How Joining the ITA Spurs Economic Growth in Developing Nations

Stephen Ezell
Vice President, Global Innovation Policy
Information Technology and Innovation Foundation

June 27, 2017
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
Today’s Presentation

1. ICTs Drive Developing Country Economic Growth
2. How ITA Participation Benefits Developing Countries
3. Modeling Economic and Tariff Impact of ITA Accession
The accumulation of ICT capital accounted for 20 percent of total global economic growth between 1995 and 2014.

“ICTs contributed approximately one-quarter of GDP growth to many developing countries from 2000-2010.”
– Richard Heeks, Oxford University

ICTs have been responsible for 25% of Kenya’s economic growth since 2000.
ICTs Have an Outsized Impact on Productivity

ICT is “super capital” that has a much larger impact on productivity than other forms of capital.

- ICT has 3 to 7 times more impact on firm productivity than non-IT capital.
- ICT workers contribute significantly more to productivity than non-IT workers.
It’s Better to “Consume” Than “Produce” the Tech

- Over 90% of the economic benefits from ICT are related to its use by organizations and consumers, rather than its production by tech firms.
Today’s Presentation

1. ICTs Drive Developing Country Economic Growth
2. How ITA Participation Benefits Developing Countries
3. Modeling Economic and Tariff Impact of ITA Accession
How Joining the ITA Spurs Growth in Developing Nations

1. Boosts Productivity and Innovation
2. Supports ICT Services Sectors and Exports
3. Spurs Participation in ICT Global Value Chains
4. Enhances Competitiveness of Domestic Manufacturers
1. ICT a Key Driver of Developing Country Innovation
2. ITA Facilitates ICT Services Industry and Exports

ICT Services Exports as Percentage of Total Services Exports

Source: World Bank
3. ITA Facilitates Participation in ICT GVCs

ICT Exports as Percentage of Total Goods Exports, 2014

Source: World Bank
3. ITA Facilitates Participation in ICT Global Value Chains

Membership and Participation in ICT GVCs

4. ITA Benefits Manufacturers That Use ICTs as Inputs

- E.g., Over 50% of semiconductors imported into China are inputs into re-exported products.
Today’s Presentation

1  ICTs Drive Developing Country Economic Growth

2  How ITA Participation Benefits Developing Countries

3  Modeling Economic and Tariff Impact of ITA Accession
How Joining the ITA Spurs Growth in Developing Nations

Implemented in 1996, the Information Technology Agreement (ITA) has played a pivotal role in facilitating global trade in information and communications technology (ICT) products. Under the ITA, 123 signatory countries have agreed to fully eliminate tariffs on hundreds of ICT products, by reducing their rates, the ITA leads to increased use of ICT goods, which spur productivity and economic growth in signatory nations, while deepening their enterprises’ participation in global value chains (GVCs) for the production of ICT goods and services. By harnessing these benefits, 53 nations agreed in December 2015 to reduce tariffs in an additional 206 ICT tariff lines (including hundreds of products, parts, and components) as part of an expanded list of goods covered by the ITA.

Yet, despite the proven benefits, some developing countries have remained on the sidelines of the original ITA and its recent expansions. In the report, ITIF analyzes the effects of such developing nations—Argentina, Cambodia, Chile, Kenya, Pakistan, and South Africa—joining the original ITA as well as its recent expansions. It finds that doing so will boost economic growth for each of these countries, while generating tax revenue for the 53 nations, while avoiding most tariff losses for another three.
Conceptual Framework for Economic Model

Eliminating tariffs lowers ICT prices.

Lower ICT prices stimulate increased ICT consumption.

Greater ICT consumption increases ICT capital stock, leading to increased productivity, and thus, economic growth.

Increased economic growth produces tax revenues replacing tariff income forgone.
Economic Growth After 10 Years of ITA Membership

Source: ITIF, How Joining the Information Technology Agreement Spurs Economic Growth in Developing Nations
Long-Run Economic Projections from ITA Accession

Source: ITIF, How Joining the Information Technology Agreement Spurs Economic Growth in Developing Nations
Recovery of Foregone Tariffs After 10 Years

Source: ITIF, *How Joining the Information Technology Agreement Spurs Economic Growth in Developing Nations*
Thank You!

Stephen Ezell  | sezell@itif.org  | 202.449.1349