COALITION OF SERVICES INDUSTRIES

Why It's Worth Keeping Digital Trade Duty-Free

The long-standing, multilateral foundation of internet commerce is at risk of being abandoned, in a potential shift that would undermine global trade flows.

In the early days of the digital era, WTO members agreed that for internet-based commerce to flourish, it made sense not to impose the kind of fees known as customs duties that are levied on conventional goods traded across borders. Instead, countries would let electronic transmissions be transferred duty-free. By keeping costs low and eliminating the need for paperwork, the WTO's 1998 decision helped to dramatically expand global access to internet services and communication tools.

Unfortunately, that time-tested approach is now under fire. Some countries have recently questioned if they should continue to support the arrangement that keeps electronic transmissions duty-free -- whether because they seek revenues from imposing new duties, or because they wish to erect national walls around data that has traditionally been freely transmitted across borders, without arbitrary government barriers.

Yet there is ample evidence that the WTO moratorium on duties remains sound public policy, judged by both its economic and social benefits.

- From an economic perspective, an OECD study found that putting duties on electronic transmissions would exact greater costs than any marginal gains in tariff revenues. [1] The OECD's analysis indicated that **countries that began imposing duties on electronic transmissions would face a net loss in consumer welfare and export competitiveness**. These findings are consistent with earlier research from the European Centre for the International Political Economy (ECIPE), which likewise showed an economic benefit for countries that maintain the moratorium. [2]

- **The ability to use electronic services and other online tools boosts export economies**. Digital tools provide a cost-effective means for companies – especially small- and medium-sized firms - to market and deliver their products to new overseas markets. This also holds true in developing countries, where companies that create their own web presence and offer digital delivery are shown to be more likely to become exporters.[3]

- **Digitally-delivered products tend to be more affordable and accessible.** Transport expenses, which are higher in countries with less developed infrastructure, account for as much as 20 to 30 percent of the cost of trade.[4] Digital delivery significantly reduces these costs, thereby improving consumer welfare.

- **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.

The agreement to protect digital trade from tariffs has stood the test of time. Digital trade has transformed consumer access to online products and services and boosted economic competitiveness around the world. Abandoning an approach that has worked so well for so long would be a mistake.

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[1] Andrea Andrenelli and Javier Lopez Gonzalez, *Electronic Transmissions and International Trade – Shedding New Light on the Moratorium Debate,* (Paris: OECD, November 2019), 7.

[2] Hosuk-Lee Makiyama and Badri Narayanan, *The Economic Losses from Ending the WTO Moratorium on Electronic Transmissions* (Brussels: ECIPE, August 2019), 15.

[3] Andrenelli, *Electronic Transmissions*, 28.

[4] Ibid., 7.