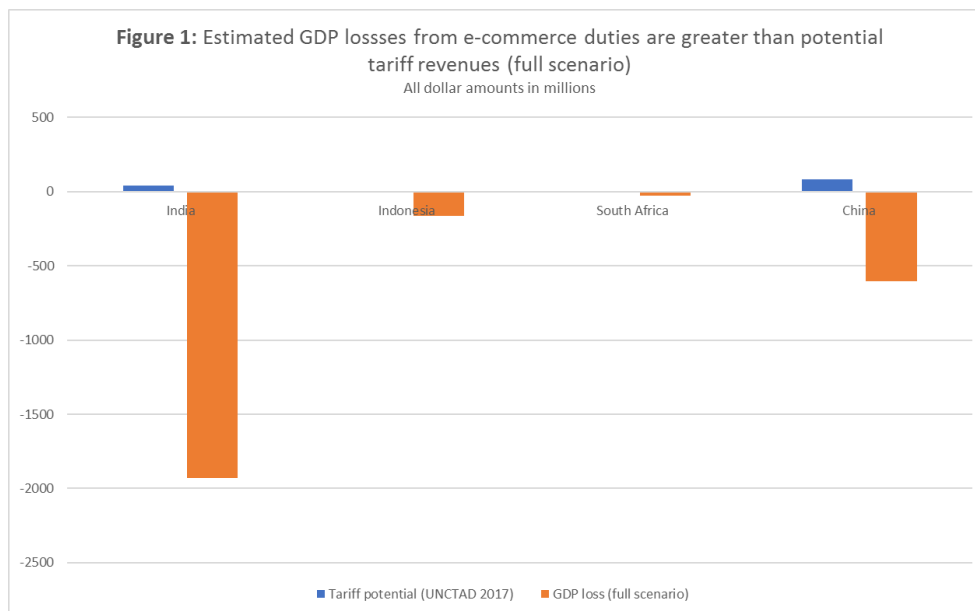


Why the WTO Moratorium on Imposing Customs Duties on Electronic Transmissions Makes Sense for Developing Countries: A Cost-Benefit Analysis

The Global Services Coalition, a coalition of associations representing the services sector, highlights below the conclusions from a new study by the European Centre for International Political Economy (ECIPE) titled *The Economic Losses from Ending the WTO Moratorium on Electronic Transmissions*. ECIPE's analysis determined that developing countries reap significant economic benefits from maintaining the WTO moratorium, which has exempted electronic transmissions from duties since 1998. Key takeaways follow:

Countries that impose duties on electronic transmissions will pay an economic penalty.

- In its study, ECIPE concludes that if governments were to begin imposing new duties on electronic transmissions, they would lose substantially more in economic terms than they would gain. Research showed that customs duties levied on electronic transmissions would cost more in lost economic growth and lower income from taxes than they would generate in additional tariff revenues.
- The takeaway for policymakers: Governments that want to maximize GDP gains and tax collection should refrain from adopting customs duties on electronic transmissions. Such tariffs raise prices, slow consumption and create an economic drag that weighs on overall growth.

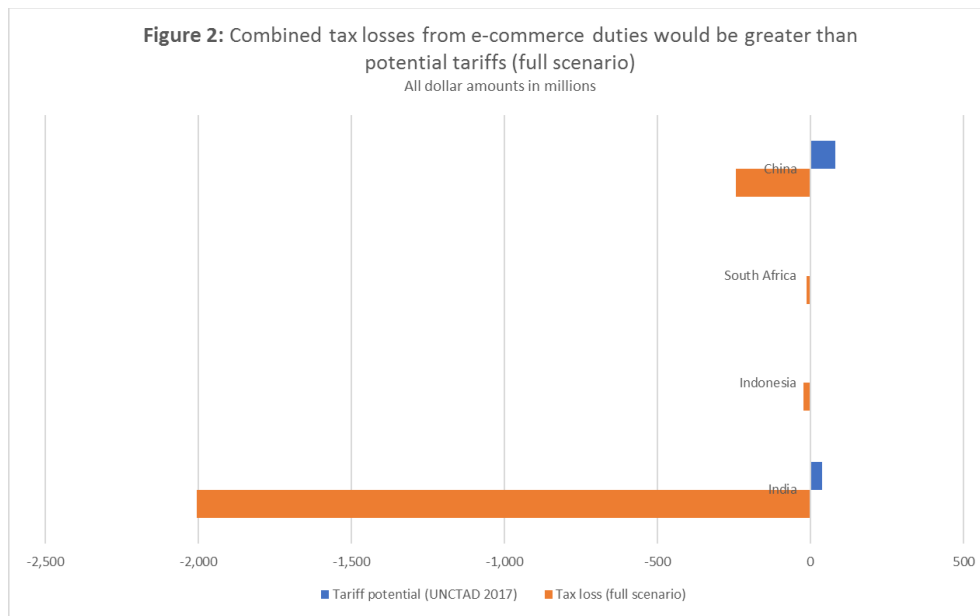


Data from ECIPE study – assumes a scenario of reciprocal tariffs. Units in millions of US\$. Tariff estimates from UNCTAD 2017 report, *Rising Product Digitalisation and Losing Trade Competitiveness*.

Case studies of developing countries show the financial costs of a tariff-oriented strategy.

- Risks to GDP. ECIPE considered the likely scenario that if a given country opts out of the WTO moratorium – in other words, begins imposing duties on electronic transmissions – others are likely to follow suit. Assuming a scenario of widespread reciprocal duties on e-commerce, India would stand to lose 49 times more in economic growth than it would generate in duty revenues. Indonesia would surrender 160 times as much GDP as it would collect in tariffs. South Africa would lose over 25 times more and China, seven times more.

- Risks to tax collection. Along similar lines, if finance ministries hope to increase tax collections, imposing tariffs would be the wrong approach. ECIPE showed that duties would depress consumption, resulting in lower economic growth. In a situation of reciprocal tariffs, the loss of tax revenues is estimated to be 51 times larger than e-commerce duty revenues for India, 23 times for Indonesia, 12 times for South Africa and 3 times for China.



Data from ECIPE study; combined tax losses equals sum of corporate, consumption and personal income taxes. Tariff potential reflects estimates from UNCTAD 2017 study.

As important context to consider, two prior studies issued by the UN Conference on Trade and Development (UNCTAD) maintained that given growing volumes of digital trade, countries would benefit from imposing duties on electronic transmissions. However, the authors of those reports failed to consider the broader economic and tax losses that result from the imposition of tariffs. As documented in the ECIPE research, the benefits of maintaining duty-free status on electronic transmissions far outweigh potential tariff revenues.

Beyond the economic benefits, maintaining the moratorium would help developing countries in other ways.

- Digital transactions reduce corruption. Digital transactions are transparent, trackable and taxable. For these reasons, countries with significant gray markets stand to benefit from pushing more business into the digital realm, where purchases can be more easily documented and accounted for by tax authorities.
- There are substantial consumer benefits associated with improved access to digital products. Advances in technology have reduced the cost of many items that can now be digitally delivered, making it easier for consumers to communicate and do business. While these factors are hard to quantify in economic terms, they have unquestionably improved the quality of life for many citizens in developing countries.

In short, developing countries stand to maximize the benefits of digital trade by upholding the WTO moratorium on imposing duties on electronic transmissions. More information, including the full ECIPE study, can be found here: <https://ecipe.org/publications/moratorium/>