A Comment on *The Information Technology Agreement: an Assessment of World Trade in Information Technology Products*

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This short article will be organized in four sections. In the first section, I will give a brief introduction to Michael Anderson and Jacob Mohs' paper *The Information Technology Agreement: an assessment of World Trade in Information Technology Products* (Anderson and Mohs, 2009). In section 2, I will discuss several issues from Chinese perspective. Section 3 will point out two small concerns I have. Section 4 will discuss possible econometric methods for further research on this topic.

1. A thorough and fine introduction to and assessment of the ITA

Michael Anderson and Jacob Mohs's paper *The Information Technology Agreement: an assessment of World Trade in Information Technology Products* gives us a clear introduction to the Information Technology Agreement (ITA).The paper discusses the changing composition of ITA membership, examines the fast growth, an annual growth rate of 10.1 percent, in ITA trade between 1996 and 2008. The paper finds a significant shift in ITA trade to Asia, particularly China, which acceded into the ITA in 2003, but Anderson and Mohs have also identified rapid growth in ITA trade in some non-ITA countries such as Mexico and Russia. While the paper finds strong growth in imports and exports for all ITA products, it is pointed out that computers and telecommunications accounted for an increasing share of total ITA trade.

The most interesting facts presented in the paper are about the role of developing countries in ITA trade. The ITA members have diverse economic profiles, with 41.7% ITA members are developing economies. China, as the largest developing economy, has risen into the largest ITA products exporter. Between 1996 and 2008, developing countries' exports in ITA products grew at an annual rate of 33.6%, much faster than that of developed economies, which is 7.2 percent. Although without formal econometric evidence, such facts have already strongly revealed that developing countries have benefited from technology diffusion in the field of ITA product.

2. China's concerns

Although China has clearly been a winner from the launch of the ITA, it was much less clear in 1997, when Chinese scholars had a serious debate on if China should participate into the ITA or not.

2.1 Is there a trade diversion problem?

IT industry was surely an infant industry in China in 1997, that's why some experts have reservations on the ITA. Leading WTO negotiators, such as LONG Yongtu, believed that if China didn't participate into the ITA, China would not be chosen as the main assembling place of IT products by multinational companies, so China would have been driven out of the global IT revolution. Long's belief was strongly supported by top Chinese leaders. In October 1997, President Jiang Zemin, who is also an expert on IT industry, announced China's plan of joining the ITA when he made an official visiting to the US.

The leading concern of Chinese trade scholars when the ITA was launched was trade diversion. More accurately, what China worried about was the diversion of production process of IT products. The ITA is based on the MFN principle, so China would also face lower trade barriers even if China didn't enter into the ITA. Hence the trade diversion in the normal sense would not happen. But if China didn't eliminate tariffs for intermediate IT goods as other ITA members, the cost of assembling IT goods in China would be high, so some IT production activities would transfer to other countries. Although China's processing trade scheme and export tax rebate scheme could partly cure the problem, IT production would still be influenced by the import tariffs as China's IT assembling business was very sensitive to cost changes.

2.2 A negotiation strategy?

Although Chinese leadership had already reached consensus on the participation of the ITA at the end of 1997, many scholars and officials still had some doubts. A senior official of WTO affairs, although a supporter of the participation of the ITA, called it a typical example of developing countries' being evolved into the globalization process under the "coercion" of developed countries (Zhang, 2000, p243). Although developing countries did not hold much interest in the negotiation of the ITA before the 1996 Singapore Ministerial Conference, many of them had to choose to participate into the ITA because they worried that they would become "isolated islands" of global IT revolution if they chose not to participate.

Just around the time when the ITA was launched, OECD countries started their negotiation on the Multilateral Agreement on Investment (MAI), which was also planed to be launched among rich countries first and then to be open to other countries just like the ITA. It seems that the strategy of developed countries was to reach some trade agreements among themselves first and then "coerce" developing countries to participate using the externality effect of the agreements. Some Chinese scholars also worried that main developed countries such as the US were giving up the tradition of making package deals but had more interest in reaching plurilateral agreements in areas where they had comparative advantages.

But now it seems that such worries held by Chinese scholars are unnecessary. The MAI negotiation was aborted in 1999. The Doha development agenda has put development as the theme of this round of WTO negotiation. From Anderson and Mohs (2009), we can see that developing countries actually have gained more than developed countries from the launch of the ITA.

2.3 The future of processing trade scheme in China

A large part of China's foreign trade is processing trade. China's processing trade scheme, which is actually a bonded tariff scheme, has always been criticized as a barrier of China's industrial upgrading. Actually, China started to change its processing trade scheme in 2005, when the ITA agreement was start to be fully applied. Zero import tariffs applied to ITA products made the previous processed trade scheme unnecessary to the IT industry. In 2007, MOFCOM and the General Administration of Customs released Announcement No.44, which put high curbs on the processing trade. Although this announcement was partly reversed in November 2008 because of

the global financial crises, it seems that Chinese government will continue to restrict low value-added processing trade in future. If ITA coverage is expanded and zero tariff rates are applied to more items, Chinese government may phase out its current processing trade preference even more quickly.

3. Two minor issues

Although the whole paper is clearly presented, I have doubt on some data. In table 6 on page 13, China's compound annual growth rate of import between 1996 and 2000 is 25.2%, and that for 2001 to 2008 is 25.3%, but the compound rate for 1996-2008 is only 24.4%, less than both of the two rates above. I wonder if it is a typo or there is any other reason for the lower growth rate.

On page 15, it is said that "Through its WTO accession and commitment to join the ITA, China gained MFN access to major markets……". Actually China could still have MFN access to major markets without WTO accession because of its bilateral trade agreements with major economies, although China's MFN status was reviewed every year in the US before Clinton administration granted China permanent normal trade relationship in 2000.

4. Future research

Although the paper has shown some evidence of benefit of joining the ITA, it seems that further research is worthwhile. Although some works, such Bora and Liu (2006) have been conducted, it seems that there is still room for further exploration.

Just as Anderson and Mohs (2009) point out, some non-ITA countries have also achieved significant growth in ITA trade. In order to identify the benefit of ITA membership, I wonder if it is possible to use simple econometric techniques such as difference-in-difference analysis. Of course, I understand that just as the authors point out, it is difficult to identify a single time point of full implementation.

In an interesting paper by Rose (2004), *Do We Really Know That the WTO Increases Trade*, the trade effect of WTO accession was discussed. Gravity model is used and control variables are carefully chosen. It seems that Rose's methodology can be easily borrowed to identify trade effect of ITA accession. I understand that ITA trade data have some complexities. But if the data quality is good enough for descriptive analysis, I guess it also should be good enough for econometric analysis.

References:

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