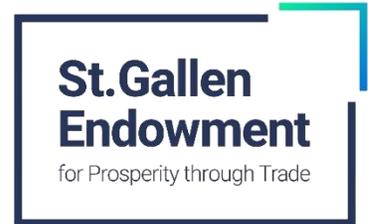


# Is the WTO Moratorium on customs duties on e-commerce depriving developing countries of much needed revenue?



Simon J. Evenett

University of St. Gallen<sup>1</sup> and the St. Gallen Endowment for Prosperity Through Trade<sup>2</sup>

12 November 2021

## Abstract

This note vitiates assertions by UNCTAD staff that developing countries have lost significant government revenues as products previously delivered physically are supplied digitally. Taking for the sake of argument UNCTAD's revenue loss estimates, this note shows that they represent small shares of tax revenues from sources other than customs duties. Forgone revenues would have financed less than 5 days of government spending in the Least Developed Countries and Sub-Saharan African nations. Moreover, domestic tax takes needed only to grow marginally faster to offset UNCTAD's estimates of forgone customs duties. Low per-capita income status is not a barrier to successful national tax reform, calling in question the relevance of public finance objections to participation in multilateral trade initiatives to integrate economies.

---

<sup>1</sup> Professor of International Trade & Economic Development.

<sup>2</sup> Founder of the St. Gallen Endowment for Prosperity Through Trade. The Endowment, an independent foundation constituted under Swiss law, is the institutional home of both the Global Trade Alert and the Digital Policy Alert. Comments on this note are welcome and can be sent to [simon.evenett@sgept.org](mailto:simon.evenett@sgept.org). I thank André Brotto Reigado for excellent research support in preparing this note. An earlier version of this note did not include evidence on the Republic of the Congo (for which it turns out data was available). Fortunately, this was rectified before the note was circulated publicly.

# I. Introduction

At the 12th Ministerial Conference of the World Trade Organization (WTO) members are due to decide whether to extend the Moratorium on customs duties on electronic commerce. Some members with reservations about granting an extension have noted the potential loss in customs revenues arising from the Moratorium, amongst other considerations. The focus of this note is on research purporting to demonstrate that the Moratorium is depriving developing countries of significant amounts of customs revenues.

## II. A single critical study with far-reaching policy implications

WTO members with concerns about tariff revenue losses may have been influenced by a 2019 study conducted by UNCTAD (Banga 2019). A communication from India and South Africa dated 8 November 2021 gives considerable prominence to the findings and arguments of this study<sup>3</sup>. This study presented estimates of the tariff revenues forgone in 2017 by 58 developing countries and 33 higher per-capita income countries that its author attributes to the Moratorium. Banga (2019) summarized the study's findings as follows:

*"The total potential tariff revenue loss (including physical imports and ET<sup>4</sup>) for the identified developing countries of Moratorium will therefore be \$8 billion. The corresponding loss of revenue for the developed countries is \$212 million" (page 19).*

*"The results show that the total potential tariff revenue loss of Moratorium for identified 58 developing countries is around \$8.0 billion using Bound duties. Of this, tariff revenue loss of \$3.5 billion is accounted by physical imports of digitizable products and \$4.4 billion from ET. The potential tariff revenue loss is found to be highest for Mexico followed by Thailand, Nigeria, India, China and Pakistan" (page 35).*

Central to estimating the potential revenue forgone is to define a counterfactual growth path for the total value of products whose delivery could have been digitalized. Another critical assumption relates to the appropriate tariffs to apply to digitally delivered goods. In her calculations Banga (2019) employed the bound tariff rate as opposed to the applied tariff rate<sup>5</sup>. This assumption and

---

<sup>3</sup> WTO document WT/GC/W/833.

<sup>4</sup> In Banga's paper the acronym ET stands for electronic transmissions.

<sup>5</sup> Banga (2019) reports that had the applied tariff rate been used to calculate the tariff revenue forgone by developing country then the \$8 billion total would have been cut by more than 56% to \$3.5 billion.

others have been called into question by third party experts, including by two members of the OECD Secretariat (Andrenelli and Lopez-Gonzalez 2019).

In a subsequent presentation, Banga (no date) linked the Moratorium to the COVID-19 pandemic and drew the following conclusions:

*"In the time of COVID-19...it is the time to **save precious domestic financial resources and regulate imports of luxury items like movies, music and video games.***

*"Customs duties are the only simple and effective policy tool to regulate as well as generate tariff revenues from these imports" (emphasis in the original).*

Subsequently, Kozul-Wright and Banga (2020) recycled Banga's estimates and then drew sharper policy conclusions. They note that Banga's original estimates of potential tariff revenue forgone imply that in 2017 governments in Sub-Saharan African nations were deprived of \$2.63 billion in revenue on account of the Moratorium. The comparable estimate for the WTO Least Developed Members was \$1.51 billion. In their concluding section they observe:

*"Developing countries need to retain the flexibility of regulating their imports, especially of luxury items, and to generate tariff revenues when needed. Moratorium on customs duties on electronic transmission takes away this important flexibility from the governments and that too in a growing area of imports that includes many luxury items" (page 16).*

Kozul-Wright and Banga (2020) also contend that the Moratorium should be seen in light of technological developments such as 3D printing. Their final policy recommendation leaves little to doubt:

*"It is therefore urgent for developing countries to support the removal of the moratorium in order to preserve their policy space for regulating the imports of luxury items and generating tariff revenues at a time of crisis" (page 17).*

### **III. Putting Banga's revenue forgone estimates in perspective**

To the best of my knowledge, Banga's latest estimates of the tariff revenues forgone arising from the WTO Moratorium on e-commerce are those found in her 2019 study. Furthermore, as confirmed by others following the deliberations on the Moratorium, no other study has presented estimates for a similarly wide range of developing countries and comes to the same policy recommendations. Therefore, the focus of the remainder of this note is on the estimates presented in Banga (2019). Indeed, solely for the sake of argument, the remainder of this note takes Banga's estimates at face value and puts them in perspective.

## **Potential revenue losses are concentrated in a small number of developing countries**

As was noted by Banga (2019), the estimated potential revenue losses from the Moratorium were considerable for a small number of developing countries. Of the 55 developing countries that Banga produced estimates for, a total of 15 developing countries are each estimated to have lost more than \$100 million in revenues in 2017. Seven of those nations are G20 members. These 15 developing nations together account for just under \$7 billion of the \$8 billion of estimated forgone revenue losses. Such findings call into question whether revenue loss “problem” actually implicates a majority of developing countries.

## **Forgone revenues would have financed less than 5 days of government spending in the LDCs and in Sub-Saharan Africa**

Perhaps cognizant of this concentration of estimated losses, Kozul-Wright and Banga (2019) stated, as noted above, total revenue forgone estimates for the group of Least Developed Countries and for the nations of Sub-Saharan Africa. When interpreting the size of these estimates, it is useful to use “compared to what?” Several comparisons follow.

If the contention is that the revenue forgone from customs duties on e-commerce is starving the poorest developing countries of resources to expand government spending, then one natural comparison is with the general government final consumption expenditure. In 2017, the total level of such government spending by the Least Developed Countries was \$110.9 billion according to the World Bank’s *World Development Indicators* (WDI) database. Banga’s estimate of \$1.5 billion of forgone revenues due to the Moratorium implies that, at most, LDC government spending was held back by 1.4%. Put differently, the forgone revenue would have financed less than 5 days of government spending in the Least Developed Countries in 2017.

For Sub-Saharan nations Banga’s estimate of revenue forgone amounts to 1.3% of total general government final consumption expenditure. Again, fewer than five days of state spending could have been financed if the Moratorium was abandoned and Banga’s estimates are in the ballpark.

## **Country-by-country analysis reveals neither a localized nor a systemic problem<sup>6</sup>**

In public finance circles the strides that developing countries have made implementing tax policies that widened their national tax bases is acknowledged. Nevertheless, some in trade policy circles find it convenient to repeat the old claim that developing countries are heavily dependent on

---

<sup>6</sup> Andrenelli and Lopez-Gonzalez (2019) conduct a similar analysis to that presented here. However, they use Banga’s estimates of the revenue losses based on applied tariff rates. They compare the estimated revenue losses due to the Moratorium with the total tax revenues that governments collected (as opposed to the total non-trade-related tax revenues used here). See Table A.2 of their paper for their findings, which they summarize as follows: “even when taking the highest estimates, potential foregone revenue as a share of total revenue is relatively small, amounting to an average 0.08%-0.23% reduction in government revenue for developing countries” (page 15).

customs duties to finance their governments and, by implication, that they cannot afford to forgo any sources of trade-related government revenue.

Since governments have different sources of revenue, in the context of the debate over the extension of the Moratorium what matters is the size of the estimated forgone customs duties revenues when compared to the total value of non-trade-related sources of government tax revenue. To examine this matter further, information was extracted from the WDI on different sources of tax revenue collected by individual nations in the group of African, Caribbean, and Pacific countries (ACP), the group of Least Developed Countries (LDCs), and the nations of Sub-Saharan Africa (SSA). For 17 ACP, LDC, and SSA nations the WDI reports reported sufficient data to make the following meaningful comparisons with Banga's revenue forgone estimates for 2017.

Figure 1 reports Banga's forgone revenue estimates as a percentage of total non-trade-related tax revenues. Only in the case of Congo, Fiji, Malawi, and Rwanda does the forgone revenues Banga attributes to the Moratorium exceed 3% of total non-trade-related tax revenues. For the other members of the ACP, LDC, and SSA for which the WDI has data, even with the challenges these governments faced implementing tax regimes, policy and enforcement practice was sufficiently effective that *in every case* the total amount of non-trade-related tax revenues collected was at least 30 times larger than Banga's estimates of the revenues forgone due to the Moratorium.

Given their prominent role in opposing an extension or making permanent the Moratorium, it is worth noting the estimates of the revenues forgone by India, Indonesia, South Africa, and Sri Lanka amount to less than 0.2% of each of these nations' total revenues obtained from domestic sources (that is, non-trade-related sources of government tax revenue). This means that for these four nations the domestic tax take is at least 566 times larger than Banga's estimates of forgone customs revenue—calling into question whether the Moratorium has really held back the supply of needed public goods in these jurisdictions.

Figure 2 reports how much faster each nation's non-trade-related tax revenues would have had to grown per annum from 2011 to 2017 to more than offset the revenue forgone from the Moratorium in 2017, again taking Banga's estimate of the latter at face value. At stake here is the following: suppose the growth rate of non-trade-related tax revenues was very low then it may be unrealistic to expect domestic tax collection to compensate for any revenues forgone due to the Moratorium.

Available data suggests there is little to worry about on this score either. Only in Fiji and Malawi would the annual real<sup>7</sup> growth rate in the domestic taxes had to risen more than 1 percent per annum to compensate for Banga's estimates of the forgone customs duties in 2017. In the case of Malawi, from 2011 to 2017 the total real tax take would have had to grow 2.58% per annum

---

<sup>7</sup> Here the word "real" is used in sense meant by economists, namely, inflation-adjusted. The calculations made in this note on revenues were conducted in local currency units. This involved converting Banga's US dollar-related estimates of forgone customs revenues into local currency using the nominal exchange rate reported in the *World Development Indicators* database for the relevant year.

instead of the realized 0.99% per annum to “make up” the forgone customs duties from the Moratorium in 2017.

Is such an improvement possible for an African nation? In this regard it is worth noting that the comparable average rate of growth of the real tax take in the three best performing African Group members was 18.84% per annum.<sup>8</sup> Notice the comparison here is not between Malawi and an industrialized country or even with a middle-income developing country in another continent— instead, it is a comparison within Africa. Malawi would only have to narrow the performance gap with best performing Africa peers marginally to raise more taxes than UNCTAD claims are forgone on account of the Moratorium.

With respect to Fiji, the annual growth rate of its domestic tax take would have had to be 1.74% higher to cover the forgone customs duties arising from the Moratorium. In fact, from 2011 to 2017 Fiji’s domestic tax take grew 6.59% in real terms per annum. Over the same years the three best ACP members managed to expand their domestic tax bases by more than 30% per annum in real terms.<sup>9</sup> Therefore, whether relative to its own prior performance or relative to peers, only modest improvements in Fiji’s tax collection would have been needed to fully offset apparent losses in customs revenues due to the Moratorium.

## **IV. Conclusion: Case Unproven**

Intelligent comparisons are at the heart of sensible public policy analysis. When UNCTAD’s estimates of the state revenues forgone on account of the Moratorium are compared with well chosen benchmarks, they vitiate the central claim that the Moratorium has deprived many developing country governments of needed tax revenues. This line of attack against the Moratorium cannot be supported by publicly available data, in particular data on the total value of revenues collected by ACP, LDC, and SSA nations on transactions completely unrelated to international trade.

In large part, this finding reflects the fact that lowest per-capita income developing countries have been able to establish national sales and value-added tax regimes (see Figure 3 for evidence from the African continent) as well as undertaking other tax reforms. This is not to imply that those domestic tax regimes are running flawlessly and technical assistance is still needed to strengthen tax collection in developing countries. Nor does it deny that the rise of the digital economy poses important tax policy choices for governments for which expert advice is available (see, for example,

---

<sup>8</sup> For reference purposes, the median real growth rate of non-customs-related tax revenues among the African group members during the years 2011-17 was 6.16% per annum.

<sup>9</sup> For reference purposes, the median real growth rate of non-customs-related tax revenues among the ACP group members during the years 2011-17 was 4.99% per annum.

the IMF's recent analysis of these matters for Asian economies)<sup>10</sup>. Likewise, the fallout from the COVID-19 pandemic<sup>11</sup>.

The impressive rates of non-trade-related tax revenue growth witnessed in many ACP, LDC, and SSA nations, and the quantum of tax revenue collected by them, demonstrates that low per-capita income status is no longer an impediment to domestic tax reforms that generate significant expansions in resources for the state. With the tax reforms undertaken already by developing countries and those likely to follow, the contention that many developing countries are still so dependent on customs revenues that they cannot contribute to multilateral initiatives to integrate economies can be consigned to history. Should this come to pass then the debate over the fiscal consequences of the Moratorium will have served a useful purpose.

This note did not address another critical assumption in UNCTAD's argument, namely, that it is possible to overcome the technical challenges associated with assessing customs duties on electronically delivered goods and services. Doubts on that score—which have been expressed by public finance experts—further diminish any fiscal benefits from abandoning the Moratorium. Taken together, the fiscal policy case for abandoning the Moratorium on customs duties on electronic commerce does not stand up to scrutiny. Successful tax reforms in developing countries, even in the lowest per-capita income nations, have effectively separated the proper financing of the state from policy decisions on customs duty regimes.

## V. References

Andrenelli, A. and J Lopez-Gonzalez (2019). "Electronic transmissions and international trade – shedding new light on the moratorium debate." OECD Trade Policy Papers No. 233.

Banga, R. (2019). "Growing Trade in Electronic Transmissions: Implications for the South." UNCTAD Research Paper No. 29. UNCTAD/SER.RP/2019/1/Rev.1.

Banga, R. (n.d.) "Quantifying the impact of the Moratorium on Customs Duties on Electronic Transmissions." Powerpoint slide deck.

Dabla-Norris, E., R. de Mooij, A. Hodge, J. Loeprick, D. Prihardini, A. Shah, S. Beer, S. Davidovic, A. Modi, and F. Qi. (2021). Digitalization and Taxation in Asia. International Monetary Fund. DP/2021/017.

de Mooij, R., R. Fenochietto, S. Hebous, S. Leduc, and C. Osorio-Buitron (2020). "Tax Policy for Inclusive Growth after the Pandemic." Fiscal Affairs. International Monetary Fund.

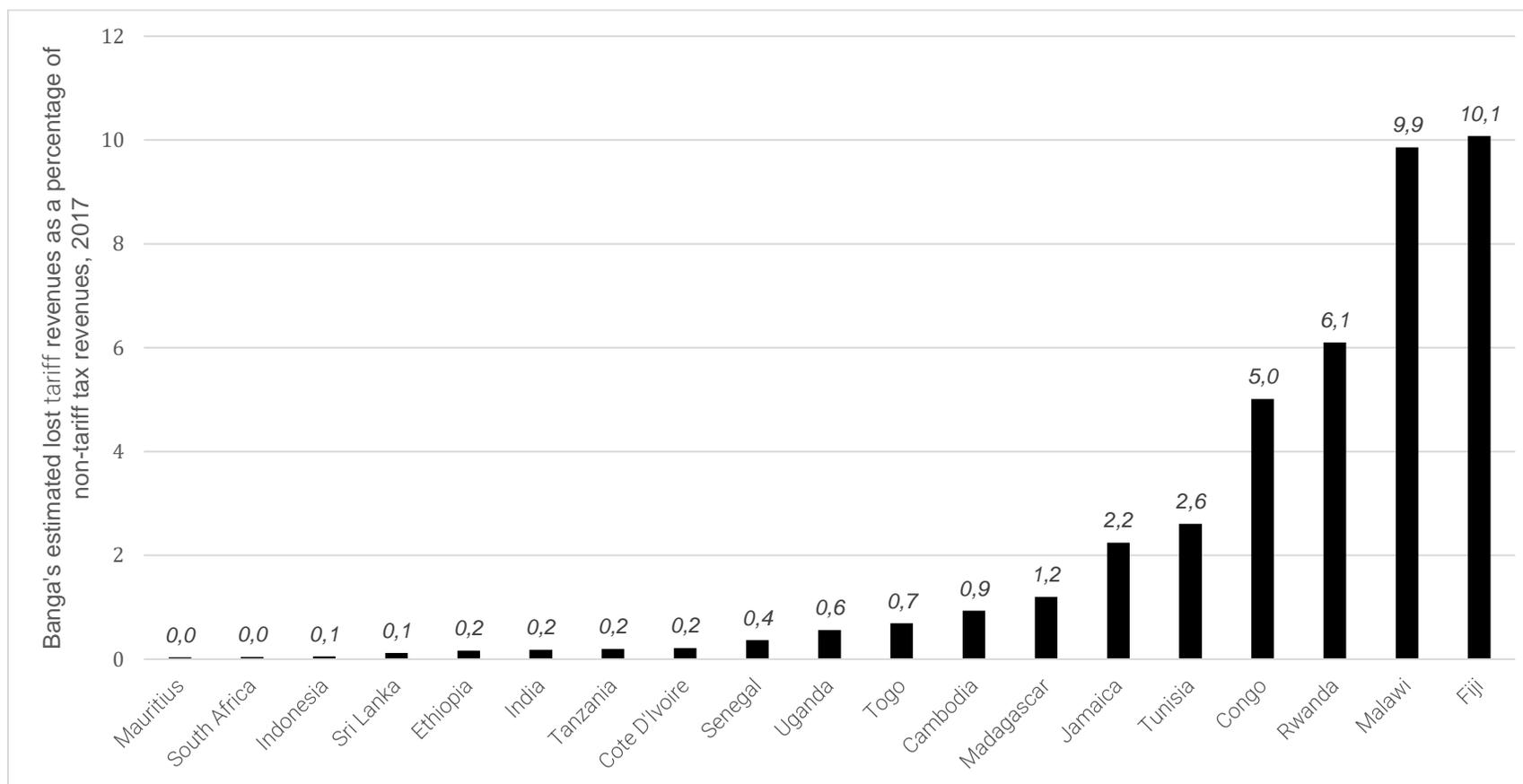
Kozul-Wright, R. and R. Banga (2020). "Moratorium on Electronic Transmissions: Fiscal Implications and Way Forward." UNCTAD Research Paper No. 47. UNCTAD/SER.RP/2020/6.

---

<sup>10</sup> Dabla-Norris et al (2021).

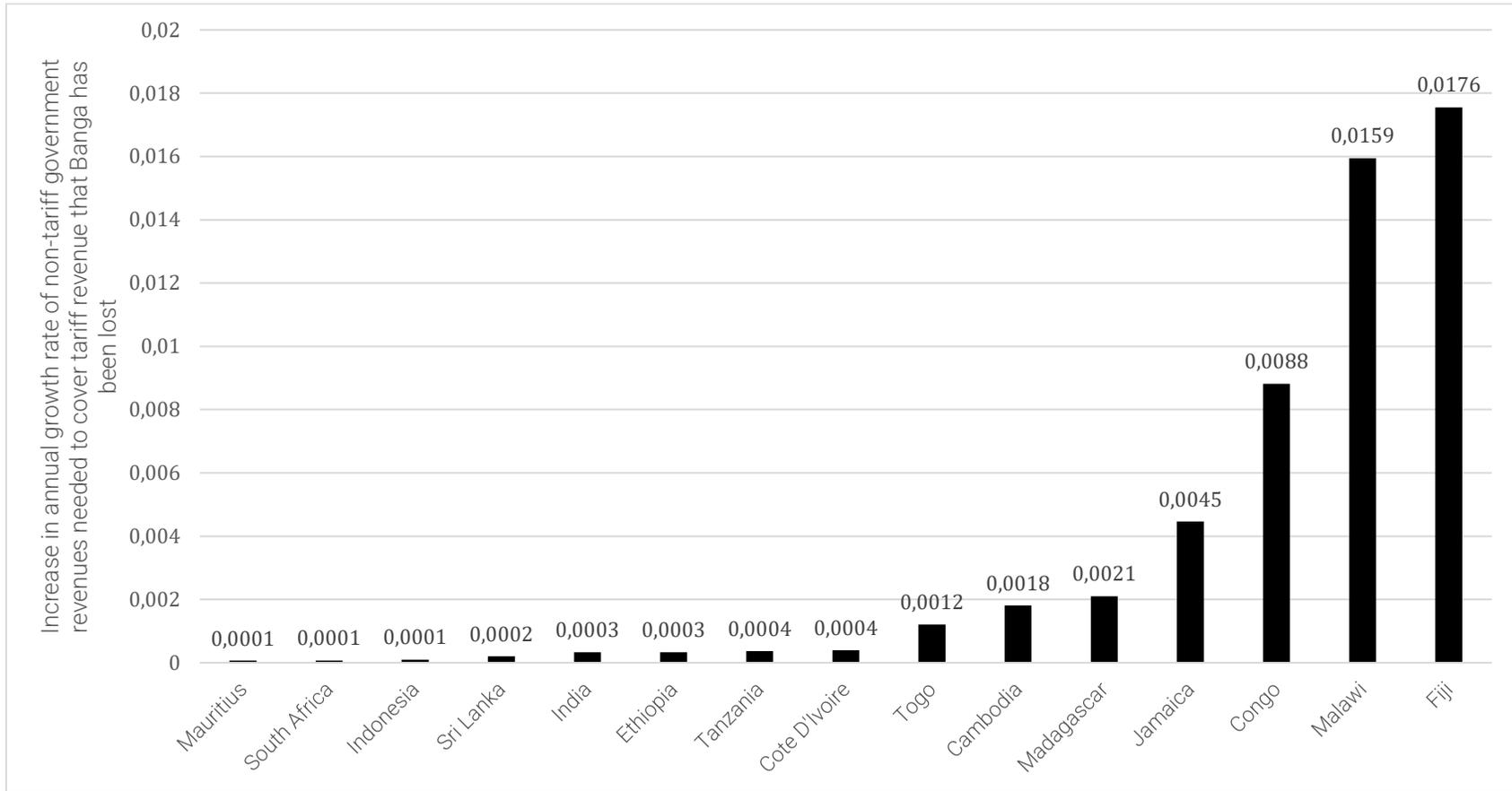
<sup>11</sup> For balanced advice on such matters see de Mooji et al (2020).

**Figure 1:** Only four of the ACP, Least Developed, African Group nations that Banga presented estimates for would have forgone revenues worth more than 3% of state revenues from domestic commerce.



Sources: Banga (2019) and data from the World Development Indicators (WDI) database on trade-related state revenues and total tax revenues. Sri Lanka and India were included for comparative purposes. All ACP, LDC, and Sub-Saharan African countries for which relevant tax and customs duties data was available in the WDI database are presented in this figure. No country was excluded by the author.

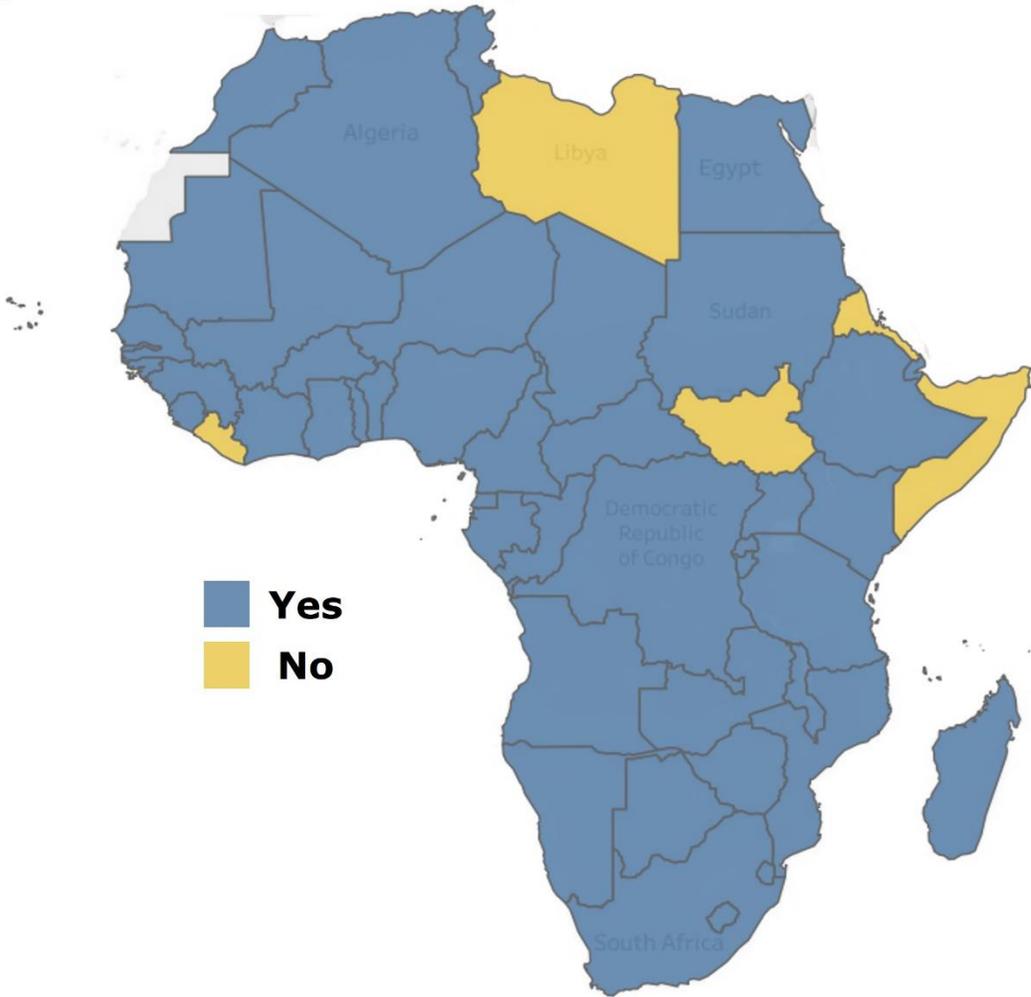
**Figure 2:** In ACP, Least Developed, and Sub-Saharan nations tax revenues from non-trade sources are now so large that only tiny increases in their annual average growth would have compensated for Banga’s estimate of revenue forgone.



Sources: Banga (2019) and data from the World Development Indicators (WDI) database on trade-related state revenues and total tax revenues. Sri Lanka and India were included for comparative purposes. All ACP, LDC, and Sub-Saharan African countries for which relevant tax and customs duties data was available in the WDI database are presented in this figure. No country was excluded by the author.

Figure 3: Sales tax and VAT regimes are now found in almost every African nation.

### African Nations with National Sales or Value-Added Tax Regimes



Source: OECD (2020) *Consumption Tax Trends 2020: VAT/GST and Excise Rates, Trends and Policy Issues*.