

Driving Growth Through a Digital Regional Market for the Pacific Alliance

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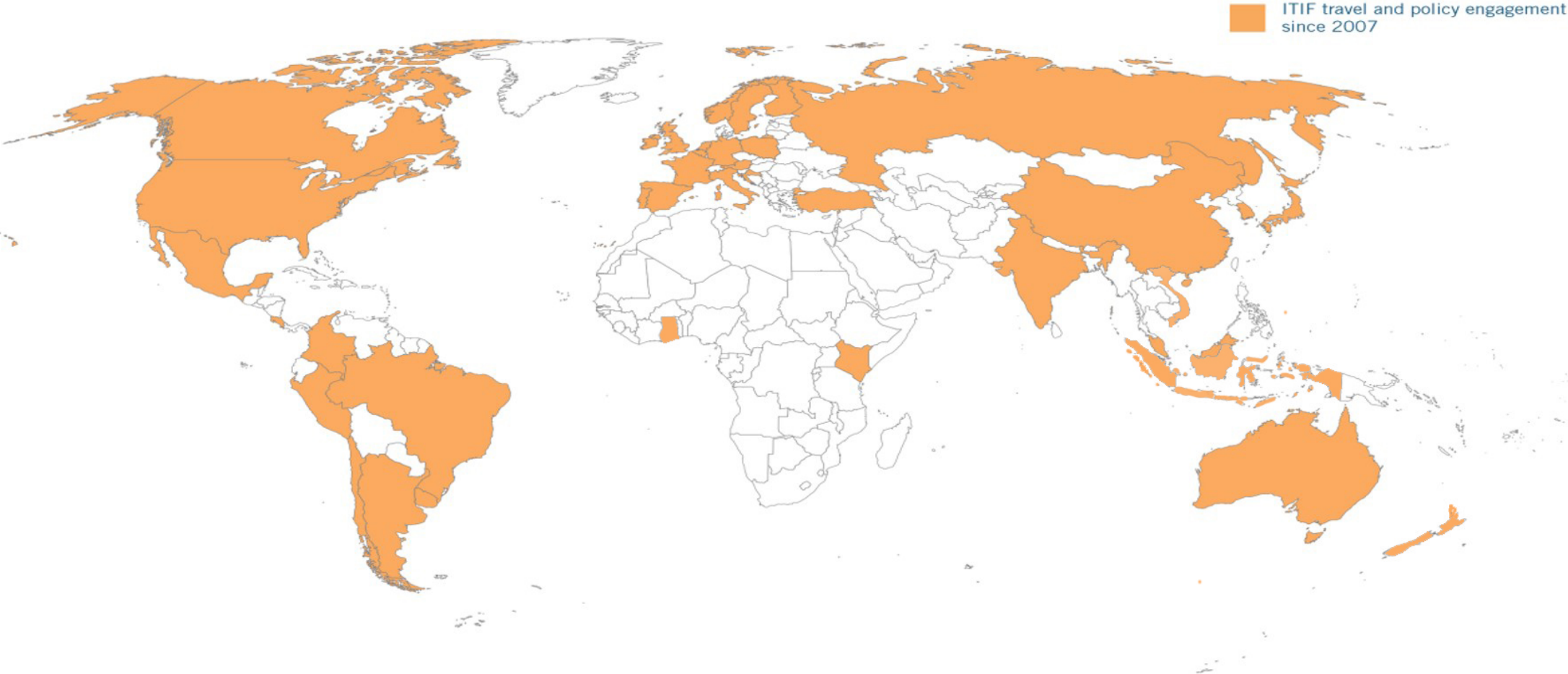
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 @RobAtkinsonITIF

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

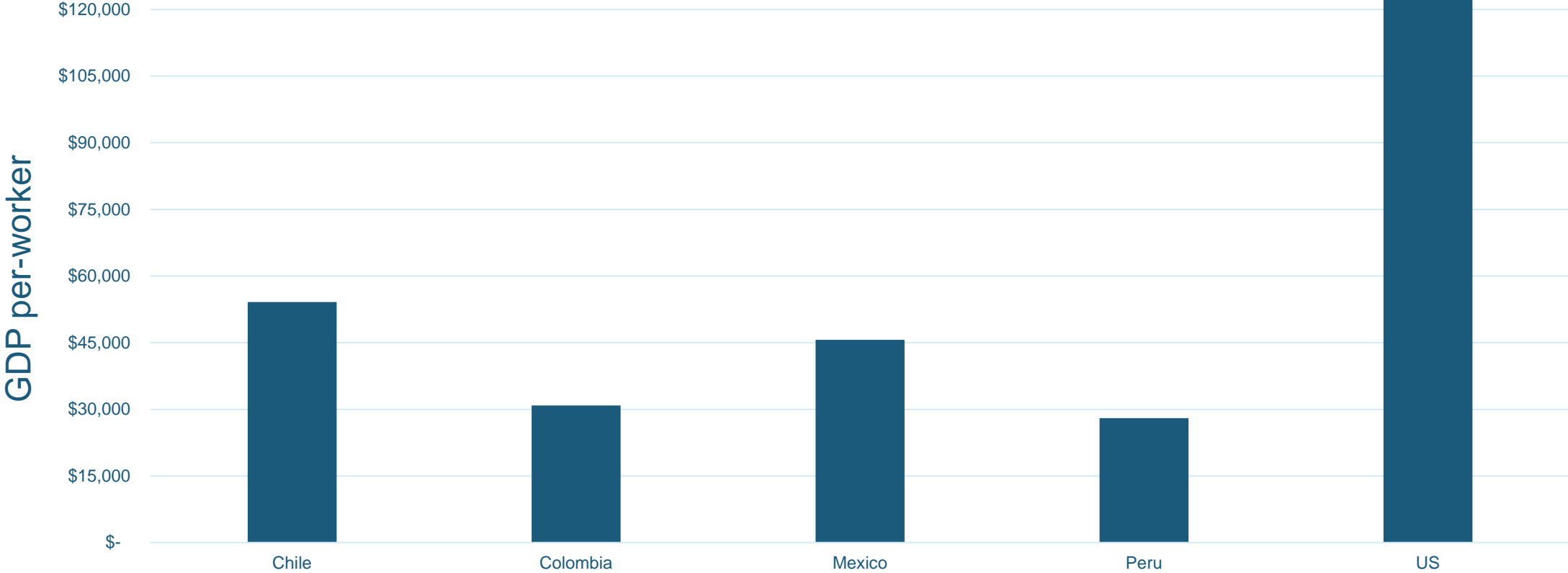
ITIF Global Engagement



Pacific Alliance Nations Should Think **Big** and Be **Bold**



Pacific Alliance Nations Lag the U.S. in Productivity

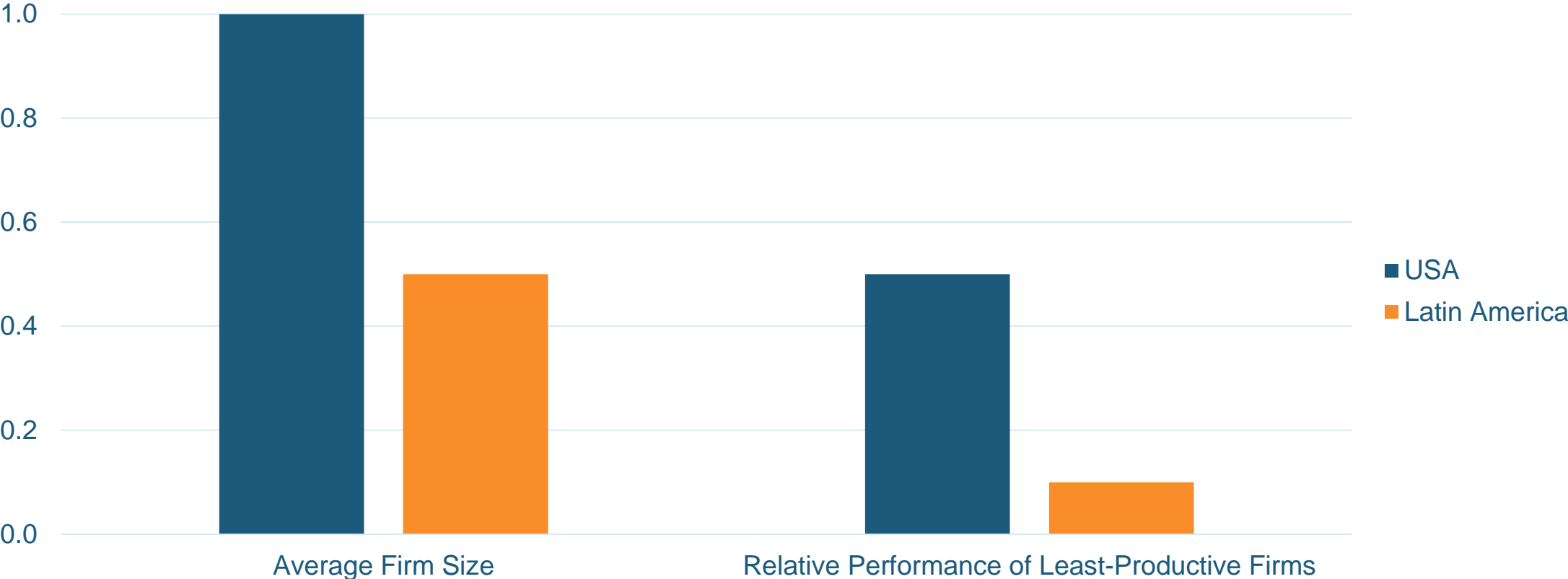


Source: GDP Per Person Employed, 2017 (PPP, US\$), (The Conference Board, *Total Economy Database*)

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

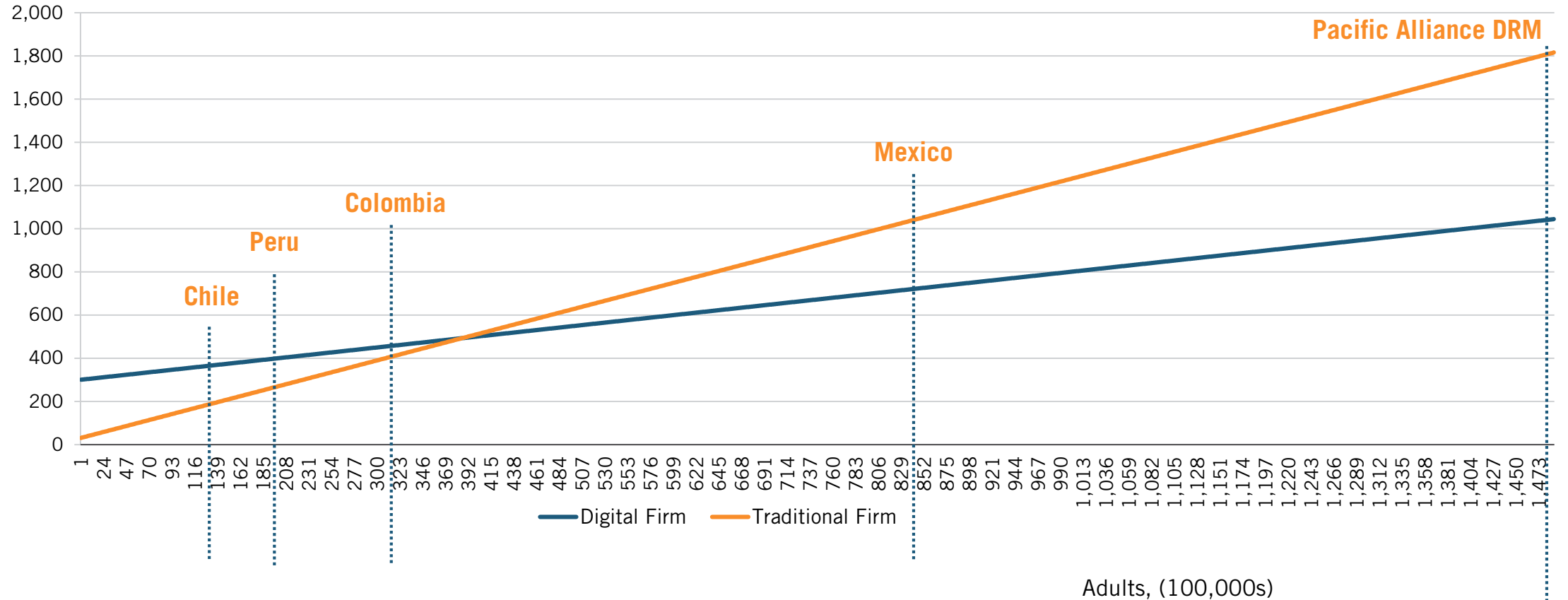


Source: Grazi, Pietrobelli, and Szirmai, *Firm Innovation and Productivity in Latin America*, Inter-American Development Bank, 2016; and Hugo Hopenhayn, 2016.

Keys for Digital Industry Success

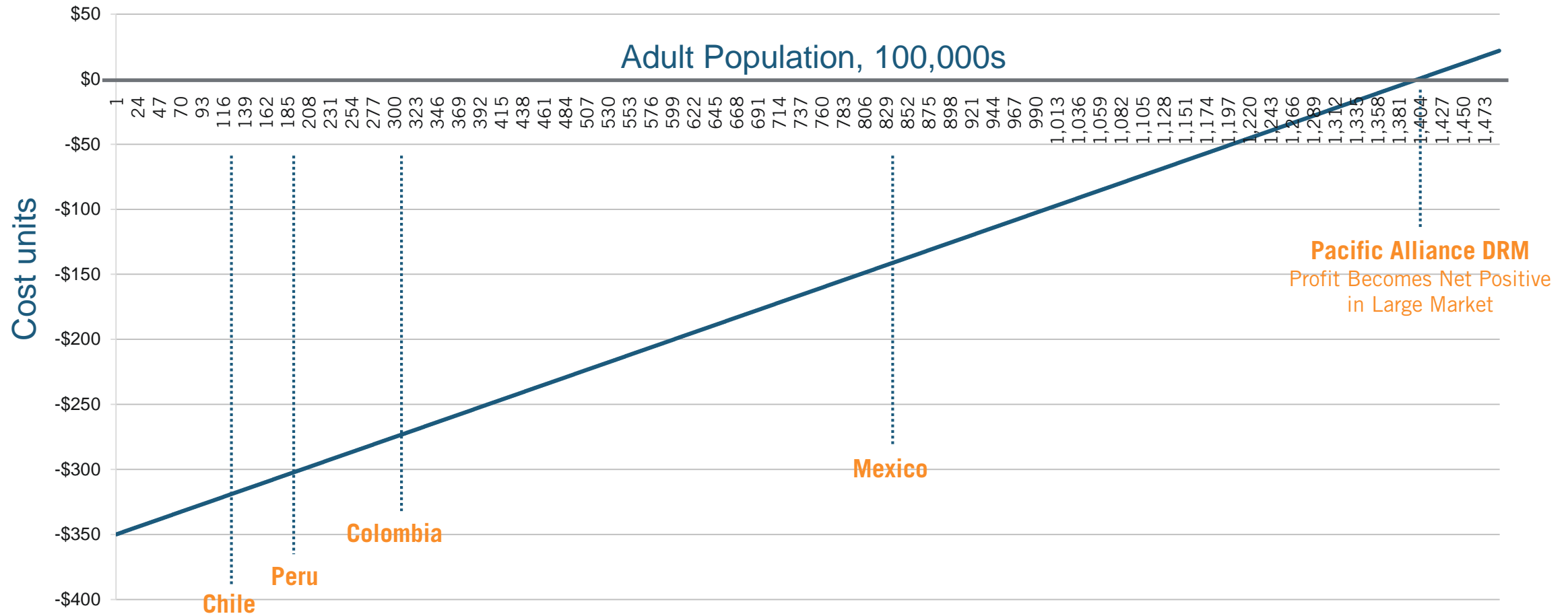
- Large Markets 
- Few or No Policies Raising Firm Costs 
- Few or No Policies Limiting Firm Revenues 

Firms in Digital Industries Need Larger Markets to Survive



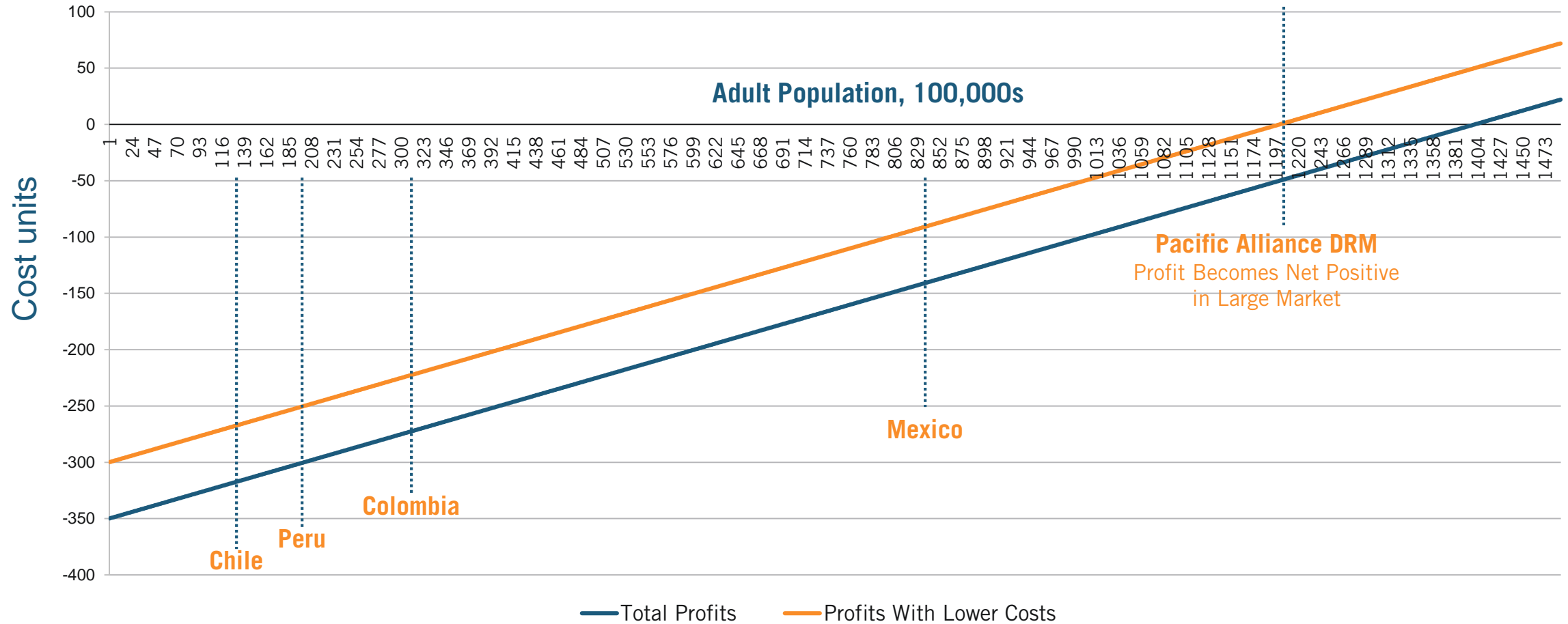
Costs for 2 hypothetical firms with different fixed and marginal costs

Larger Markets Enable Digital Firm Competitiveness






Model of a firms with 350 units fixed costs, and 0.25 units of profit for unit of sale

Lower Costs Enable Digital Firm Competitiveness

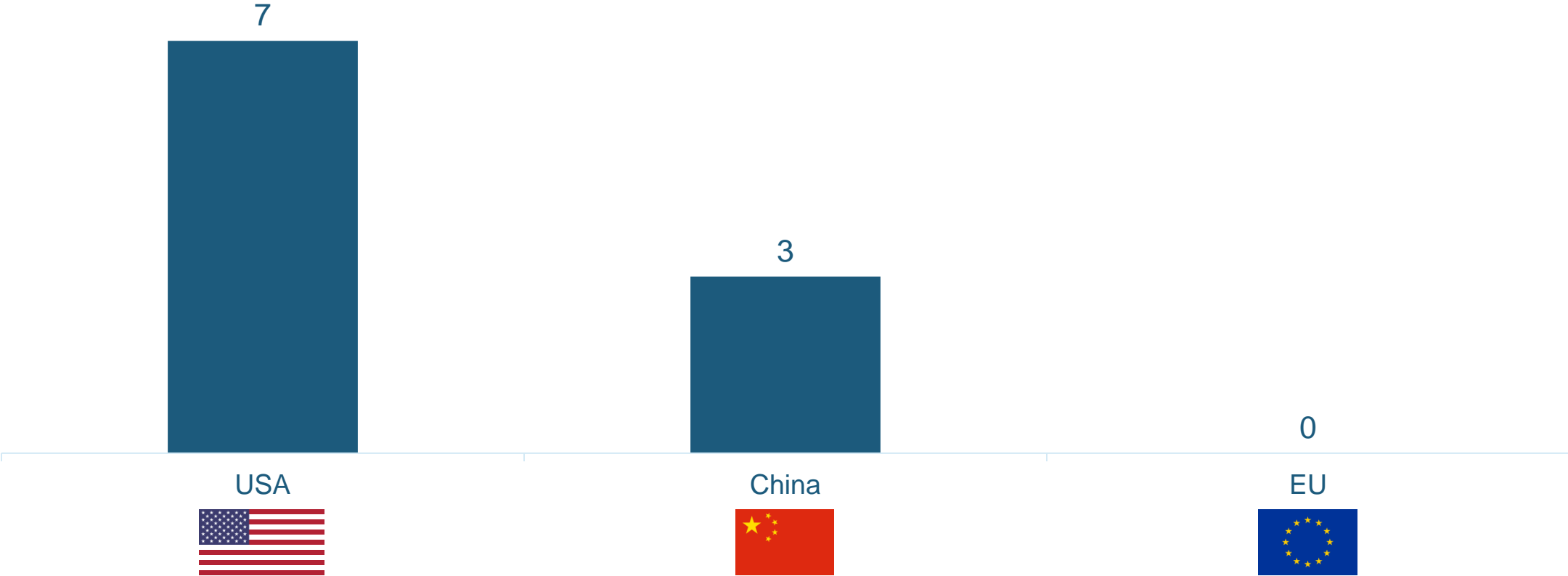


Countries/Regions Differ in Enabling Digital Success

		United States	China	EU	Latin America
Large Market		✓ ✓ ✓	✓ ✓ ✓	✗	?
Few Policies To Raise Costs		✓ ✓ ✓	✓ ✓	✗	?
Few Policies To Reduce Revenue		✓ ✓ ✓	✓ ✓ ✓	✗	?

U.S. Leads in Global Internet Companies

Number of Top-Ten Internet Companies



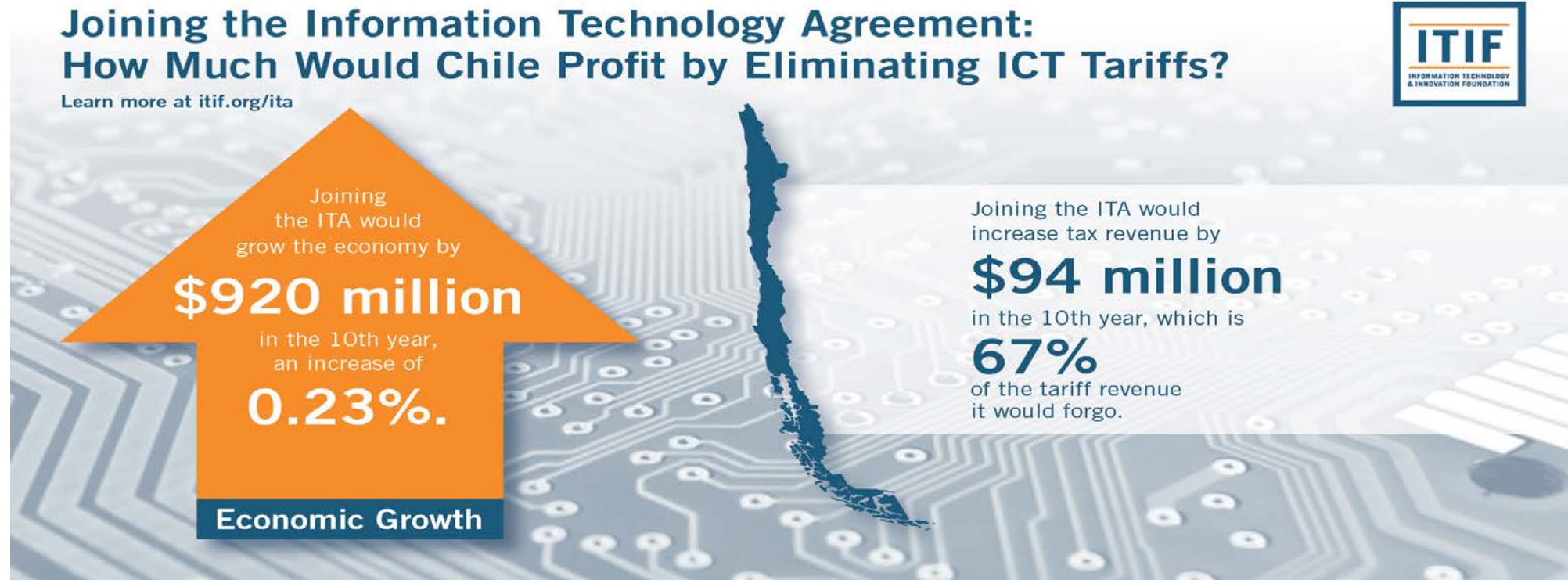
EU's Digital Single Market is *not* the Model



- 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).



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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El servicio de *envíos*
de Colombia



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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