E-Commerce Moratorium

Assuming there is a potential tariff revenue as per the studies by UNCTAD: What are the other impacts (on the economy and domestic tax collection) from imposing tariffs on online activities?

Studying the impact on four developing and emerging countries (South Africa, India, Indonesia and China)

‘Electronic transmissions’ is not a part of trade parlor and has never defined by the WTO Members. The scope is potentially broader than digitizable products, digital products, including:

- Motion pictures and video, audio activities
- Software
- E-commerce (online intermediation)
- Online search & information services
- Internet advertising
- Data hosting, processing and communication

Every country will determine its own scope.

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Using a model is a widely used model for trade simulation, globally developed and vetted by a consortium of trade economists, by a consortium that includes WTO, World Bank, OECD, UNCTAD.

Tariffs imposed by a country based on average rates per country in UNCTAD (2019). Reciprocal tariffs for the cross-border activities within the scope, i.e. tit-for-tat by the rest of the world at the same rate.

Government tax losses are incurred from lower wage tax, corporate income tax and sales taxes.

Conservative assumptions: unemployment in the model, perfect competition, imperfect mobility of factors, no increased investment barriers, tariffs have no effect on available technology or productivity.

Results are short to mid term. There is no immediate replacement by domestic equivalents due to product differentiation. Domestic and foreign online offerings are rarely perfect substitutions in content or functionality. There are also network and contract duration effects.

Over 10 billion lost in GDP by developing countries and a tax erosion that is up to 50 times larger than the projected revenues

	Tariff potential (UNCTAD 2017)	Tariff potential (UNCTAD 2019)	**GDP loss**	**Tax losses**
India	39	497	**-1,930**	**-2,007**
Indonesia	1	54	**-164**	**-23**
South Africa	1	36	**-25**	**-12**
China	81	492	**-606**	**-244**

A study cannot incorporate the considerable administrative burden, enforcement and implementation costs that alone are higher than revenues for most developing countries.

Losses from tariffs on electronic transmissions are relatively given. However gains are based on assumptions that ignore subscription-based models (i.e. there are no longer sales transactions to impose customs duties on) or that the prices on software and content have more than halved.

No significant difference in the relationship between gains and losses if foreign products are substituted by domestic equivalents.

In the future, tariffs on additive manufacturing 3D printing can be imposed on the “ink”. Revenue increases with the volume printed compared to tariff on data.

A non-discriminatory sales tax generate higher revenues and does not violate the moratorium.

Economic consequence of the “twin” moratorium expiring (TRIPS NVCs).