

# **Oral Testimony to the United States International Trade Commission**

## **Investigation No. 332-536 Hearing The Information Technology Agreement: Advice and Information on the Proposed Expansion: Part 2**

**Presented by:  
Stephen Ezell, Senior Analyst  
Information Technology & Innovation Foundation (ITIF)**

**November 8, 2012**

### **The Importance of the Information Technology Agreement (ITA)**

The Information Technology and Innovation Foundation appreciates the invitation to provide testimony on the proposed expansion of the World Trade Organization's Information Technology Agreement. The ITA has been one of the most successful trade agreements ever undertaken. It has played an indispensable role in expanding global trade in ICT products, and this in turn has spurred innovation, enhanced productivity, increased employment, accelerated economic growth, and improved quality of life for citizens worldwide.

Yet the product coverage of the ITA has not been expanded since the agreement was launched in 1996, despite the subsequent invention of hundreds of innovative new information and communications technology (ICT) products, everything from GPS systems and flat panel displays to video game consoles, as well as an entirely new class of semiconductor chips called multi-component (MCO) semiconductors. Moreover, even the original ITA failed to cover a number of core ICT products such as dynamic random access memory chips, nor dozens of every-day consumer electronic products, including many types of audio-visual equipment such as audio speakers, DVD players, and video cameras. ITA product expansion as proposed by U.S. industry could bring an additional \$800 billion in two-way ICT trade under ITA coverage.

### **Why Expand ITA Product Coverage?**

Policymakers should work to broaden the ITA's scope because doing so would benefit the United States, but also because ITA expansion would benefit developing countries and the broader global economy alike.

### **Benefits of ITA Expansion for the United States**

Information and communications technology is one the United States' most important and dynamic industries. In 2009, U.S. ICT firms contributed \$1 trillion (or 7 percent) to U.S. GDP and in 2010 they accounted for 45 percent of U.S. high-technology exports. Moreover, U.S. firms are the world's largest producers of ICT goods and services, holding a 26 percent share of the global ICT industry. Thus, ITA expansion is poised to particularly benefit the United States.

ITA expansion would produce four specific benefits for the United States. First, foreign tariff removal on an expanded set of ICT products will boost U.S. exports of ICT goods and create U.S. jobs. In fact, ITIF estimates that ITA expansion would increase U.S. exports of ICT products by \$2.8 billion, boost revenues of U.S. ICT firms by \$10 billion, and in the process support the creation of approximately 60,000 new U.S. jobs. Many U.S. ICT industries would benefit significantly from the expanded exports that substantial tariff reductions achieved by ITA expansion would bring. For example, while PC-based games are exported duty-free to ITA-participating countries, tariffs for the same titles sold on consoles such as Microsoft's Xbox 360 are subject to tariffs of 10 percent in India; 15 percent in Indonesia; 20 percent in Thailand; and 23 percent in Vietnam.

Second, because the U.S. ICT industry accounts for about one-quarter of the global ICT industry, this means that a significant share of the increased global demand for ICT products wrought by tariff elimination will be filled by U.S. firms, even if the U.S. ICT goods manufacturer assembles certain products in Taiwan or China that are destined for sale in Germany or South Africa. In other words, it's not just about expanding exports from within U.S. borders; making the ITA stronger will expand the global ICT marketplace, making the U.S. ICT industry stronger in the process.

Third, although U.S. tariffs on non-ITA-covered ICT products—at about 2 percent or less, on average—are already less than those of almost all peer countries, U.S. consumers (both businesses and individuals) will benefit from lower prices realized from full tariff removal on an expanded range of ICT products.

Finally, U.S. leadership in promoting ITA product expansion will further bolster the United States' position as a leading advocate of greater global multilateral trade liberalization at a time when some actors around the world are implementing protectionist policies at an increasingly alarming rate.

### **ITA Expansion Benefits Developing Countries**

But ITA expansion will not only benefit the United States, it will also benefit developing countries (which account for 42 percent of ITA membership), for three key reasons.

First, reducing tariffs on a broader range of ICT products will decrease their cost and encourage the wider consumption and adoption of ICT products that play a central role in spurring innovation and economic growth. ICTs have positively transformed life and commerce in the developing world. For instance, the use of mobile phone applications such as M-Farm has greatly enhanced the productivity and profitability of African farmers by giving them transparent, real-time information about the retail price of their agricultural products. Mobile phones have also improved health and quality of life by serving as a platform for delivery of ophthalmological diagnosis and disease detection (such as diabetes) services in developing countries. So powerful are ICTs that the World Bank finds that a 10 percent increase in mobile phone penetration in a developing economy adds .8 percent to annual per-capita GDP growth. Likewise, a 10 percent increase in broadband Internet penetration adds 1.38 percent to annual per-capita GDP growth.

Second, lower prices realized by eliminating tariffs on ICTs encourages greater ICT uptake and thus boosts the productivity of all other ICT-consuming industries in a developing economy, from

airlines to banking to hospitality to retail. This is why high tariffs on general purpose technologies such as ICTs are so damaging to an economy. For example, for many years before it joined the ITA, India imposed high tariffs on ICT products as part of an import substitution industrialization strategy that sought to seed the development of an indigenous ICT goods-producing industry. But economists P.D. Kaushik and Nirvikar Singh found that for every \$1 of tariffs India imposed on imported ICT products, it suffered an economic loss of \$1.30 due to lower productivity in other ICT-consuming sectors of the economy, which were forced to procure often inferior but more expensive ICT products. In other words, in an attempt to develop one industry through protectionist policies, India damaged all its others.

In contrast, India's decision to join the ITA in 1997 is a prime example of the third benefit of ITA expansion for developing countries. This is that, by lowering the cost of ICT products, the ITA has undergirded development of a burgeoning ICT software and services industries in many developing countries, including India, Indonesia, Malaysia, and the Philippines. In fact, India's "enabled IT services industry" accounted for one-quarter of the country's exports in 2011 and employed 10.8 million Indian citizens.

But not only has the ITA seeded the development of strong domestic ICT services industries in many ITA-member developing countries, it has also played a key role in helping boost ICT goods and services exports from those countries. For example, exports of ICT goods account for 54 percent of the Philippines' total goods exports and 38 percent of Malaysia's. In general, ICT goods exports in ITA member countries account for far higher shares of total goods exports than in non-ITA member countries such as Argentina, Brazil, or Chile.

Moreover, the evidence shows that (on average) countries that have joined the ITA since its 1996 launch have experienced far more rapid growth in their ICT goods and ICT services exports than countries that have not. And with the production of increasingly sophisticated ICT products relying on businesses with specialized competencies situated in countries throughout the world yet

connected by complex supply chains, countries that haven't joined the ITA and which maintain high tariffs have effectively cut themselves out of the global ICT supply chain. Globally mobile enterprises and their investments simply go elsewhere. The implication is clear: for countries that wish to spur vibrant ICT product and service industries, the way to do so is by becoming an ITA member, not by erecting barriers to trade.

### **ITA Expansion Benefits the Global Economy**

Finally, ITA expansion will benefit the overall global economy by increasing the global stock of ICT capital, which in turn boosts productivity, and hence per-capita incomes. We estimate ITA expansion will increase the global ICT capital stock by \$28 billion; and since research finds that a 10 percent increase in ICT capital stock adds approximately 0.45 percentage points to output growth in an economy, we estimate ITA expansion will lead to annual global GDP being \$190 billion larger than it otherwise would be.

### **Conclusion**

As ITIF concludes in our March 2012 report *Boosting Exports, Jobs, and Economic Growth by Expanding the ITA*, the ITA has been a true win-win trade agreement—for developed and developing countries alike; for producers and consumers alike. The ITA has worked well, but it can work even better if it's updated to include the vast array of innovative new information and communications technology products that have been launched in the past fifteen years. The Information Technology and Innovation Foundation strongly urges making ITA product expansion a central objective of U.S. trade policy in the coming year.