Multilateral Trading Rule in Information and Telecommunications Sector: A Gigantic Leap Toward the Global Information Society*

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Two historical trading agreements were made in the early part of 1997 at the World Trade Organization (WTO). One is the WTO agreement on basic telecommunications services and the other is the Information Technology Agreement (ITA). With the ITA and the basic telecommunications agreement, the firm ground for advancing the vision of the Global Information Infrastructure (GII) is now established. This paper reviews the essential elements of the two agreements, discusses and analyzes how they are related to the advancement of the GI.

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As the world marches into the dawn of a new millennium, it becomes quite clear even to ordinary people that the post-industrial society is indeed evolving into a society where information is the essential input of economic activities. "The Third Wave" and "Mega Trend," as dubbed by futurists, are turning into a hard reality due to continuous technological advances in the field of information and telecommunications (info-communications, in the Japanese parlance). By nature, info-communications technology is global, which means that restrictions imposed by sovereign nations prevent commercial potential of info-communications technology from being fully realized. In this regard, it is no surprise to see the U.S. initiative in pursuing the vision of the global information society in light of the leading position U.S. holds in this field of info-communications.

In 1994, in Buenos Aires, U.S. Vice President Gore called on the nations of the world to join in building the Global Information Infrastructure (GII)—a futuristic digital information superhighway along which all sorts of information, i.e., voice, data and video can be instantly and freely flow beyond geographic and political limitations. In 1995, the Korean government has developed the notion of the Asia-Pacific Information Infrastructure (APII), which can bridge the gap between GII and national information infrastructure of many developing economies. Subsequently, in May 1995, the Asia Pacific Economic Cooperation (APEC) Ministerial Meeting adopted the principles and goals set out in the Seoul Declaration. The Organization for Economic Cooperation and Development (OECD) has worked on the regulatory and policy frameworks for the GII throughout 1995, and adopted the guidelines in 1996. Global Information Society (GIS), which means a globally interconnected society using the GII, became an official jargon of the OECD.

In spite of all these talks and documents, tangible and specific outcome leading to the GII was not in sight. Many skeptics thought that the GII was long on theory and short on practice. In the meantime, technological and business environments have been evolving at an unprecedented pace. A common approach at a multilateral arena was in desperate need. The global community stood up to this challenge by establishing a multilateral trade rule in info-communications. Two historical trading agreements were made in the early part of 1997 at the WTO. One is the WTO agreement on basic telecommunications services and the other is Information Technology Agreement (ITA). The former deals with market access and foreign investment to telecommunications service sector, and the latter addresses free-flow of information technology products across national borders. With the ITA and the basic telecommunications agreement, the firm ground for advancing the vision of the GII is now established.

The WTO agreements to liberalize trade in these two sectors, which collectively are the lifeblood of the world economy, provide a springboard for economic growth and development in the next century. In statistical terms, these two accords cover international business worth over a trillion U.S. dollars, which is roughly the equivalent of world trade in agriculture, automobile and textiles put together. The importance of the agreements goes well beyond these numbers. The enthusiasm and support for the WTO negotiations on both sectors underscore the recognition of countries at all levels of development that barriers to trade in the information technology product sector and telecommunica-

tions service sector are incompatible with economic growth. This paper reviews the essential elements of the two agreements, discusses how they are related to the advancement of the GII, and analyzes the future challenges ahead from the perspective of developing countries.

INFORMATION TECHNOLOGY AGREEMENT

Negotiating Process

The great success of the world trading system after World War II is based on the continuous expansion of market access opportunities for trade. In the case of trade in products, the existence of secure and predictable market access is largely determined by the use of tariffs. While quotas are outlawed in principle, tariffs are legal in the WTO and are commonly used by governments to protect domestic industries and to raise revenues. However, tariff measures are subject to disciplines of non-discrimination—Most Favored Nations (MFN) and national treatment—and are largely “bound.” To be “bound” means that a tariff level for a particular product becomes a commitment by a WTO member and cannot be increased without negotiation on compensation with its main trading partners.¹

Following the establishment of the General Agreement on Tariffs and Trade (GATT) in 1948, average tariff levels fell progressively and dramatically through a series of eight rounds of trade negotiations; average tariff at the border was decreased from around 40 percent in 1948 to below five percent after the Uruguay Round in 1994. The Uruguay Round achieved substantial tariff-cutting, sometimes to zero, while raising the overall level of bound tariffs significantly. Tariff reductions, for the most part, phased in over five years, will result in a 40 percent cut in developed countries’ tariffs on industrial products, from an average of 6.3 percent to 3.8 percent, and a jump from 20 to 44 percent in the value of imported industrial products that receive duty-free treatment in developed countries. The Uruguay Round increased the percentage of bound product lines from 78 to 99 percent for developed countries, 21 to 73 percent for developing economies and from 73 to 98 percent for economies in transition—results which provide a substantially higher degree of market security for traders and investors.

Recent efforts to liberalize trade in information technology products have gained ground as more countries became aware of the vast market potential in this sector. Exports of information technology products amounted to more than \$595 billion in 1995. Trade in this sector is now larger than world exports of agricultural products. Information technology industry is currently the fastest growing sector, and includes a wide range of items, from computers and semi-conductors to telecommunications equipment and integrated circuits. Broader categories include some of the following: computers, computer parts and computer software; semi-conductors and integrated circuits; and telecommunications equipment, including opto-electronic and radio-based network equipment.

¹Article XXVIII of the General Agreement on Tariffs and Trade (GATT) 1994.

Six countries and European Union (EU) make up the bulk of exports and imports in the information technology product sector: Japan, the U.S., EU, Singapore, Korea, Malaysia and Chinese Taipei. Except for EU, these are member economies of the APEC. Hence, the enthusiasm and support of the APEC was the key to the success of the Information Technology Agreement. Like any typical major trade negotiations, talks to eliminate tariffs on all information technology products by the year 2000 were held throughout 1996 by the Quad—Canada, EU, Japan and the U.S. In late September 1996, these countries expressed hope that by bringing the ITA to the first WTO Ministerial Conference in Singapore in December 1996, they could encourage other exporters and importers to make similar commitments, and eliminate all tariffs. The political momentum was building at the APEC Economic Leaders Meeting in November 1996; APEC Leaders gave unqualified support for the ITA. A milestone was reached at the WTO first Ministerial Conference in Singapore in December 1996.

The WTO Ministerial Declaration on Trade in Information Technology Products (ITA) was agreed at the close of the first WTO Ministerial Conference on December 13, 1996 in Singapore. The Declaration provided participants to eliminate tariffs on information technology products by the year 2000 on an MFN-basis to all WTO members. In Singapore, 29 participants, accounting for about 83 percent of trade in information technology products, agreed to the ITA. The Declaration, however, provided that implementation is contingent on expanding ITA participation to cover 90 percent of world trade in Information Technology (IT) products by April 1, 1997. Since that time, negotiators have been working to finalize the agreement, and to work with other countries interested in joining the ITA. The ITA participants, who met in Geneva on March 26, 1997 agreed that this criterion had been met: the threshold was finally reached when Malaysia and Thailand agreed to take part. Their support and that of Korea, India, Indonesia, Chinese Taipei and Costa Rica came after trading partners agreed to a longer phase-out of up to the year 2005 for certain products.

Major Contents of the Agreement

Under the ITA, the tariff cuts will come in four equal installments, beginning July 1997 and continuing on January 1 of each year until 2000. However, some countries agreed for faster implementation of tariff cuts on semiconductors. They also established Committee on the Expansion of Trade in Information Technology Products, which will monitor the implementation of the ITA, discuss and approve expansion of product coverage, and recruit other countries for membership.

The agreement provides for the elimination of tariffs on information technology products by the year 2000. Countries will stage the overwhelming majority of their tariff reductions to zero by the year 2000. In very limited circumstances, extended staging of commitments up to the year 2005 was agreed upon for a few countries. The Agreement also provides for a review of product coverage, and a continuing opportunity to pursue non-tariff measures that impede market access for information technology products.

Participants

There are 29 participants at the Singapore Ministerial Conference—Australia, Canada, the 15 members of the European Community, Hong Kong, Iceland, Indonesia, Japan, Korea, Liechtenstein, Norway, Chinese Taipei, Singapore, Switzerland, Turkey and the U.S. Thirteen additional countries have come on board since the Singapore Ministerial Conference—Costa Rica, Czech Republic, Estonia, India, Israel, Macau, Malaysia, New Zealand, Romania, Slovak Republic, Thailand, Panama and Poland.

Tariff-Reduction Time Frame

The ITA provides for the staging of tariff reductions in four equal-rate reductions (25 percent reduction in each time):

First reduction : July 1, 1997

Second reduction : January 1, 1998

Third reduction : January 1, 1999

Fourth reduction : Complete elimination of duties no later than January 1, 2000

Costa Rica, Indonesia, India, Korea, Malaysia, Chinese Taipei and Thailand have been granted flexibility in cutting their tariffs on a few products to zero after the year 2000, but not beyond 2005. IT tariffs in the Quad countries are generally low but some duties reach as high as 17 percent. Relatively high tariffs are concentrated in telecommunications in the U.S. and Canada, and in semiconductors in the EU. Many developing country participants apply high tariffs on IT products, including more than 50 percent in some cases.

Product Coverage

World trade in IT products is significant—about \$600 billion annually, or about 10 percent of world merchandise trade. A total of 202 products are covered by the agreement and they belong to the following six main categories:

- a) Computers, including complete computer systems and laptops as well as computer components such as Central Processing Units (CPUs), keyboards, printers, display units (monitors), scanners, hard disk drives, and power supplies;
- b) Telecommunications equipment, including telephone sets, videophones, fax machines, switching apparatus, modems, and parts thereof. Telephone handsets, answering machines, radio-broadcasting and television transmission and reception apparatus, and pagers;
- c) Semiconductors, including chips, wafers of various sizes and capacities;
- d) Semiconductor manufacturing equipment, including a wide variety of equipment and testing apparatus used to produce semiconductors such as vapor deposition apparatus, spin dryers, etching and stripping;
- e) Software contained in diskettes, magnetic tapes, and CD-ROMs;
- f) Scientific instruments, including measuring and checking devices, chromatographs, spectrometers, optical radiation devices and electrophoresis equipment.

Additionally, other main products of interest covered by the ITA include word processors, calculators, cash registers, Automatic Teller Machines (ATM), optical fiber cables, and computer network equipment. The ITA does not cover consumer electronic goods.

Innovation in the Negotiating Approach

The ITA grew from the concept of "zero for zero," which was used in the Uruguay Round of multilateral trade negotiations. As a benchmark to reduce tariff on manufactured products, it was suggested that tariff on a selected group of products be abolished for all countries. Although the "zero for zero" approach was considered to be a sensible step in reaching the ultimate goal of no tariff, developing countries were not enthusiastic about this approach mainly due to the political implication of dismantling protection given to their fragile domestic industry. One may wonder why the "zero for zero" approach, which did not work during the Uruguay Round, has worked at the ITA. At least two important reasons may be provided. One is related to the novelty in dealing with the issue of MFN. Another may be due to the changed nature of economic activities.

The most fundamental mainstay of the multilateral trading regime is the principle of MFN. Using the MFN as a negotiating tool and as an obligation of all GATT members, the world community has achieved a phenomenal growth in world trade, and deepened the integration of national economies. However, there has always been a concern about the free-rider problem associated with MFN. To overcome the free-rider problem, it has been an established negotiating pattern at the GATT that in principle, all the countries are requested to make a concession on tariff reduction.³ Negotiations would continue until the moment when all the countries submit their national schedule of tariff reduction. Hence, with the sophistication of economic activities and the emergence of new products, multilateral tariff negotiations would take longer.

When it comes to the issue of MFN, the ITA has adopted the concept of critical mass. As long as the critical mass of countries has submitted their tariff reduction schedules, the negotiations would be concluded, and the benefits of the agreement would be extended to any member of the WTO on an MFN-basis, which means that members who did not present their schedule of tariff reduction would enjoy the benefits of the agreement. By setting the critical mass at the 90 percent of the world market, all the negotiators shared the same negotiating goal. Equally important, the concept of critical mass was not in the eyes of the major trading partners, since the exact configuration of countries did not matter much, as long as the numerical goal of 90 percent was obtained.

Then, the next question lies in the other ten percent of countries outside of the critical mass. In light of the growth potential of IT products and its repercussion on other economic activities, all countries are racing to boost their IT industry, and trying to find its niche and sustain its competitive edge in the global division of labor. Considering the amount of money involved in the IT industry, negotiators became quite convinced that the critical mass approach would work. According to their reasoning, the fact that a

³ Each country's schedule of tariff reduction does not need to be identical.

country is not a member of the ITA would signal to the international community its lack of political commitment to support the growth of the IT industry, which is believed to be crucial to sustain economic growth. Compared with other countries which joined the ITA, the country would be in a disadvantageous position in attracting foreign money, people, and technology. From this perspective, negotiating to reach the critical mass and extending MFN treatment to all members of the WTO was an expedient strategy.

Economic Impacts

From the standpoint of the government of developing countries which levied high tariffs on IT products, the ITA would mean a reduced government revenue and elimination of protective measure for local IT industry competing with imported IT products. This is a short-term cost, which would be offset and overshadowed by mid- and long-term benefits usually in the form of more efficient reorganization of local industry and reallocation of labor input and capital pursuant to market dynamics.

The staging of tariff elimination will begin in 1997 with tariffs being eliminated by 2000. Such staging will keep pace with the bulk of the industrial tariffs agreed in the Uruguay Round, and will assure that IT industries compete in the global market place on a level playing field. Industry experts observe that the useful commercial life of IT products is about 18 months due to the fast pace of technological development of these products. Experience suggests that those economies that have the lowest tariffs on IT products have had the most dynamic IT sectors. Far from encouraging the development of the information industry and its products, tariffs have encumbered this development, and act as a tax on the competitiveness and productivity of other industries that rely heavily on IT.

An essential feature of the ITA is that tariffs would be staged to zero, and that governments would be legally bound by such commitments. The ITA will provide a stable business environment necessary for long-term decision-making involved in large-scale investments. With tariffs of IT products reduced to zero, cost of moving up the technological ladder is reduced in the mid- and long-term. This will facilitate plugging into, and achieving the vision of the GII.

BASIC TELECOMMUNICATIONS AGREEMENT

On February 15, 1997, the WTO successfully concluded nearly three years of extended negotiations on market access for basic telecommunications services. A total of 71 governments presented offers by the close of the negotiations, and the commitments of 69 of these governments (contained in 55 schedules, taking the 15 member states of the European Union as one) are to be annexed to the Fourth Protocol of the General Agreement of Trade in Services (GATS). The world's industrialized countries all participated in the agreement. Over 40 developing countries, large and small, from virtually every region of the world, also took part as did six of the Central and Eastern European economies in transition. The markets of the participants accounted for more than 90

percent of some \$600 billion global telecommunications services market.⁴

Major Elements of the Agreement

The accord on basic telecommunications was concluded under the GATS of the WTO. The GATS incorporates mutually-agreed contractual rights and obligations, which make the GATS both a code of rules and a forum to negotiate improved trade opportunities, and to resolve trade disputes. The GATS makes it possible to prevent new distortions to trade in services and to roll back existing barriers, while safeguarding the right to regulate in light of legitimate public policy objectives, and respecting each country's economic circumstances.

The GATS structure of rights and obligations rests on three pillars: a framework agreement; sectoral annexes; and schedules of specific commitments. Under the GATS, there is a commitment to progressive liberalization, but there is no obligation to give market access or national treatment. The scope and degree of market access and national treatment are determined through a series of negotiations, which usually proceed on the basis of requests and offers among interested countries. A successful round of multilateral negotiations will produce a set of national schedules, which contains a legally binding commitment for each participating member in market access and national treatment in the negotiated service sector. A member may attach conditions to these commitments. It may also undertake additional commitments which go beyond market access or national treatment.

What has been negotiated in the accord on basic telecommunications is adding to the members' schedules of commitments, which were reached at the end of the Uruguay Round. The scope of basic telecommunications agreement covers network infrastructure, private leased circuit services, fixed- and mobile-satellite systems and services, cellular telephony, mobile data services, paging, and personal communications systems. The agreement does not cover value-added services⁵; these are already included in the schedules of 55 members as a result of the Uruguay Round negotiations.

As a result of the WTO agreement on basic telecommunications, (1) 56 member governments will permit foreign ownership or control in most telecommunications services and facilities, (2) 53 member governments have committed to competitive markets for international telecommunications services and facilities, (3) 52 member governments will guarantee market access for satellite services and facilities, (4) 63 member governments members will guarantee a pro-competitive regulatory environment, along the lines of a regulatory reference paper negotiated by participants.

While the agreement formally enters into force on January 1, 1998, many members have negotiated phase-in periods to allow time for legislation to be passed and other adjustments to be made.

Given that there are no agreed definitions of basic telecommunications or even of spe-

⁴ Negotiating process leading to the agreement on the basic telecommunications on February 15, 1997 is analyzed by B. Choi 1997b.

⁵ Value-added services are telecommunications, for which suppliers add value to the customers information by enhancing its form or data storage and retrieval, electronic data interchange, e-mail or voice mail.

cific sub-segments, the heart of what has been achieved is that whatever market access is committed to, the terms and conditions of participation in a market (as opposed to market entry, where foreign ownership restrictions apply) will be in conformity with the GATS rules on national treatment and MFN treatment.⁵ For this reason, the additional commitments on a pro-competitive regulatory environment are probably the most important achievement of the WTO basic telecommunications negotiations.⁶

The principles set out in the regulatory reference paper establish the lowest common denominator that governments must fulfill in order to ensure a pro-competitive, transparent, reasonable and non-discriminatory environment for telecommunications, as competition is introduced. These principles will guide the development of laws and regulations by WTO members, while the details and choice of means are left to each member to decide.

Economic Impacts

Coverage

The agreement covers over 95 percent of world telecommunications revenue and was negotiated among 70 countries – both developed and developing. Before this agreement, only 17 percent of the top 20 telecommunications markets were open to foreign service suppliers; now they have access to nearly 100 percent of these markets.

The range of services and technologies covered by this agreement is breathtaking. From submarine cables to satellites, from wide-band networks to cellular phones, from business intranet to fixed wireless for rural and underserved regions, the market access opportunities cover the entire spectrum of innovative communications technologies.

Market Access

With respect to market access, the agreement provides foreign service suppliers market access to local, long-distance and international services through any means of network technology, either on a facilities basis or through resale of existing network capacity. On investment, the agreement also ensures that foreign service suppliers can acquire, establish or hold a significant stake in telecommunications companies around the world.

International long-distance telephone companies will gain access to serve over 53 markets in Europe, Asia, Latin America and Africa, and obtain the right to use their own facilities and work directly with their customers everywhere their customers go, providing seamless end-to-end service, not handing off calls to monopoly providers elsewhere. The range of services that can be provided internationally includes all voice and data services, provided by fixed or mobile service networks or both. The world's businesses today spend more money on telecommunications than on oil. Less expensive and better

⁵ National treatment is the obligation to treat foreign service and service suppliers like domestic ones. This is different from the MFN obligation to treat all other members equally, well with respect to the conditions that their persons or services face in a member's market.

⁶ For more on this point, refer to B. Choi 1996, 1997b.

telecommunications services mean that countries active in global trade can reduce one of their largest costs of doing business.

An even larger number of markets will be open to competition for domestic-, local- and long-distance services. For example, foreign communications companies operating in Europe will be able to bypass former monopolies and build networks directly to, and among, customers in all member states of the European Union. They will have a fair chance to build communications networks that are the key to worldwide economic development. This agreement also provides market access and effective interconnection rights for the resale of telecommunications services. Almost every offer made in these negotiations to provide market access for facilities-based competition also included the opportunity to resell service, and to interconnect with existing networks at reasonable rates, terms and conditions.

Investment

The agreement also offers important opportunities for foreign investors and entrepreneurs who are able to acquire, establish or hold a significant stake in telecommunications companies around the world. These opportunities span into all sectors in basic telecommunications. For example, Korean companies will now be free to offer cellular telephone service in Mexico, satellite-delivered internet access in Canada, intra-Europe and domestic long distance in Germany, hand-held satellite telephony in Canada, international business networks in Singapore, and video-conferencing in the United Kingdom.

MULTILATERAL TRADING REGIME IN INFO-COMMUNICATIONS AND THE GII: OPPORTUNITIES AND CHALLENGES

With the ITA and the basic telecommunications agreement, the firm ground for advancing the vision of the GII is now established. Underlying principles of free competition, fair rules and effective enforcement have prevailed throughout the negotiation process.

The ITA is at the core of the GII. Computer technology along with access to worldwide telecommunications systems will provide nearly unlimited access to the oldest and latest developments in the arts and sciences around the world. The information superhighway will open the minds of students to the global environment, and will ensure that the students have the necessary skills to compete in the fast-paced world. The IT products are the infrastructure of businesses. Increased competition will lower prices of these products which, in turn, will allow the small- and medium-sized enterprises in other sectors to operate in a more efficient and cost-effective manner.

The ITA and the basic telecommunications agreement are major accomplishments of the WTO. The significance of the agreements is without comparison. At no time in the history of the trading system have so many countries united to open up trade in a single sector by eliminating tariff and reducing market access barriers across the board. Agreements of this magnitude traditionally were secured only as part of lengthy rounds of trade negotiations.

What would have happened if no agreement was reached at the WTO on the IT prod-

ucts and basic telecommunications? Either a patchwork of bilateral trade agreements or the plurilateral code for a selected few countries would have been a realistic alternative. In either case, the best possible environment for the growth of the IT and telecommunications sector as well as the growth of the world economy would not be in place since the global nature of technology in these sectors could be best utilized under non-discriminatory market access. What was at stake was the access to the sectors which is estimated to be worth over a trillion U.S. dollars. This is roughly the equivalent of the combined world trade in agriculture (\$444 billion in 1995), automobile (\$456 billion) and textiles (\$153 billion).

Equally important are the interests of telecommunications users: financial institutions now transmitting \$2.3 trillion or more electronically every day; companies conducting business; educational and research institutions exchanging data and information; users of the rapidly expanding Internet; individuals making calls to their families and friends, or sending e-mails and etc. Telecommunications is now a vital part of almost all business transactions. The telecommunications market would have survived failure in the WTO talks. However, the failure would have had a considerable impact on the costs, prices and efficiency of the sector and other industries, and the investors' confidence in competitive opportunities.

Beyond the economics of making a deal, stability of multilateral trading system was at issue. This was especially the case in basic telecommunications negotiations. In light of the technological breakthrough, the ever-increasing blurring regulatory boundaries and industry dynamics, the WTO negotiations represented the last opportunity to make a global pact in telecommunications service trade in this century. The successful deal would ensure regulatory and trade policy of nations consistent with the trade agreement. Market access will be granted on non-discriminatory basis and domestic regulations will operate in a transparent, reasonable and impartial manner. Any member of the agreement would have recourse to a well-defined WTO dispute settlement procedure, if it believes that its benefits under the agreement were nullified or impaired.

The failure to reach a WTO deal would imply no materialization of any of these potential benefits. Instead, the world would be thrown into uncertainty and tyranny of unilateralism and bilateralism, where reciprocity becomes the ultimate yardstick of market access under the name of the level playing field. History has witnessed that economies thrive best when a transparent, predictable and stable business environment is in place. Simply put, the world community could not afford to lose this unprecedented opportunity to establish a solid foundation for furthering the wealth of the nations, and improving the lives of ordinary people around the world.

It needs to be emphasized, however, that the current arrangements delivered by the FTA and the basic telecommunications agreements have laid a groundwork for the GII. Impressive as the two multilateral agreements may be, more work needs to be done. More IT-related products need to be covered by the framework of "zero tariff in the near future." International norm on the electronic commerce through Internet needs to be agreed upon at the earliest possible time, if the electronic commerce can fully realize its commercial potential while minimizing conflicts among nations due to uneven level of sensitivities to cultural issues. Possible conflicts between competition

policy of countries in the field of info-communications and trade policy are another issue awaiting in the wings. Would a competition policy or absence of it in a country have a negative effect on trade, ultimately nullifying or impairing its market opening commitment? This is an intriguing issue as the basic telecommunications agreement is implemented. The newly established multilateral trading regime on info-communications will provide an internationally-agreed forum for discussing and negotiating these issues.

MULTILATERAL TRADING REGIME IN INFO-COMMUNICATIONS AND KOREA

ITA and Korea

Korea is ranked as the fifth largest exporter and the eighth largest importer in the IT products. It exported \$33.22 billion and imported \$16.47 billion in the IT products in 1995.⁷ The U.S. is Korea's largest trading partner in terms of total trade volume, while Korea runs a high trade deficit with Japan. Korea negotiated for a longer phase-out period to the year 2004 for certain products—zero tariff would be achieved for four items by 2004 and for six items by 2002. Korea agreed for faster implementation of the tariff cuts on semiconductors before the year 2000 along with the U.S. and EU.

The effect of the ITA on Korean trade in the IT products is expected to be modest. The most significant impact of the agreement is likely to be felt in the areas of Research and Development (R&D), small- and medium-sized companies, industry restructuring, and Korea's initiative in the APII. The ITA would support the objective of developing high technology business in Korea and in the APEC region. Information technology is at the cutting edge of the technological revolution. The economies that open their markets to IT products will exhibit the strongest growth rates, not only in IT industry but in other industries which rely on those products and services. A strong and vibrant small- and medium-sized companies is important for Korea's sustained economic growth. And the ITA supports the development of small- and medium-sized companies. While the early stage of development of IT industries occurred in large multinational corporations, accelerated growth in IT products has occurred in small- and medium-sized enterprises.

The ITA incorporates the principal objective of trade and investment liberalization of the APEC. By agreeing to zero tariffs by 2000, the ITA would comply with the basic objective of the Bogor Leaders' Declaration—free and open trade and investment prior to the 2010/2020 time frame. APEC's support for the ITA clearly demonstrates the seriousness with which APEC is committed to free and open trade, especially in products areas where APEC economies are already competitive, and are critical for further APEC development.

⁷ In 1995, leading exporters of IT products were Japan, the U.S., EU, Singapore, Korea, Malaysia, Chinese Taipei, China, Mexico and Canada on a descending order, while leading importers of IT products were the U.S., EU, Japan, Singapore, Malaysia, Canada, Chinese Taipei, Korea, China and Hong Kong on a descending order.

There may be costs especially for the less developed APEC economies. These costs are higher in the near-term. However, in the medium- and long-terms, the benefits are significant. The ITA is a "win-win" proposition for APEC economies, not just because of the benefits to the IT producers, but most importantly, to all the companies, including small- and medium-sized enterprises that rely heavily on a modern and competitive IT infrastructure. For this reason, APEC economies actively took part in the negotiations. And it is a living testimony that Chinese Taipei, which is not a WTO member, made a legally binding commitment.

Basic Telecommunications Agreement and Korea

Through a series of market restructuring initiatives, the Korean government has transformed the basic telecommunication services from a monopoly to a competitive market, and the basic telecommunications service providers are beginning to feel the heat of competition. With the latest licensing decision for the nation-wide second local telephone service provider and the third long distance telephone service provider, it appears that there would not be much room for future market entry on facility-based competition.

In this regard, the Korean government's commitment to the WTO basic telecommunications agreement is assessed to be modest. Foreign investment in the facility-based operation will be allowed up to 33 percent on January 1, 1998 and will be increased up to 49 percent on January 1, 2001. There are several reasons behind this level of phase-in commitment, including the "fear of foreign control," "no more market opening than other developed countries" and "the lesser the opening the better for Korea." Most of these ideas are either ill-founded misperceptions or misguided logic which gives advantage to domestic incumbents.⁹

Increased market access in basic telecommunications market will lead to a creation of more jobs—not only in communications companies but also in the high-tech equipment market, and in the wide range of industries such as software, information services, and electronic publishing. The agreement will also save billions of dollars for consumers, households as well as companies.

The basic telecommunications agreement will be instrumental to build the Global Information Highway. It is the perfect complement to the ITA. The Korean manufacturers of telecommunications equipment are competing with the world-class companies in the domestic and global markets alike. The basic telecommunications agreement will boost demand for telecommunications equipment, which will in turn provide incentive for the Korean companies to be more creative and innovative in R&D and aggressive and consumer-friendly in marketing. Pro-competitive terms of the agreement would further promote competition among the manufacturers for the best possible products for consumers.

⁹ B. Choi 1997a provides an in-depth analysis of this issue.

CONCLUSION

The multilateral trading system is an attempt by governments to provide investors, employees and consumers with a business environment which encourages trade and investment, and job creation. It also provides more choices and lower prices in the market place. Through the right kind of trade agreements, more jobs and greater prosperity can be created at home while other nations also prosper and develop. It has now become *cliché* that information technology and telecommunications industry is poised to lead the growth of the world economy in the forthcoming century in much the same way the automotive industry spurred tremendous industrial growth in the twentieth century. History has observed that stable and predictable economic environment holds the key to prosperity for all. The ITA and basic telecommunications agreement recently made at the WTO successfully secured such an environment. The two accords meant lower prices for consumers and fewer barriers against the spread of technology, which are crucial to the development of all countries in the world.

The ITA and basic telecommunications agreement together hold the potential to unlock enormous gains in development and growth which would benefit all countries, developed and developing alike.⁹ Knowledge and information are the most essential raw material in the global economy, and IT products and telecommunications services are the essential conduit for their delivery. By making such products and services more affordable and accessible, the world will move one step closer to the vision of "a telephone in every village in the world," and the vision of the global information society. A solid foundation has been established for a global economic infrastructure needed for trade expansion as the world moves on to the next century. Now, the ball is thrown to each and every economic players in the world. Whether or not they will reap gains, and how much benefits to be realized is up to them.

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⁹At an early stage of discussion of the GII, a severe concern was raised in the issue of possible widening gap between the developed and developing countries. B. Choi (1994) analyzes this point.