THE INFORMATION TECHNOLOGY AGREEMENT: An Apparent Victory for Everyone

by Jonghoon Park

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Introduction

At the inaugural meeting of the World Trade Organization (WTO) Ministerial Conference recently held in Singapore from December 9 to 13, the U.S. and the EU worked out the general framework of an agreement to eliminate tariffs on information technology products by the year 2000. This proposed Information Technology Agreement was generally hailed as the highlight of the WTO meeting.

One of the main reasons for this high acclaim is the enormity of this rapidly growing, \$1 trillion market. Global trade in information technology products in itself reached \$500 billion in 1996 and is expected to reach \$800 billion by the year 2000. Furthermore, proponents say that the conclusion of an ITA is essential to the successful realization of the much envisioned Global Information Infrastructure (GII).

Twenty-eight nations representing 84% of global IT trade endorsed the ITA at Singapore, including the U.S., the EU members, Japan, Canada, Australia, Hong Kong, Iceland, South Korea, Norway, Singapore, Switzerland, Taiwan, the Philippines and New Zealand. Six other nations have said they will join the pact by March 15, which would increase the coverage to 94% of trade. One notable exception is India, which has import tariffs as high as 40% on many computer products to protect domestic makers.

The agreement will remove tariffs on some 500 information technology products in 180 categories, including telecommunications equipment, capacitors, semiconductors, digital photocopiers, fiber optic cable, computer monitors, and traditional computer software. Not included in the agreement are television monitors, graphic display tubes, optical fibers and optical fiber strands, and software carrying film or sound recordings. The exact list of the products to be covered under the agreement will not be made available until the agreement is finalized in April.

How Did It Come About?

The ITA was the brainchild of the information technology industry associations of the U.S., Europe and Japan (ITI, EUROBIT and JEIDA) with Canada joining in later. In January 1995, they adopted a set of industry recommendations to the G-7 Meeting in Brussels on the Global Information Infrastructure (GII), one of which was the adoption of an ITA to eliminate tariffs in the information technology sector. The topic was also brought up again in the Trans-Atlantic Business Dialogue meeting in Seville in November 1995, which also endorsed the ITA.

In the spring of 1996, the Quad ministers (the U.S., Canada, Japan and the EU) gathered to discuss this proposal at the government level and issued a declaration to launch the ITA in earnest. Discussions were held over spring and summer to work out the details among the USTR and its counterparts. Problems began to arise, though, when the EU tried to link the ITA to the negotiations to renew the Semiconductor Trade Agreement and other issues.

Next, the U.S. sought support for ITA in the

Asia-Pacific Economic Cooperation Forum. At the APEC Ministerial Meeting in Manila, some of the members, such as Malaysia, Thailand and Chile, had some objections or reservations concerning the products to be covered and the flexibility of the schedule of tariff removal. In the end, the APEC ministers issued a joint statement in which they recognized the "importance of the IT sector in world trade" and "endorsed the efforts at the WTO to conclude an IT agreement by the Singapore Ministerial Conference."

The U.S. thus went into the Singapore Meeting with concluding the ITA as its foremost priority. Given the minimal possibility that a consensus could be reached on other issues such as labor or China's entry into the WTO, the ITA was destined to become the star of the show.

The Implications

All in all, the ITA appears to be a boon for Korea. The agreement will undoubtedly help Korean electronics firms and boost Korean exports of semiconductors, computers, and other electronic goods including those which have computer chips such as washing machines since the tariff cuts will apply to components as well. While tariffs on IT products are already as low as 2% or less in countries like the U.S., they are as high as 60% in others. Consumers in Korea and indeed throughout the world can also expect to benefit from the agreement, since tariffs on these products are usually passed on to consumers.

From a larger perspective, the deal will also lower the costs as Korea tries to modernize its current high-cost/low-efficiency industrial structure and jump into advanced, high-tech sectors to develop an advanced information infrastructure and become a central communications and transportation hub in Northeast Asia.

However, the process by which the ITA came about could be a cause for concern. The ITA was not a WTO initiative. By every description, the ITA was constructed by the Quad powers (the U.S., the EU, Japan, and Canada), and there was little, if any, participation by developing nations in its genesis. The President of the All-India Association of Industries went so far as to describe it as, "The U.S. is just pushing its own initiatives." Before and during the APEC forum, the U.S. stressed how important it was for APEC to take the lead in endorsing the agreement and convincing others of its worthiness, but the ITA negotiations at the WTO seemed to be a battle between the two heavyweights, the U.S. and the EU.

Also worrisome is the manner in which the EU used this ITA, a deal which EU trade commissioner Sir Leon Brittan called the biggest trade liberalization deal since the Uruguay Round, as a bargaining chip for its own interests. For a while, it seemed like an agreement would not be reached as the EU insisted that the conclusion of the ITA be linked to other issues. In the end, the EU was able to wangle the elimination of tariffs on liquor exports to the United States worth $35 million.

There is little doubt that the WTO is far from maturity despite its achievements so far, and the member nations are having a difficult enough time determining its future agenda, much less acting upon it. The proceedings at the WTO Meeting in Singapore have perhaps given some credence to developing nations' fears that the WTO is merely another instrument by which advanced economies can force their interests upon weaker nations. It is fortunate that the ITA would appear to benefit all parties, although it will not be known whether or not there are any loopholes until the details are finalized by April and made public. As Lewis Platt, Chairman of Hewlett-Packard, describes, "These tariff barriers in the IT sector have been, in essence a tax on information, competitiveness and productivity." We hope that the ITA will prove to be a major step forward on the road to a global information society without being too much of a sacrifice. VIP

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