

The Moratorium and the Impact on Developing Countries

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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!

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