May 15, 2012

Boosting Trade, Jobs, and Economic Growth by Expanding the ITA

Presentation to the World Trade Organization

Dr. Robert D. Atkinson, President, ITIF
The Information Technology and Innovation Foundation (ITIF) is a Washington, D.C.-based think tank at the cutting edge of designing innovation policies and exploring how innovation will create new opportunities to boost economic growth and improve quality of life around the globe. ITIF focuses on:

- Innovation “verticals”: energy, life sciences, manufacturing, telecom, Internet and IT,

- Innovation “horizontals”: trade, tax, talent, and technology policy, and

- “Innovation economics” as an alternative to mainstream economics.
Selected ITIF Reports

- Boosting Exports, Jobs, and Economic Growth by Expanding the Information Technology Agreement
- The Global Innovation Policy Index
- The Good, the Bad, and the Ugly of Innovation Policy
- Digital Prosperity: Understanding the Economic Benefits of IT Revolution
Why an ITA?
Why an ITA and not an FA (furniture agreement) or an SA (steel agreement)?
Because IT is Today’s Game-Changer Innovation

IT is what economists call a “general purpose technology” that is used by all industries to drive productivity and innovation.
Because IT is “Super Capital”

- In large U.S. firms, every dollar of IT capital is associated with $25 of market value. $1 of non-IT capital is associated with $1 of value.

- IT workers contribute significantly more to productivity than non-IT workers.

- IT has 3 to 7 times more impact on firm productivity than non-IT capital.
Because IT Has Outsized Impacts on Productivity

- IT was responsible for:
  - 75% of U.S. productivity growth from 1995 to 2002, and 44% from 2000 to 2006.
  - 34% of Japanese productivity from 2005 to 2010.
  - 38% of Chinese productivity growth.

- The Internet alone accounted for 21% of GDP growth from 2006 to 2011 across 13 leading economies (including Brazil, China, India, Korea and Russia).
Because IT Has Outsized Impacts on Jobs

- Firms that intensively use IT are 30% more likely to grow in employment than low IT-intensive firms.
- U.S. IT-intensive firms expanded jobs 5.1% from 2001 to 2009, while overall U.S. employment shrank 0.5%.
- U.S. companies investing more in IT increased jobs 14% from 2006 to 2010 compared to 6% for Fortune 500 firms.
But It’s the *Use* of IT That Matters Most, Not the *Production*

- Over 80% of the benefits from IT in the U.S. are related to its use by organizations, rather than its production.
Sector performance has mattered more than the mix of sectors for overall GDP growth in developed countries

Contribution to total value added, 1995–2005
Compound annual growth rate, %

<table>
<thead>
<tr>
<th>Growth</th>
<th>Total growth</th>
<th>Growth momentum (growth predicted by initial sector mix)</th>
<th>Differences in performance of sectors</th>
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<td>United States</td>
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<tr>
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</tbody>
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1 Country growth rate calculated as if all sectors would have grown with sector-specific growth rate average across all developed countries.
2 Actual country growth minus growth momentum of initial sector mix.

SOURCE: Global Insight; McKinsey Global Institute analysis
Sector performance matters more than sector mix in developing countries as well.

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Tariffs To Grow a Domestic IT Industry Usually Backfire

- IT tariffs mean consumers/ firms pay more, often for inferior products/services.
  - This makes downstream IT-using firms/sectors less competitive and diminishes their productivity.

- India: For every $1 of tariffs India applied to imported computers, the country lost $1.30 due to lost spillover effects.

- Argentina: Imposed tariffs on assembled computers (though not computer parts) with goal of creating a domestic computer assembly industry. Result: Inefficient computer industry, where up to one-third of computers sold in Argentina are hand-assembled in small shops.
Benefits of ITA Expansion

- Could bring an additional $800B in two-way ICT trade under ITA coverage.

![Graph showing Two-way ICT Trade ITA Coverage with Expansion ($Trillion)]
The Logic of ITA-Based Economic Gains

- IT Tariff Reduction
- IT Usage
- Productivity and Innovation
The Logic of ITA-Based Economic Gains

- Lower cost of ICTs spurs diffusion of key technologies that are vital to economic growth… (for every 1% decline in price there is a 1.5% increase in demand.)
  
  □ That makes IT-using industries more competitive.
  
  □ Affordable, best-of-breed ICT products undergird development of software and services industries.
ITA Expansion Benefits the Global Economy

- ITA expansion should lead to a $28 billion expansion of global capital stock.
- ITA expansion will increase global GDP by $190 billion annually.
ITA Expansion Benefits Developing Countries

Change in ICT Services Exports as % of Country’s Services Exports, 1996-2010

- ITA Member
- Non-ITA Member
ITA Even Helps IT Production Industries In Developing Nations

ICT Goods Exports as Percentage of Total Goods Exports, 2009

ITA Member
Non-ITA Member
Summary

- The ITA has been one of world’s most successful trade agreements.

- Expansion is desirable and attainable – if the focus stays targeted on further IT tariff elimination.
Thank You

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