THIRD WAY

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Q&A on the ITA: Five Questions on the Information Technology Agreement

Ed Gerwin

Sixteen years ago, phones were dumb, computers were slow and expensive, and Google was a startup. So, why does a dial-up-era agreement still govern tech trade in today's wireless world? Since 1997, the Information Technology Agreement (ITA) has driven global growth by eliminating duties on important categories of Information and Communications Technology (ICT) products. [1] The ITA has stimulated global trade and development, supported jobs, increased productivity and innovation, and connected citizens–all while lowering costs. But the ITA's product lists haven't been revised since 1997. Updating the ITA to include modern tech products is vital to assure that the Agreement's many benefits extend to the connected world of the 21st Century.

Five Questions

This month, trade negotiators in Geneva are ramping up talks to update the Information Technology Agreement, a global trade deal that eliminates duties on communications and information products. An up-to-date ITA is a high priority for America's vital tech sector, and it would increase exports, employment, productivity, innovation, and growth in the broader economy.

We answer below five key questions on the ITA, why it needs to be modernized, and why it's important for the United States and the world.

1. What's the Information Technology Agreement?

The Information Technology Agreement is a "plurilateral" agreement–a trade deal that includes many, but not all, of the World Trade Organization's members. The Agreement, which went into effect in 1997, requires its signatories to

eliminate customs duties on specified ICT products in these key categories:

- Computers (including PCs and laptops);
- Semiconductors and semiconductor manufacturing equipment;
- Telecom devices (including mobile phones and switching equipment);
- Instruments and devices (including cash registers and calculators);
- Data storage media (like CDs) and software in physical form; and
- Parts and accessories for these items. [2]

The ITA's lists of covered tech products are extensive, but they haven't been revised since they were first agreed to in 1997.

Currently, there are 75 signatories to the ITA, and the Agreement now covers over 96% of world trade in its listed tech products. [3] The ITA is applied on a most-favored-nation (MFN) basis, meaning that all WTO members get the benefit of its tariff eliminations, even if they haven't signed on to the Agreement.

2. What's been the ITA's track record?

Before 1997, duties on products covered by the ITA averaged 6%. By eliminating these duties, the ITA has helped drive a significant increase in two-way trade in products covered by the Agreement—from $1.2 trillion in 1996 to $4 trillion in 2008. [4]

But the benefits of the ITA's tariff cuts extend far beyond expanding trade and production of its listed tech goods. Studies show that as much as 80% of a technology's benefits come from its widespread usage. ICT products are globally

ubiquitous—they benefit virtually all industries and sectors of the world economy—and have been "the global economy's strongest driver of productivity, innovation and, ultimately, economic growth." [5]

Increased trade in lower-cost tech products has enhanced the productivity of traditional businesses, helped spur the creation of entirely new businesses (like e-commerce) and products (such as smart phones), and have improved the quality of life for people around the world—in developed and developing countries alike. [6]

Eliminating duties on listed tech products has helped developing countries grow and reduce poverty. Many developing nations are now significant producers and exporters of ICT products, and digital connections can bring greater prosperity to broad sectors of these countries. [7] In India, for instance, fishermen now use cell phones to monitor prices, increasing their profits by 8%, while also lowering prices for consumers. [8]

The ITA's benefits have been especially pronounced for the United States. U.S. ITC firms are world leaders, and contribute some $1 trillion to America's GDP, while ICT goods account for almost 45% of U.S. high-technology exports. [9] Semiconductors–the world's most traded category of IT products [10] –were America's second largest export industry between 2007 and 2011. [11] And the widespread availability of lower-cost ICT products has supercharged American productivity, accounting for an astounding 75% of U.S. productivity growth between 1995 and 2002, and 44% from 2000 to 2006. [12]

3. Why does the ITA need to be updated?

Simply put, the ITA is a 2G agreement in a 4G world.

Since the ITA's product lists were agreed to in 1997, there has been remarkable advancement in information and communications technologies. Continuous innovation and lower costs are forging powerful new links that connect the

world in unprecedented ways. The ITA hasn't kept up and is long overdue for an upgrade.

In 1997, for example, televisions were essentially dumb analog boxes designed to receive broadcasts over the air or cable. Today, "smart" digital TVs are increasingly serving as interactive Internet and communications devices. By 2016, it's estimated that close to 900 million viewers worldwide will own these "connected" TVs. [13] The first digital movie debuted three years after the ITA was negotiated. [14] By the end of 2016, virtually all of the global movie business will be digitized, and 35mm film will be a museum piece. [15] Consumers and businesses are also increasingly able to communicate with a wide range of other digital devices, including entertainment systems, utility meters, machine tools, transit systems, and even groceries with embedded RFID chips. [16]

For the ITA to continue to support global trade, productivity, and innovation, it's vital to expand its coverage to include a wide range of new ICT products that have entered the market since 1997. These include Bluetooth devices, flat panel displays, GPS systems, and smart meters. Revised lists should also include powerful new types of advanced semiconductors–known as multi-components or MCOs—and an array of advanced materials, parts, components, instruments, and devices used to make modern ICT products. And product definitions on current ITA lists should be updated to reflect new technologies (e.g., TV set-top boxes that can be connected devices without using internal modems and storage devices that carry digitized movies). [17]

To maximize the ITA's benefits, it's also critical to extend ITA coverage to the many consumer electronics products that existed in 1997 but were excluded from the ITA due to foreign protectionism or now-outdated technological assumptions. These include televisions of all sizes, video players, and gaming consoles. [18] Additionally, the many peripherals that power, connect, and enhance modern tech devices–including

a variety of batteries, cables, chargers, headphones, speakers, and transmitters–should be duty-free under the ITA. [19]

Finally, to promote continued innovation in information and communications technologies, the products covered by a revised agreement should be defined clearly and broadly to accommodate advances in technology and to limit trade disputes. [20]

Playing the ITA Game

The ITA's outdated product lists can cause functionally identical products to be treated quite differently. The ITA covers personal computers and game software for PCs, but not game consoles and their games. As a result, the PC version of a popular game title like "NBA 2K13" is duty-free under the ITA, while exports of the very same title for a Microsoft Xbox 360 can face bound duties as high as 25% in major markets. [21]

4. What else can be done to improve the ITA?

The ITA has a bit of a "free rider" problem. While the Agreement covers over 96% of global ICT trade, important and growing markets like Argentina, Brazil, Mexico, and South Africa still haven't signed on. Under the WTO's MFN rules, these countries get duty-free access for their ICT exports to ITA signatories–but don't have to cut their own import duties in return. [22]

The United States has continually insisted that new WTO members and countries seeking trade agreements with the United States must also join the ITA. International trade negotiators should use the current negotiations and other longer-term avenues to press non-participating countries to join the Agreement and fully open their ICT markets. And the United States should make participation in the ITA a

requirement for all participants in any new Trans-Pacific Partnership trade deal.

5. What are the benefits of a revised ITA?

An updated ITA would build upon the Agreement's 16-year track record of promoting growth, jobs, productivity, and innovation, and would provide a myriad of benefits to the United States and the world.

Studies indicate that updating the ITA's product lists would boost global GDP by $190 billion, expand U.S. exports by almost $3 billion, and support the creation of some 60,000 American jobs. Many of these new jobs would be the kinds of high-skill, high-pay jobs that a recovering America sorely needs—U.S. ICT workers earn on average almost $75,000, 75% more than the U.S. average. [23]

A revised ITA would also increase global demand for ICT products by an estimated $28 billion, increasing revenues for large and small U.S. tech firms by about $10 billion. Because America's computer and electronics sector is our most research intensive, these revenues would spur the development of the new products and advanced technologies that would support future U.S. growth, exports, and good jobs. [24]

Expanding the Agreement's lists of duty-free products would also lower tech costs for America's consumers and businesses. It would, for example, enable American ICT manufacturers to buy lower-cost materials and components, support innovation in e-commerce and software development, and enhance growth and productivity in virtually every sector of the American economy—from traditional businesses to emerging sectors and from large businesses to small. [25]

> **Increasing Volumes for U.S. Speaker Exporters**

Mitek is a small U.S. manufacturer of cutting-edge speaker systems. The company and its 350 American workers produce networked speakers for classrooms, airports, and other public facilities (including the White House), and they export these speakers to some 20 countries. They've recently sold paging systems to the Shanghai airport and Shenzhen ferry station in China—despite China's massive 40% import duties on speakers. A revised ITA could eliminate these huge duties—and high tariffs on speakers in other ITA member countries like Vietnam and Malaysia—helping to boost exports for innovative American tech companies. [26]

Conclusion

Since 1997, the ITA has been a boon to America and the global economy—spurring ICT production and trade, supporting jobs, enhancing productivity, fostering innovation, and making life better for billions around the globe. But the ITA can do much more. It's time to build on the ITA's success, especially by revising its outdated product lists to include the connected technologies of 2013 and beyond.

TOPICS

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END NOTES

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