Driving Growth Through a Digital Regional Market for the Pacific Alliance

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About ITIF

- One of the world’s top science and tech policy think tanks
- Formulates and promotes policy solutions that accelerate innovation and boost productivity to spur growth, opportunity, and progress
- Focuses on a host of issues at the intersection of technology innovation and public policy:
  - Innovation processes, policy, and metrics
  - Science policy related to economic growth
  - E-commerce, e-government, e-voting, e-health
  - IT and economic productivity
  - Innovation and trade policy
ITIF Global Engagement
Pacific Alliance Nations Should Think Big and Be Bold
Pacific Alliance Nations Lag the U.S. in Productivity

Source: GDP Per Person Employed, 2017 (PPP, US$), (The Conference Board, Total Economy Database)
Digital Transformation Will Help the Pacific Alliance Close the Gap

• Broadband boosts labor productivity of Latin American firms.  
  (Inter-American Development Bank, 2016)

• For Colombian manufacturing firms there is a “positive and significant effect of ICT investments on labor productivity.”  
  (Gutiérrez, 2011)

• For Chilean firms “ICT investment had a positive and direct effect on productivity.”  (Alvarez, 2016)
ICT Enables Scale—and Scale Enables Productivity

Keys for Digital Industry Success

- Large Markets
- Few or No Policies Raising Firm Costs
- Few or No Policies Limiting Firm Revenues
Firms in Digital Industries Need Larger Markets to Survive

Costs for 2 hypothetical firms with different fixed and marginal costs
Larger Markets Enable Digital Firm Competitiveness

Model of a firm with 350 units fixed cost, and 0.25 units of profit for unit of sale.
Lower Costs Enable Digital Firm Competitiveness

Cost units

Total Profits

Profits With Lower Costs

Adult Population, 100,000s

Pacific Alliance DRM
Profit Becomes Net Positive in Large Market

Colombia

Mexico

Chile

Peru

Total Profits

Profits With Lower Costs
### Countries/Regions Differ in Enabling Digital Success

<table>
<thead>
<tr>
<th>Feature</th>
<th>United States</th>
<th>China</th>
<th>EU</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Market</td>
<td>✓ ✓ ✓ ✓</td>
<td>✓ ✓ ✓</td>
<td>❌</td>
<td>?</td>
</tr>
<tr>
<td>Few Policies To Raise Costs</td>
<td>✓ ✓ ✓ ✓</td>
<td>✓ ✓</td>
<td>❌</td>
<td>?</td>
</tr>
<tr>
<td>Few Policies To Reduce Revenue</td>
<td>✓ ✓ ✓ ✓</td>
<td>✓ ✓ ✓</td>
<td>❌</td>
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</tr>
</tbody>
</table>

*Note: ✓ indicates a policy in place, ❌ indicates no policy, ? indicates uncertainty.*
U.S. Leads in Global Internet Companies

Number of Top-Ten Internet Companies

- USA: 7
- China: 3
- EU: 0
EU’s Digital Single Market is *not* the Model

- EU policies *raise costs* of digital companies
  - Regulating “over-the-top” apps as telcos
  - “Right to be forgotten”
  - Data localization (e.g., “EU cloud”)
  - Subjecting Internet platforms to special regulation
  - “Right to explanation” for artificial intelligence
  - Rights to access, delete and change data
  - VAT on e-books, but not paper books

- EU policies *reduce revenues* of digital companies
  - General Data Protection Regulation
  - Geo-blocking
  - Strong net neutrality / limitations on zero rating
Steps for a Pacific Alliance Digital Regional Market (I)

✓ Reduce tariffs on ICT imports (Join the Information Technology Agreement).

Joining the Information Technology Agreement: How Much Would Chile Profit by Eliminating ICT Tariffs?

Joining the ITA would grow the economy by $920 million in the 10th year, an increase of 0.23%.

Joining the ITA would increase tax revenue by $94 million in the 10th year, which is 67% of the tariff revenue it would forgo.
Steps for a Pacific Alliance Digital Regional Market (I)

- Reduce tariffs on ICT imports (Join the Information Technology Agreement).
- Ban limitations on cross border data flows and data center localization requirements.
- Ban customs duties on cross-border data transmissions.
- Exempt digital goods imports from taxes.
- Prohibit the requirement of the transfer of software source code and encryption as a condition market access.
- Enact a joint government procurement agreement, at least for digital goods and services.
Steps for a Pacific Alliance Digital Regional Market (II)

- Enact a commercially meaningful de-minimis threshold for low-value e-commerce packages—exempt packages worth less than USD $200 from taxes/duties.

- As part of improved trade facilitation, simplify returns processes, certificates of origin and duty drawback procedures, and streamline VAT collection on trade.

- Harmonize e-commerce consumer regulations.

- Create appropriate intermediary liability safe harbors.

- Mutual legal recognition of digital signatures and financial payment services.

- Harmonize spectrum.

- Allow inward investments in all ICT industries.
Steps for Domestic Digital Policy

✔ Don’t subject “over-the-top” Internet applications/providers to telecom regulations. This just raises costs for consumers and SMEs while slowing digital adoption.
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✓ Don’t subject “over-the-top” Internet applications/providers to telecom regulations. This just raises costs for consumers and SMEs while slowing digital adoption.
Steps for Domestic Digital Policy

✓ Don’t subject OTT providers to telecom regulation.
✓ Embrace light touch, opt-out privacy rules.
✓ Eliminate ICT-specific taxes.
✓ Focus on 5G, not gigabit networks.
So, Think **Big** and Be **Bold**
Muchas Gracias!

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