Telecommunications Industry Association
1320 N. Courthouse Road Suite 200, Arlington, VA 22201
703-907-7700 • tiaonline.org

Telecommunications Industry Association
Written Comments
K.C. Swanson

Request for Comments
Concerning Proposed Modification of Action Pursuant to Section 301:
China's Acts, Policies, and Practices Related to Technology
Transfer, Intellectual Property, and Innovation
(List 4)

USTR-2019-0004

June 17, 2019

The Telecommunications Industry Association, TIA, represents more than 300 companies that enable high-speed communications networks and accelerate next-generation ICT innovation. We appreciate the opportunity to provide this testimony.

To summarize our position, we believe that imposing duties of up to 25 percent on the ICT products identified on the fourth Section 301 list would cause disproportionate economic harm to U.S. interests. Our main points, which we detail further in the body of these comments, are summarized below:

- Better access to ICT products corresponds with improved economic outcomes.
- For this reason, U.S. and other global policymakers have spent decades working to achieve tariff reductions. The proposed duties of up to 25 percent mark a radical departure from that aim.
- Duties on List 4 items would have a negative impact on U.S. consumers, driving up costs of core products such as smartphones and laptops.
- Higher price tags for digital products are likely to weigh on U.S. economic growth.
- Tariffs on ICT goods stand to exacerbate the digital divide between rich and poor.
- The changes to supply chains that would be necessary to avoid tariffs require substantial investments of time.
- The use of tariffs has invited retaliation that hurts U.S. exports.

Please note that at the back of this document we have appended an annex of items that we would seek to safeguard from Section 301 tariffs (Annex 1).

<u>Better access to ICT products corresponds with improved economic outcomes.</u>

There is compelling evidence that countries benefit from promoting access to ICT hardware and the internet.

The World Bank outlined the benefits of digital usage for both national economies and individual citizens in a report: “For businesses, the internet promotes inclusion of firms in the world economy by expanding trade, raises the productivity of capital, and intensifies competition in the marketplace, which in turn induces innovation. It brings opportunities to households by creating jobs,

leverages human capital, and produces consumer surplus. It enables citizens to access public services, strengthens government capability, and serves as a platform for citizens to tackle collective action problems."[1]

As economist Jeffrey Eisenach of the American Enterprise Institute has summarized, "There is a broad and deep literature on overall economic effects which has consistently demonstrated a positive relationship between broadband and economic growth, employment and productivity."[2]

Because the economic benefits are so well documented, there has long been broad political support for policies that improve Americans' access to information and communications technology. "[H]istory makes clear that countries with the best communications have the highest economic growth," summarized Marsha Blackburn, chair of a House Energy and Commerce subcommittee, at a 2018 hearing.[3]

For this reason, U.S. and other global policymakers have spent decades working to achieve tariff reductions. The proposed duties of up to 25 percent mark a radical departure from that aim.

It was the ambitious goal of boosting global standards of living that underpinned the drafting of the original Information Technology Agreement, the landmark deal that zeroed out tariffs on ICT goods. The ministerial declaration to the first ITA in 1996 highlighted the "positive contribution [that] information technology makes to global economic growth and welfare."

Some two decades later, that same duty-eliminating agreement "often is credited as a catalyst for rapid growth in technological advancements and technology diffusion beyond that which would have otherwise occurred," according to the U.S. International Trade Commission.[4] Reflecting a growing global recognition of the benefits of reducing ICT costs, many more countries have signed onto the ITA since its creation. Membership has steadily expanded to 82, up from the original 29 founding members.

Now, the proposed tariff rates of as much as 25 percent would represent an extreme departure from the status quo. At present, the U.S. claims a trade-weighted average import tariff rate of a mere

---

[1] *World Development Report: Digital Dividends 2016*, World Bank, at 11.

[2] Jeffrey Eisenach, "Testimony of Jeffrey A. Eisenach, Ph.D.," statement before the Committee on Commerce, Science and Transportation on Addressing the Risk of Waste, Fraud and Abuse of the Federal Communications Commission's Lifeline Program, U.S. Senate, September 6, 2017, http://www.aei.org/wpcontent/uploads/2017/09/090617-Eisenach-Senate-Commerce-Testimony-on-Lifeline.pdf

[3] "Closing the Digital Divide: Broadband Infrastructure Solutions," House Energy and Commerce Subcommittee on Communications and Technology, January 30, 2018, https://energycommerce.house.gov/sites/democrats.energycommerce.house.gov/files/documents/20180130-%20CAT%20Closing%20the%20Digital%20Divide%20Broadband%20Infrastructure%20Solutions.pdf

[4] Michael Anderson and Jacob Mohs, "The Information Technology Agreement: An Assessment of World Trade in Information Technology Products," U.S. International Trade Commission, *Journal of International Trade and Economics*, January 2010, https://www.usitc.gov/publications/332/journals/05_andersonmohs_itagreement.pdf

2.0 percent on industrial goods. One-half of all industrial goods entering the United States, including ICT products, enter duty free.[5]

After decades of efforts by government and industry to lower tariffs, the proposed duty – which would boost the cost of listed products by up to a quarter of their value – would deliver an unwelcome economic shock to U.S. consumers and industry.

Duties on List 4 items would have a negative impact on U.S. consumers, driving up costs of core products such as smartphones and laptops.

Until recently, USTR had largely sought to avoid imposing duties on consumer-facing products. When the administration announced the imposition of tariffs on $200 billion in goods in September 2018, USTR noted that it had removed nearly 300 tariff lines from the original proposed list, including consumer electronics products such as smart watches and Bluetooth devices.

Reflecting an awareness of the need to avoid negatively impacting consumers, the May 17, 2019 Federal Register notice requesting comment on products covered under the List 4 duties has asked whether imposing duties "would cause disproportionate economic harm to consumers."

However, despite the administration's avowed interest in insulating the public from effects of the trade dispute, List 4 includes a high volume of ICT goods sold into the consumer market. This includes higher-ticket items such as laptops and cell phones, as well as video cameras, LCD monitors, headphones, and even baby monitors. The addition of a tax of up to 25 percent on such products would meaningfully increase prices, potentially pushing them out of reach for more budget-conscious buyers.

The proposed List 4 tariffs would also impact a number of enterprise products essential for the functioning of telecom networks, including base stations, radios and critical related parts used for cellular transmissions.

Higher price tags for digital products are likely to weigh on U.S. economic growth.

As noted above, it has been amply demonstrated that enhancing ICT access yields significant benefits, both to economies and individuals. But if that is the case, it is also fair to conclude that the reverse would hold true. If cutting duties to zero makes ICT goods more readily available and spurs technology development, it is only reasonable to infer that imposing a tax on those same items would reduce demand, depress ICT industry revenues and exact a broader opportunity cost in terms of lost productivity benefits. That, in turn, stands to weigh on longer-term growth of the U.S. innovation economy.

Tariffs on ICT goods stand to exacerbate the digital divide between rich and poor.

Research clearly shows the benefits of broadband access that accrue to the working class and poor, including through facilitating job search efforts and access to health information, according to the AEI's Eisenach. One study found that improving broadband access boosted the unemployment rate by nearly 2 percentage points, with greater benefits in rural areas.

However, lower-income Americans lag behind the rest of the population in technology adoption. The Pew Research Center found in a recent study that about three in ten adults with household incomes below $30,000 a year (29%) don't own a smartphone. More than four in ten (44 percent) percent lack home broadband services and don't own a traditional computer (46 percent). Less

[5] "Industrial Tariffs," USTR website, accessed June 6, 2019, https://ustr.gov/issue-areas/industry-manufacturing/industrial-tariffs

than half of lower-income Americans have tablets.[6] (See Annex 2 for graph comparing rates of U.S. technology adoption by income range).

Levying an additional tax on ICT goods would undermine efforts to narrow the gap in technology access between affluent and poor Americans – a goal that has been widely endorsed both in the current administration and on Capitol Hill. For example, Federal Communications Commission chair Ajit Pai has cited closing the digital divide as his number-one priority.[7] And in April 2019, Senate Commerce Committee chair Roger Wicker cautioned that "the digital divide persists for far too many families" and urged the FCC to help "get all Americans connected soon."[8]

A policy that substantially increases the costs of laptops, cell phones, and the radios and base stations used to transmit cellular signals is bound to complicate efforts to narrow that divide.

The changes to supply chains that would be necessary to avoid tariffs require substantial investments of time.

The administration has sought to suggest that companies could mitigate the impact of Section 301 duties by moving manufacturing facilities out of China. But particularly for sophisticated ICT goods, the wholesale remaking of supply chains to accommodate high-volume manufacturing is an effort that may take months to years, as companies vet alternate sites for infrastructure and security factors and obtain the necessary certifications. In the meantime, there may not be adequate manufacturing facilities available in other countries to meet consumer demand. The result is that consumers in the U.S. are likely to end up facing a 25 percent price hike, while American companies suffer a drop-off in sales.

The use of tariffs has invited retaliation that hurts U.S. exports.

Meanwhile, China has responded to multiple rounds of American tariffs by imposing its own series of retaliatory tariffs. In May Beijing levied duties of up to 25 percent on many ICT products from the U.S. – but not on goods from other countries, which now enjoy a substantial price advantage in the Chinese market. As Chad Bown of the Peterson Institute for International Economics has pointed out, "A substantial gap has emerged between Chinese duties facing U.S. exporters and those facing exporters in the rest of the world."[9]

---

[6] "Digital Divide Persists Even as Lower-income Americans Make Gains in Tech Adoption, Pew Research Center, May 7, 2019, http://www.pewresearch.org/fact-tank/2017/03/22/digital-divide-persists-even-as-lower-income-americans-make-gains-in-tech-adoption/

[7] "Bridging The Digital Divide For All Americans," FCC website, accessed June 6, 2019, https://www.fcc.gov/about-fcc/fcc-initiatives/bridging-digital-divide-all-americans

[8] "Broadband Mapping: Challenges and Solutions," Senate Commerce Committee hearing testimony from Chairman Wicker, April 10, 2019, https://www.commerce.senate.gov/public/index.cfm/hearings?Id=1B786B30-9A80-4307-AC3B-F42DF79C474D&Statement_id=E3ECE779-22C9-41D4-8C2E-DE433918AB87

[9] Chad Bown, Euijin Jung (PIIE) and Eva (Yiwen) Zhang, "Trump Has Gotten China to Lower Its Tariffs. Just Toward Everyone Else," Peterson Institute for International Economics, accessed June 12, 2019 https://piie.com/blogs/trade-investment-policy-watch/trump-has-gotten-china-lower-its-tariffs-just-toward-everyone?utm_source=update-newsletter&utm_medium=email&utm_campaign=2019-06-12

Telecommunications Industry Association
1320 N. Courthouse Road Suite 200, Arlington, VA 22201
703-907-7700 • tiaonline.org

U.S.-based vendors not only face further price increases on their products at home from Section 301 duties, but may now also see demand slide in China as the result of retaliatory tariffs that make their goods more expensive.

If the goal is to pursue a trade remedy against China, the damage to U.S. economic interests that is likely to result from a new round of 25 percent tariffs would suggest another course of action is advisable. We would urge the administration to reconsider the proposed duties on ICT goods. To that end, we have appended a list of ICT products that we recommend be exempted from the proposed 25 percent tariffs.

Thank you for the opportunity to comment.

Telecommunications Industry Association
1320 N. Courthouse Road Suite 200, Arlington, VA 22201
703-907-7700 • tiaonline.org

Annex 1: HTSUS Codes
Proposed for Exemption from Round 3 Section 301 Tariffs
List 4

HTSUS Code	Product Description
3926909990	Plastic cases and covers for phones/tablets
84672100	Electromechanical drills
84672900	Electromechanical tools
8471300100	Laptops, tablets, music players
84714101	ADP machines
8471490000	Desktops
84716020	Computer keyboards
85073080	Nickel cadmium storage batteries
8507600020	Batteries and battery cases
85076000	Batteries
85076000	Lithium ion batteries
85171100	Line telephones with cordless handsets
85171200	Mobile phones
8517120050	Smartphones
85176100	Base stations
85176200	Optical transceivers
8517620090	Mobile wireless devices, including radios, smartwatches, headphones/speakers
8517700000	Parts of telecom equipment; smartphone parts including main logic boards
85171800	Telephones
85181080	Microphones and stands
85182100	Single loudspeakers mounted in their enclosures
8518200000	Wired speakers
85182980	Loudspeakers
8518220	Multiple loudspeakers mounted in same enclosure
85183010	Line telephone sets
8518302000	Wired headphones/earphones
85183020	Headphones, earphones and combined microphone/speaker sets
8519814050	Soundbar compact speakers
85219000	Video recording or reproducing apparatus
85234950	Recorded optical media
85235100	Solid state drives
8525501000	Set top boxes
85258040	Digital still image video cameras
8528520000	Computer monitors
85285200	Displays

85258040	Digital still image video cameras
85285933	Color video monitors with flat panel screens
85285925	Monitors and projectors, with a video display diagonal not exceeding 34.29 cm
85285950	Color video monitors
85286945	Color video projectors with flat panel screen
85287272	Color TV reception apparatus
85299013	Printed circuit assemblies for TV
90138090	LCD Monitors/SVC panels
9113204000	Watch straps, watch bands and watch bracelets
9113908000	Watch bands, leather and sport
9113904000	Watch bands, nylon/textile

Telecommunications Industry Association
1320 N. Courthouse Road Suite 200, Arlington, VA 22201
703-907-7700 • tiaonline.org

Annex 2 Tariffs on ICT goods stand to exacerbate the digital divide