



Permanent Moratorium on Custom Duties on ET Products- Implications for Digital Industrialization

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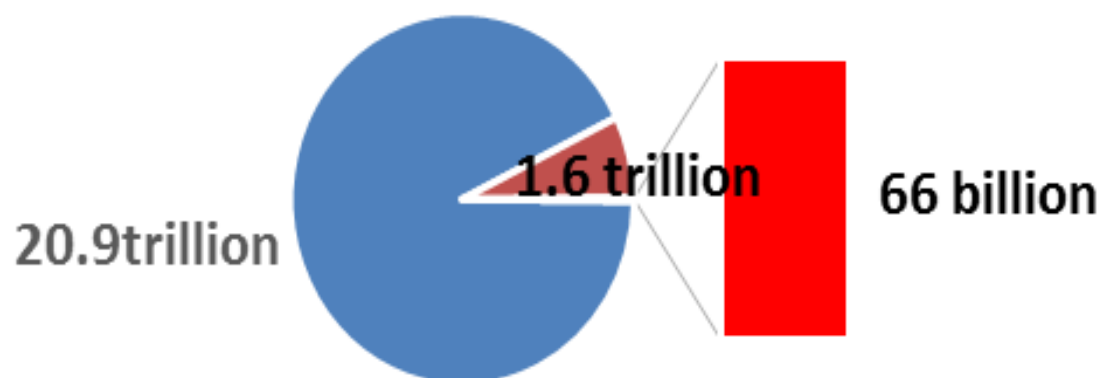
UNCTAD

South Centre, 25th September 2017

The Growing Size of the Digital Economy

- Digital economy has become the buzz word of the 21st century for some very good reasons!
- **DPs into three categories-** category (a) *e-commerce products*, (b) *electronically transmitted products (ET products)*; defined at the WTO as those “content-based products that were formerly delivered in tangible form but now can be delivered in electronic form via internet download” (c) remote additive manufacturing products (*RAM*) *products* -3-D printing.
- UNCTAD has estimated the size of the e-commerce market as \$23 trillion, which amounts to around **30% of global GDP.**
- This does not include RAM products.

Market Size of E-Commerce Products and ET Products- \$22.5 Trillion (2015)



- Domestic E-Commerce
- Cross Border E-Commerce
- Trade in Digitalised Products through Electronic Transmission

Growing Product Digitalisation: *Who is Leading?*

- USA leads the world. According to Accenture (2016), the digital economy in the USA is valued around \$6 trillion, which equals 33% of its GDP with 43% of employment in the USA's workforce being digital.
- This is followed by UK with size of the digital economy being 30% of GDP,
- Australia (28% of GDP),
- France and Germany (25% of GDP).
- Amongst the 11 countries analysed, the compound growth rate in digitalisation is predicted to be highest in China for the period 2015 to 2020.

Growing E-Commerce: *Who Benefits?*

Share in Cross Border E-Commerce Sales in 2015

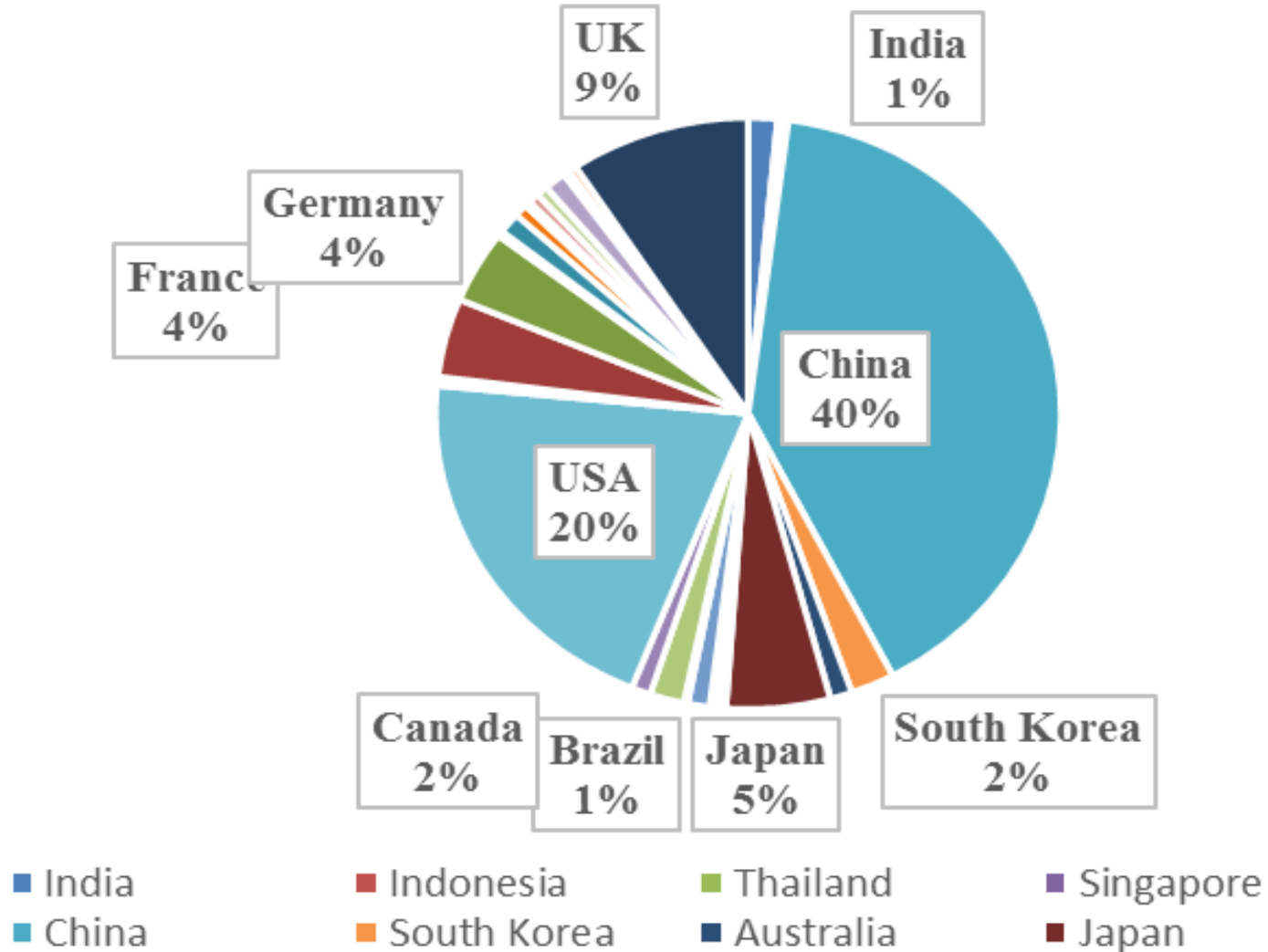
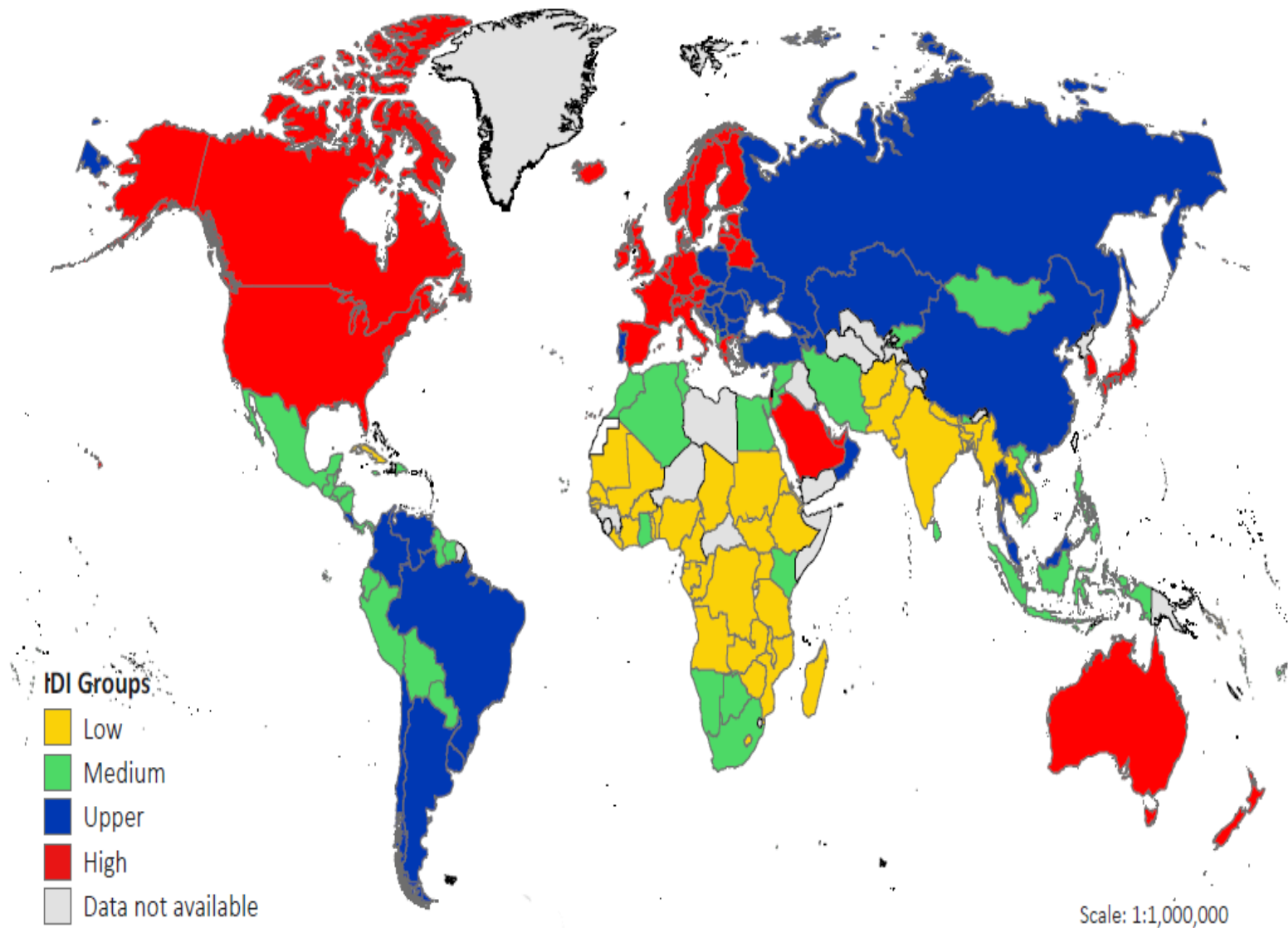


Figure 2.3: Quartiles by IDI value, 2015



- With low internet penetration rates most SMEs in the majority of developing and least developed countries cannot hope to have any substantial share even in the domestic e-commerce.
- Using four indicators of e-commerce preparedness, namely, internet users, secure servers, credit card penetration and postal reliability score, UNCTAD has created an e-commerce index for 2015.
- Out of 130 countries, only 5 developing countries figure in the list of top 50.

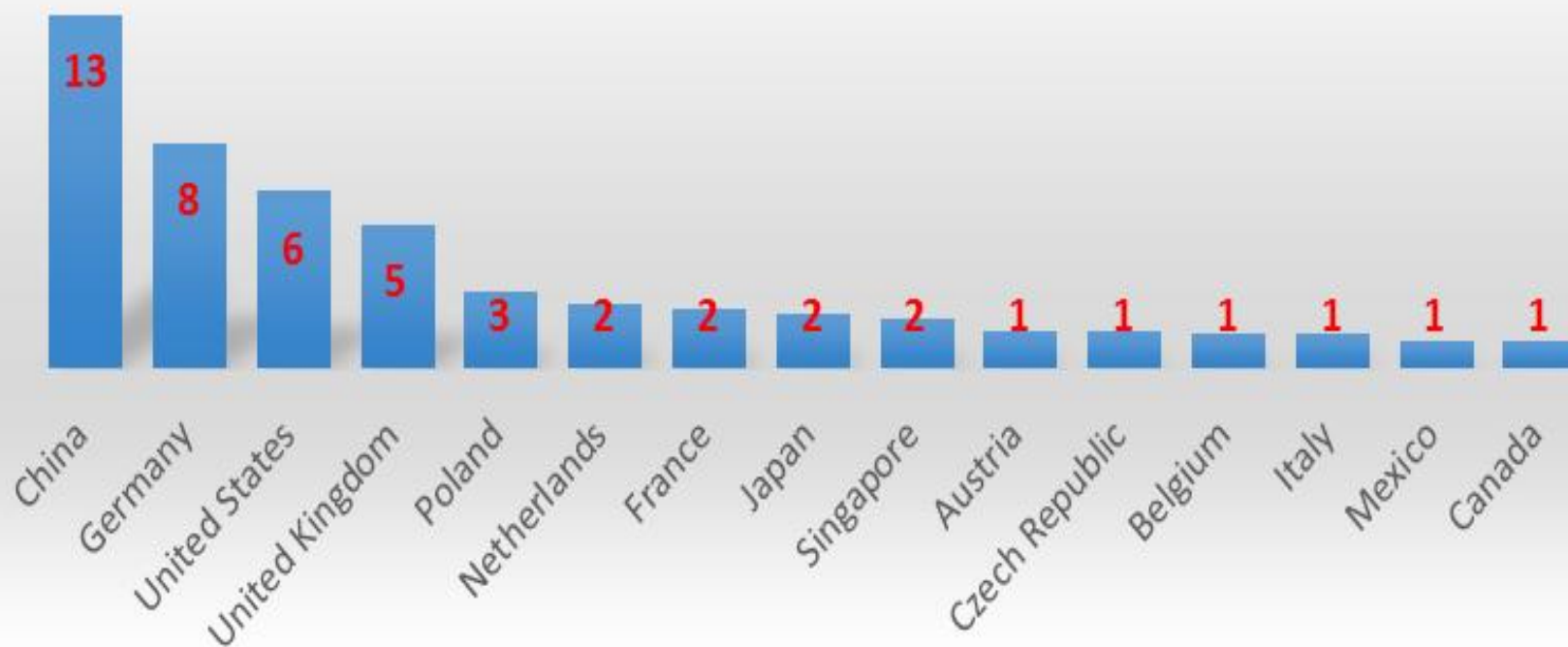
S.No	20% to 40%	10% to 20%	Less than 10%
1	Guyana	Algeria	Solomon Islands
2	Grenada	Nicaragua	Liberia
3	El Salvador	Uganda	Congo
4	Bhutan	Zambia	Togo
5	Mongolia	Tajikistan	Comoros
6	India	Cameroon	Afghanistan
7	Kyrgyzstan	Pakistan	Malawi
8	Egypt	Nepal	Mozambique
9	Cuba	South Sudan	Benin
10	Micronesia	Mauritania	Tanzania
11	Vanuatu	Gambia	Central African Republic
12	Syria	Laos	Madagascar
13	Sri Lanka	Namibia	Ethiopia
14	Samoa	Turkmenistan	DR Congo
15	Ghana	Bangladesh	Guinea-Bissau
16	Swaziland	Iraq	Chad
17	Guatemala	Kiribati	Myanmar
18	Sudan	Rwanda	Sierra Leone
19	Sao Tome and Principe	Mali	Niger
20	Yemen	Haiti	Guinea
21	Senegal	Papua New Guinea	Somalia
22	Angola	Djibouti	Burundi
23	Côte d'Ivoire	Cambodia	Timor-Leste
24	Honduras	Gabon	Eritrea
25	Botswana	Burkina Faso	
26	Libya		
27	Zimbabwe		
28	Equatorial Guinea		
29	Lesotho		
30	Indonesia		

Permanent Moratorium on Custom Duties on ET Products

- Make permanent the existing moratorium on custom duties on trade through electronic transmission of the digitalised products.
- Difficult to quantify trade in ET products
- One way to quantify such trade is to identify products which have been largely digitalized-i.e., trade takes place largely through electronic transmission, although some trade may take place through physical movement of the products, i.e., music CDs.
- UNCTAD (2000) identified these products in HS1996 codes under the chapters- HS37 (films); HS49 (printed matter); HS8524 (sounds and media); HS8524 (software); HS9504 (video games).
- Using the concordance matrices between HS1996-2007-2012-.....HS 6-digit codes have been identified for DPs (**38 products identified**).

Shares in Cross Border Trade in ET Products

Top 15 Exporters of DPs (ET) in 2015 covering 82% of total Global Exports (in billion \$)



Exports and Imports of ET Products in 2015 (in 1000USD)

Reporter Name	Imports2015	Exports2015	Net Exports
Thailand	923,206	63,614	-859,592
Korea, Rep.	1,195,401	403,875	-791,526
Mexico	1,079,472	722,967	-356,505
Saudi Arabia	339,886	16,431	-323,455
India	596,873	276,036	-320,837
Japan	1,442,242	1,170,283	-271,960
New Zealand	291,939	33,864	-258,075
Turkey	336,977	86,969	-250,008
Brazil	273,750	35,916	-237,834
South Africa	294,955	82,521	-212,433
Kuwait	201,431	3,293	-198,138
Philippines	184,672	21,974	-162,698

Exports and Imports of ET Products in 2015 (in 1000USD)-

Reporter Name	Imports2015	Exports2015	Net Exports
Vietnam	161,758	29,312	-132,445
Argentina	170,796	41,927	-128,869
Qatar	114,238	20,290	-93,948
Malawi	91,022	768	-90,254
Malaysia	395,378	307,927	-87,450
Pakistan	86,485	4,713	-81,772
Egypt, Arab Rep.	83,204	19,152	-64,051
Israel	156,243	95,695	-60,548
Russian Federation	553,010	502,710	-50,300
Indonesia	82,953	35,208	-47,745
Mozambique	46,376	989	-45,387
Jamaica	37,599	399	-37,200

Exports and Imports of E in T Products 2015 (in 1000USD)-

Reporter Name	Imports2015	Exports2015	Net Exports
United Arab Emirates	764,822	739,254	-25,568
Tanzania	22,319	1,214	-21,105
Uganda	20,374	208	-20,166
Fiji	16,744	12,049	-4,695
Sri Lanka	49,761	45,346	-4,415
Zambia	54,839	54,184	-655
Mauritius	13,926	22,762	8,836
Singapore	708,091	1,056,060	347,969
United States	5,848,649	6,339,180	490,531
EU	4,767,085	6,799,177	2,032,091
China	3,448,295	11,968,110	8,519,815

Implications of PM on Custom Duties of ET Products: Methodology

- Identify HS 1996 codes for ET products which are and use HS concordance to match HS Combined.
- 38 HS codes at 6-digit
- Use WITS SMART Simulations
- Bound tariff cut to zero, wherever Bound tariffs are not available Applied tariff are used
- Simulation results are arrived for each country, each product –estimations of increase in global imports and tariff loss.

Implications of a Permanent Moratorium on Custom Duties of ET-Products

- The results of the simulation exercise (SMART-WITS), which brings down the Bound tariffs of ET products to zero show that:
- if permanent moratorium is applied to the custom duties which have been periodically brought down to zero on the ET-Products, then **there will be a further rise in imports of ET-Products by the developing countries while** imports of the developed countries will remain unaffected, as their duties are already zero.

	Global Imports of ET Products in 2015 (in 1000USD)	Per Annum Increase in imports of ET-Products post Permanent Moratorium (in 1000USD)	Percentage Change in Imports of ET Products	Tariff Revenue loss (in 1000USD)
China	3,448,295	86,483	2.5	-81,106
India	596,873	53,551	9	-38,788
Russian Federation	553,010	30,122	5.4	-18,349
Argentina	170,796	18,874	11.1	-18,160
Brazil	273,750	79,056	28.9	-17,652
Australia	1,020,048	15,192	1.5	-13,074
EU	4,767,085	14,466	0.3	-12,387
Vietnam	161,758	7,405	4.6	-9,191
Thailand	923,206	6,553	0.7	-8,377
Mexico	1,079,472	8,127	0.8	-7,758
United Arab Emirates	764,822	8,390	1.1	-5,782
Malawi	91,022	4,930	5.4	-5,720
Malaysia	395,378	4,248	1.1	-5,338
Pakistan	86,485	8,003	9.3	-5,205
Zambia	54,839	4,359	7.9	-4,749
Korea, Rep.	1,195,401	4,553	0.4	-4,625

	Global Imports of ET Products in 2015 (in 1000USD)	Per Annum Increase in imports of ET-Products post Permanent Moratorium (in 1000USD)	Percentage Change in Imports of ET Products	Tariff Revenue loss (in 1000USD)
Philippines	184,672	3,117	1.7	-4,013
Sri Lanka	49,761	2,695	5.4	-2,886
Canada	3,176,141	4,745	0.1	-2,825
Israel	156,243	2,804	1.8	-2,475
Fiji	16,744	1,444	8.6	-2,017
Saudi Arabia	339,886	1,854	0.5	-1,818
Indonesia	82,953	2,506	3	-1,476
Egypt, Arab Rep.	83,204	1,532	1.8	-1,201
Jamaica	37,599	1,027	2.7	-1,102
South Africa	294,955	1,128	0.4	-1,029
Tanzania	22,319	967	4.3	-942
Cambodia	993,154	867	0.1	-801
Kuwait	201,431	2,221	1.1	-681
Qatar	114,238	836	0.7	-658
Mozambique	46,376	498	1.1	-495
Uganda	20,374	363	1.8	-400
Turkey	336,977	199	0.1	-199
United States	5,848,649	0	0	0
Hong Kong, China	1,664,828	0	0	0
Japan	1,442,242	0	0	0
Singapore	708,091	0	0	0

ET-Products of the Future

- A Chinese company based in Suzhou has built 10 full-sized eco-friendly houses in just one day using 3D printing, costing \$4,800 USD each. The architectural plan was in a CAD file.
- 98% of hearing aids worldwide are being manufactured using 3D printing.
- Other 3-D printing products include- cars; a working Gun; guitar; camera lens; i-phone cases; i-pad cases; lamps; clocks; coffee cups; high heel shoes; printed fabrics (source: <http://www.hongkiat.com>)
- Amazon, is building a fleet of drones to deliver products.

- In addition to digitalisation of products, the growing importance of Artificial Intelligence and use of robots in growing number of areas announces the arrival of Fourth Industrial Revolution.
- This will bring new challenges and new competitive edge to exports of products and services and not just digitalised products and services.
- Nature of Global value chains will change- Lead firms will look at locations with high skill labour and low energy costs
- ***But are developing countries and LDCs prepared for it?***

Digital Industrialization Policies

- Need of the hour!..Industrial Policies focusing on *Digital Industrialization* needed for enhancing competitiveness in *Future Digital Trade*
- **Elements for Industry 4:** big data, augmented reality (AR), additive manufacturing, Autonomous robots, cloud computing, cyber security, IoT, Artificial Intelligence, system integration, and simulation.
- **Key enablers-** Digital Connectivity; Digital Skills; Digital content; Business Digitalisation; e commerce platforms; and digital public services
- Developing Countries and LDCs are still struggling with internet penetration, industrialization policies and upgrading in GVCs.
- **Policy Space needed** to shape their digital industrialization strategies to suit their level and pace of development.

Digital Industrialization Policies/Strategies- Preparations for Industry 4-Examples

- ❑ **EU's Digital Single Market (DSM) -16 initiatives** which include
 - a modern, more European copyright law
 - a common VAT threshold to help smaller start-ups selling online.
 - an ambitious overhaul of EU telecoms rules.
 - Building on the new EU data protection and e-Privacy Directive.
 - launching a European Cloud initiative
 - A new e-government action plan
- ❑ **National Digital Industrialization Strategies- Digital Strategy 2025 in Germany, the Factory of the Future in France and Italy, and Catapult centres in the UK;**
- ❑ **China Industrie 4:** Ambition to Build an Industrial Power within 2045 under 'Made in China 2025'. The Development Plan of China for the Robotics Industry 2016–2020 will lead to a tripling in both robot use and domestic industrial production by 2020-
- ❑ **India's Smart Cities Mission** is a response to Industry 4.

EU's Digital Trade Strategy-International Aspects

(EU Parliament: Committee on International Trade)

- EU should aims at
 - setting standards in international rules and agreements on digital trade flows ensuring market access for digital goods and services in third countries;
 - safeguarding the transfer of personal data from the EU to a third country;
 - drawing up ambitious rules for cross-border data transfers, including through FTAs, in full compliance with EU's data protection and privacy rules
 - prohibiting data localisation requirements in FTAs;
 - prohibiting third country authorities from requiring the disclosure or transfer of details of the (cryptographic) technology used in products as a condition of manufacturing, selling or distributing these products;
 - continuing its efforts towards developing a set of binding multilateral disciplines on e-commerce in the WTO;

South-South Cooperation on Digital Industrialization

- South-South Cooperation is must to face Industry 4 challenges.
- **Immediate Step-**
 - **Preserve policy space in the WTO for shaping digital industrialization policies** - abstaining from any negotiations on e commerce as “new issues” as well as not agreeing to permanent moratorium on custom duties on ET products since future ET products are unknown.

South-South Cooperation for Industry 4:

A 10-point Agenda

1. **Building a data economy** -deciding on way forward in managing big data, regulations for sharing data as well as for protecting personal data. This can first be undertaken within RECs and regional blocks.
2. Consumer Protection
3. Cybersecurity
4. tackle unjustified Geo-blocking
5. reforms of the copyright regime
6. E-Government-sharing of experiences
7. strengthening broadband infrastructure
8. S-S joint ventures for promoting smart cities
9. Building capacities of SMEs for domestic e-commerce
10. Building digital trade statistics to promote digital connectivity

The background of the slide is a light yellow-to-orange gradient. In the upper right, there is a faint, stylized world map composed of horizontal lines. In the lower left, there is a circular emblem featuring a globe with latitude and longitude lines, surrounded by a laurel wreath, which is the logo of the United Nations.

Open for Q&A

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT