The Moratorium and the Impact on Developing Countries

Nigel Cory
Associate Director, Trade Policy, ITIF

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Email: ncory@itif.org
Twitter: @nigelcory
About ITIF

- Independent, nonpartisan research and education institute focusing on intersection of technological innovation and public policy, including:
  - Innovation and competitiveness
  - IT and data
  - Trade and globalization
  - Life sciences, agricultural biotech, and energy
- Formulates and promotes policy solutions that accelerate innovation and boost productivity to spur growth, opportunity, and progress
- World’s top think tank for science and technology policy, according to the University of Pennsylvania’s authoritative *Global Go To Think Tank* Index
Overview: Assessing the Potential Impact of Digital Duties

- Remarks based on:
  - GTIPA Project;
  - Discussions with other stakeholders – governments and firms;
  - Includes think tanks from South Africa and India.
Direct Economic Costs: Productive Inputs

- Targets a new “general purpose technology” which drives economic productivity and innovation.
- Cost is a key driver of adoption.
  - Basis for cutting tariffs on ICTs as part of Info Tech Agreement.
- Economy is data-driven => transitioning to algorithmic economy.
- Concerning for policymakers/firms focusing on:
  - Encouraging adoption of digital technologies (especially cloud) and
  - Efforts to develop/exploit own digital/AI products and capabilities.
Indirect Impact

- Time, cost, and complexity of compliance:
  - Customs declarations from firms/intermediaries? Every import or periodically?

- Technical complications and impact:
  - E.g., Imports by automated systems. Single download can involve data from several places.
  - Broader network impact: Potential for automatic re-routing of data away from certain countries – impact on ICT infrastructure.

- Enforcement:
  - Blocking access/data flows and/or government monitoring.
Example: Multimedia Goods & Retail E-commerce

- Technology allows much easier, better digital productions.
- Platforms allow easy regional/global digital distribution.
  - Whether for purely digital products: music, movies, apps, or video games.
  - Or digital products enabling tangible trade: value-added services allow sellers to find, understand, and target customers on retail ecommerce platforms.
- Highlights the current opportunity of firms, especially SMEs, from developing countries to leverage power of platforms to engage in global digital trade (economies of scale).
Example: Software Development and Semiconductor Testing

- **Software development:**
  - An iterative process involving the daily transfers of digital products to various units/partners/customers in different countries. (E.g., 24/7 production model).
  - Firms from developing countries can play role in global production.

- **Broader sectoral implications: manufacturing/services networks.**
  - E.g., semiconductor testing - software, architecture, and other design and testing software flows between units around the world.
  - India – designs nearly 2,000 chips annually and more than 20,000 engineers are working on chip design and verification.
Digitalization and Taxation

- Many developing countries using electronic invoices (EI).
  - 90 percent of invoices still paper = inefficient and often inaccurate.
  - EIs help government tax collection, while making firms more efficient and competitive, such as SME ‘factoring’ (selling accounts receivable).

- Recent APEC Report:
  - EI expanding across world, especially Latin America.
  - Chile: GoSocket. Processes 5 million EIs daily in 13 countries in Latin America.
**Conclusion**

- The moratorium is a concrete way to support digital (and traditional trade) given the growing importance of digitalization.

- Need to keep on engaging developing countries on the implications and impact
  - In parallel, work with them on legitimate taxation concerns and international best practices for non-discriminatory and efficient domestic tax arrangements.

- Also push back on those that see this issue as one part of broader agenda for (digital) protectionism-based “digital industrial strategy.”
Thank You!

Nigel Cory | ncory@itif.org | @nigelcory