republic of China in 2021, laying the foundation for strict data management and supervision by stipulating restrictions on offshore transfer of collected and generated data in China. In addition, online platform companies are subject to legal responsibility for the content distributed through the platform, and penalties for monopolies are being strengthened. The case of the Chinese government's regulation of the online platform company Alibaba in 2021 shows that the Chinese government could take very strong measures to establish the order of its digital ecosystem in the future. On December 24, 2020, China's General Administration of Market Management recognized unfair market acts on the part of Alibaba and launched an investigation into claims of its forcing sellers to sell the product

2 ITU Statistics, "International bandwidth, in Mbit/s." https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx

3 Xi Jinping (2022.3.3), "Building Up the Strength, Quality, and Size of China's Digital Economy," English Edition of Qiushi Journal.

only on their platforms, taking advantage of the platform's superiority and seller dependence.[4] In April 2021, Alibaba was sentenced to pay a fine of 4% of sales revenue in China in 2020, which amounted to 18.2 billion yuan. This received great attention due to the scale of the fine, but it is also known as the first case to punish unfair behavior of online platform companies internationally.

This strengthening of regulations in the digital field in China can not only lead to exports of Korean content to China, but also to contract the operations of Korean companies in China, increase management costs due to rapid system changes, and deteriorate business conditions by imposing heavy legal responsibility. For example, the Personal Information Protection Act suggests that corporate misconduct can be registered in the social credit system to impose legal responsibility for misconduct and stipulate restrictions on management and social activities in China.[5]

Therefore, strengthening regulations in the digital sector in China is likely to act as a non-tariff barrier beyond the original purpose of fostering a sound industrial ecosystem and preventing cybercrime, which will hinder future economic cooperation. Amid these concerns, some suggestions should be made for digital cooperation between Korea and China in the future.

The first is to establish a communication channel on digital trade norms between the two countries. Through dialogue channels between the two countries, transparency on mutual domestic laws and policies, such as data and e-commerce regulations, can be strengthened and regulations improved to facilitate digital cooperation between the two countries. In addition, academic exchanges are needed to promote mutual understanding, such as promoting joint research that comprehensively evaluates the impact of digital trade between the two countries on the economy of Korea and China as a preparation for the establishment of a policy consultation channel.

Second, Korea needs to seek ways to revitalize e-commerce and digital services between the two countries by utilizing China's external opening policy. It is important to create successful cases of cooperation by identifying trends and finding ways to cooperate in data offshore relocation pilot policies promoted in Beijing, Shanghai, Hainan, and XiongAn District.

Third, when negotiating FTA services between Korea and China, it is necessary to argue for

4 State Anti-Monopoly Bureau (2022), “China's Annual Report on Anti-Monopoly Law Enforcement 2021 (中国反垄断执法年度报告 2021）,” p. 12.

5 Article 67 of the Personal Information Protection Law of the People's Republic of China

the same level of digital service market opening as the Comprehensive Agreement on Investment (CAI) between the EU and China.[6] It is worth noting that the limit on EU companies' acquisition of investment shares has been expanded to 50% in the telecommunications and cloud service market in China, where foreign investment was not possible through CAI. While CAI neglected to prepare a safeguard for side effects that may occur due to the expansion of digital services, it is necessary to check this as an important issue of the FTA service agreement. KIEP

## References

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[6] The CAI began negotiations began in 2013 and was concluded in December 2020, but as of publication date has been denied ratification indefinitely after the EU Parliament raised the issue of human rights in Xinjiang Uighur and Tibet in May 2021. However, the agreement has not been canceled and remains meaningful in that China has greatly eased regulations on foreign investment.