

Highlights of OECD Paper

Electronic Transmissions and International Trade – Shedding New Light on the Moratorium Debate

Some countries have recently raised questions about whether they will continue to support the WTO e-commerce moratorium that has been in effect since 1998. They have suggested it may be in their national interest to opt out and begin imposing duties on electronic transmissions, thereby generating a new source of revenue.

However, a [November 2019 report](#) by the OECD indicates that from an economic perspective, such a strategy would be inadvisable.

Below are key points from the OECD paper.

- **According to the OECD, countries that opt out of the moratorium would lose more in consumer welfare and export competitiveness than they would gain from new tariff revenues.**

The OECD's model, based on a scenario in which a broad group of countries chose to eliminate tariffs on a basket of digitizable goods, found that such an approach would increase overall consumer welfare by \$940 million. The corresponding loss of tariff revenue was a relatively smaller sum of \$865 million. Ultimately, the countries that removed tariffs saw a net welfare gain of \$73 million.

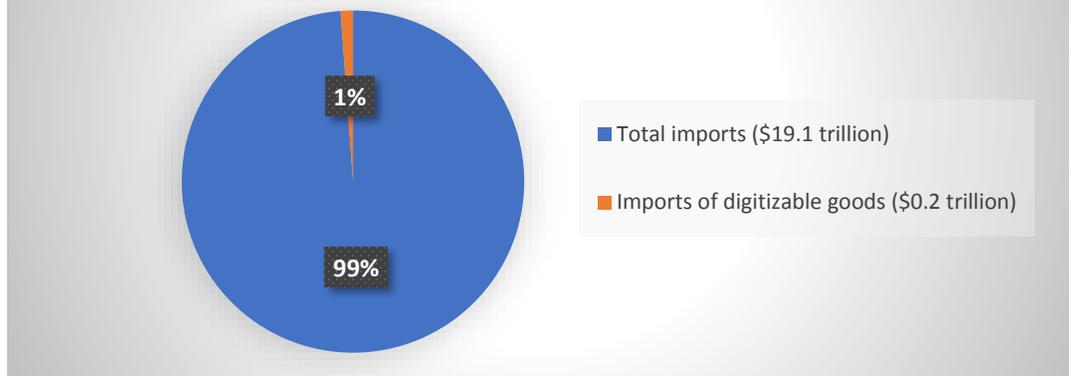
The OECD's findings are consistent with earlier research from European Center for the International Political Economy (ECIPE), which likewise found a net economic benefit from upholding the moratorium on duties of electronic transmissions.

- **Imposing duties on electronic transmissions wouldn't generate a meaningful amount of government revenue.**

Even according to the most generous estimates, the OECD estimates that governments in developing countries that began to impose duties would stand to increase total government revenues by only about 0.08%-0.23% of total revenues. That's in part because the universe of products potentially subject to duties is relatively small.

At most, only about 1% of total trade can be digitized. 3D printing is not expected to change that figure much in coming years.

Digitizable Goods as % of Total Imports, 2017 (USD trillion)



Source: OECD calculations. Includes countries covered in Banga, R. (2019), "Growing Trade in Electronic Transmissions: Implications for the South," *UNCTAD Research Paper*, No. 29, UNCTAD, Geneva.

- **Electronic trade enables the growth of the export sector in developing countries - an important economic benefit that is overlooked in a simplistic tariff analysis.**

Digital tools provide a cost-effective means for companies – including the smallest firms - to market and deliver their products to new overseas markets. Firms in developing countries that create their own web presence and offer digital delivery are more likely to become exporters than those that do not, indicating that online platforms can serve as a helpful aid to small business.

- **Digitizing products has the effect of reducing prices, making them more accessible to consumers.**

Transport expenses, which tend to be highest in countries with less developed infrastructure, account for as much as 20 to 30 percent of the cost of trade. Digital delivery dramatically reduces these costs, improving consumer welfare.

- **Tariffs primarily hurt local interests.**

The economic record shows that when tariffs are imposed, the affected companies tend to pass on the higher costs to domestic consumers. In other words, local consumers end up bearing the brunt of duties. The use of tariffs is also generally associated with relatively lower output and productivity.

Based on the research above, the OECD observes that instead of duties, countries may want to consider employing value-added taxes (VATs). VATs are not discriminatory since they apply equally to imports and local products. For this reason, they don't pose the same risk of distorting economic outcomes for a country's exporters and consumers.