

# **Impact assessment of Moldova's participation in the extended WTO Information Technology Agreement (ITA)**

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Berlin/Chişinău, July 2017

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# 1. The Information Technology Agreement (ITA)

- Initial ITA concluded in 1996
- Extension by 201 products decided in 2015
- Objective: Tariff elimination of information technology products
- Covers trade in goods only
- Plurilateral agreement: Moldova abolishes import duties for *all* countries, but can export duty free only to participating countries
- Staged implementation schedule

## 2. Current trade regime for IT goods

- Duty free trade with EU countries in the framework of the Deep and Comprehensive Free trade Agreement (DCFTA)
- Import tariffs for other countries between 0% and 10%
- Import of large share of IT products already liberalised (zero-rated)

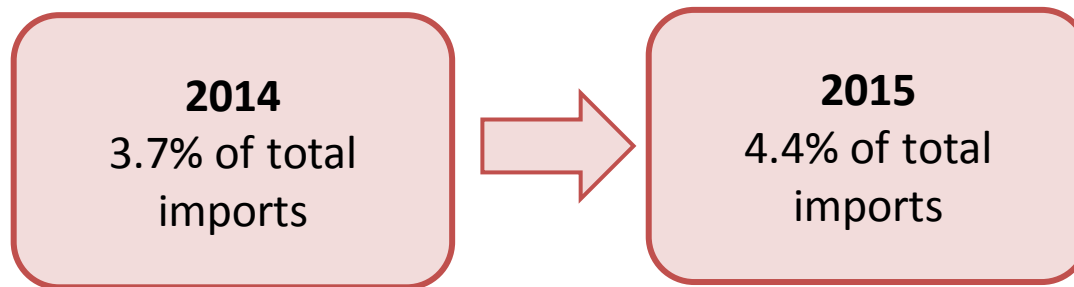
### Current average trade weighted tariff of concerned products

|                                | including EU trade | excluding EU trade |
|--------------------------------|--------------------|--------------------|
| including zero-tariff products | 1.32               | 2.57               |
| excluding zero-tariff products |                    | 5.80               |

Source: World Bank

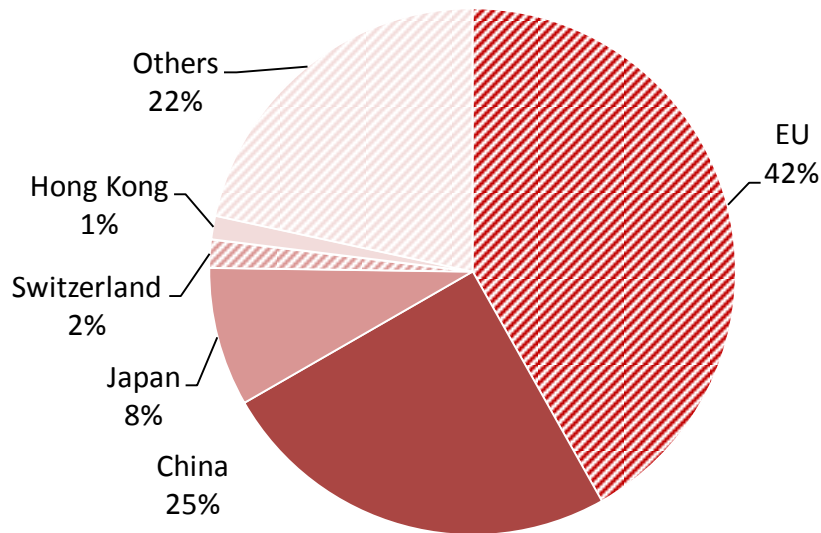
### 3. Current trade in ITA goods

- Moldova is net importer of ITA goods
- Import value of 2015: USD 174 m (only goods covered under extended ITA)
- Export value 2015: USD 37 m
- Import value decreased yoy (USD 200m in 2014), but share of IT imports increased



### 3. Current trade in ITA goods - countries

Countries of origin of Moldova's IT product imports, 2015



Source: World Bank

- EU, China, Japan account for most of Moldova's IT imports
- 42% of imports originate from EU: imports already tariff-free
- All large importers are ITA participants

### 3. Current trade in ITA goods - products

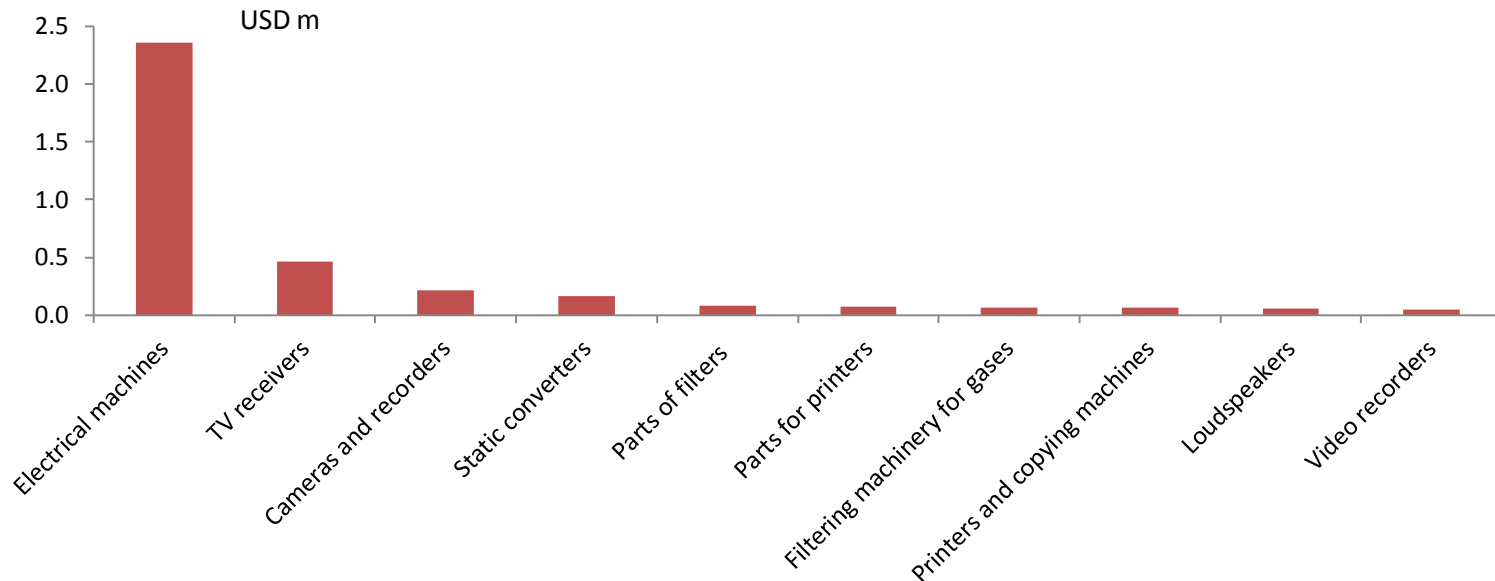
#### Top-10 imported products covered by ITA extension and their tariff rates

| Product description   | HS Code | Import value 2015, USD m | % of IT imports | Current simple MFN tariff, in % | EU import share | non-EU import share |
|---|---------|--------------------------|-----------------|---------------------------------|-----------------|---------------------|
| Electrical apparatus for switching/protecting electrical circuits | 853690  | 25.4                     | 33.2%           | 4.0                             | 91%             | 9%                  |
| TV receivers  | 852871  | 5.4                      | 7.1%            | 9.0                             | 10%             | 90%                 |
| Electrical machines and apparatus with individual functions       | 854370  | 3.7                      | 4.9%            | 8.8                             | 21%             | 79%                 |
| Static converters   | 850440  | 3.7                      | 4.9%            | 5.6                             | 23%             | 77%                 |
| Other office equipment  | 847290  | 3.5                      | 4.6%            | 1.7                             | 82%             | 18%                 |
| Cameras   | 852580  | 3.3                      | 4.3%            | 6.1                             | 14%             | 86%                 |
| Parts of static converters  | 850490  | 2.5                      | 3.3%            | 4.1                             | 62%             | 38%                 |
| Switches other than isolating switches                            | 853650  | 1.8                      | 2.4%            | 4.1                             | 33%             | 67%                 |
| Heat exchange units   | 841950  | 1.8                      | 2.3%            | 4.5                             | 81%             | 19%                 |
| Fans  | 841459  | 1.4                      | 1.9%            | 4.0                             | 56%             | 44%                 |
| <b>Average</b>  |         |                          |                 | 5.2%                            | 47%             | 53%                 |

Source: World Bank

## 4. Impact on import demand

Products with the highest absolute import increase (based on data from 2015)



Source: own analysis based on World Bank data

- Estimated import increase: USD 4.3 m annually
- Increase of IT import demand by 2.5%
- Top-10 products with highest increase currently predominantly imported from non-EU countries with average trade weighted tariff rates between 6.0% and 10.0%



## 5. Fiscal impact

| Impact                        | USD m (per year) | % of total 2016 revenues |
|-------------------------------|------------------|--------------------------|
| Loss of import duties         | 2.3              |                          |
| Increased import VAT revenues | 0.87             |                          |
| Net revenue loss              | 1.4              | 0.1                      |

- Net revenue loss is rather small, equals only 0.1% of total revenues
- Off-set by increased welfare of consumers and cost reductions for companies
- No compensatory measures required

## 6. Impact on domestic production and employment

|  | Output, MDL m  | % of output of manufacturing industry | Employed people, annual average | % of total labour force |
|--|----------------|---------------------------------------|---------------------------------|-------------------------|
| Manufacture of computer, electronic and optical products | 557.1          | 1.5%                                  | 2,810                           | 0.2%                    |
| Manufacture of electrical equipment                      | 1,677.8        | 4.5%                                  | 3,653                           | 0.3%                    |
| Manufacture of machinery and equipment n. e. s.          | 573.7          | 1.5%                                  | 2,212                           | 0.2%                    |
| <b>Total IT manufacturing</b>                            | <b>2,808.6</b> | <b>7.4%</b>                           | <b>8,675</b>                    | <b>0.7%</b>             |

- Economic importance of domestic IT manufacturing relatively small
- Additional imports make up only 2.9% of domestic production
- Most important domestically produced IT goods are still protected by import tariffs that will be abolished in a staged fashion

## 6. Impact on domestic production and employment

### Moldova's top-10 export products covered by ITA extension

| Product description  | HS Code | Export value in 2015, USD m | % of IT exports | % of total exports | Current MFN tariff, in % |
|--|---------|-----------------------------|-----------------|--------------------|--------------------------|
| Electricity meters   | 902830  | 12.8                        | 47.3%           | 0.65%              | 0                        |
| <b>Switches</b>  | 853650  | 7.7                         | 28.3%           | 0.39%              | <b>4.1</b>               |
| Machines for the reception, conversion & transmission/regeneration of voice, images/other data | 851762  | 1.5                         | 5.6%            | 0.08%              | 0                        |
| Other machines & mechanical appliances   | 847989  | 1.0                         | 3.6%            | 0.05%              | 0                        |
| <b>Parts of static converters</b>  | 902490  | 0.8                         | 3.1%            | 0.04%              | <b>5</b>                 |
| Parts of telephone sets  | 851770  | 0.7                         | 2.4%            | 0.03%              | 0                        |
| <b>Electrical apparatus for switching/protecting electrical circuits</b>                       | 853690  | 0.4                         | 1.5%            | 0.02%              | <b>4.0</b>               |
| Parts & accessories for machines machine tools   | 846693  | 0.4                         | 1.4%            | 0.02%              | 0                        |
| <b>Parts of electrical machines &amp; apparatus</b>  | 854370  | 0.3                         | 1.0%            | 0.01%              | <b>8.8</b>               |
| Instruments & appliances used in medical/surgical/veterinary sciences                          | 901890  | 0.2                         | 0.9%            | 0.01%              | 0                        |
| <b>Total</b>   |         | <b>25.8</b>                 |                 | <b>1.31%</b>       |                          |

Source: World Bank

## 7. Impact on exports

### Top destinations for Moldovan IT exports in 2015

|    | Country            | DCFTA country | Participant of ITA extension | Value of IT exports in 2015, USD m | % of IT exports |
|----|--------------------|---------------|------------------------------|------------------------------------|-----------------|
| 1  | Romania            | ✓             | ✓                            | 9.0                                | 24%             |
| 2  | Bulgaria           | ✓             | ✓                            | 6.7                                | 18%             |
| 3  | Russian Federation | ×             | ×                            | 6.2                                | 17%             |
| 4  | Latvia             | ✓             | ✓                            | 4.2                                | 11%             |
| 5  | Slovak Republic    | ✓             | ✓                            | 1.8                                | 5%              |
| 6  | Turkey             | ✓             | ×                            | 1.7                                | 4%              |
| 7  | Germany            | ✓             | ✓                            | 1.1                                | 3%              |
| 8  | Greece             | ✓             | ✓                            | 0.9                                | 2%              |
| 9  | Sweden             | ✓             | ✓                            | 0.7                                | 2%              |
| 10 | Estonia            | ✓             | ✓                            | 0.7                                | 2%              |

Source: World Bank

- 8 out of 10 most important export destinations are participants of ITA
- Turkey is a member of the European Union Customs Union and follows European tariff policy
- Already free trade with Russia in the framework of the CIS Free Trade Area
- No noticeable impact on Moldovan exports to be expected

## 8. Summary

- No massive influx of cheap imports to be expected as trade with IT goods already liberalised to a large extent
  - Yet, cheaper IT imports and greater choice are positive for consumers and companies
  - Increased competitiveness of Moldovan companies
  - Only small net fiscal revenue loss
  - Minimal threat for domestic manufacturing of IT goods
  - No significant changes in Moldovan exports to be expected
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- **ITA extension is advantageous for Moldova**
  - **Consumers and companies are main profiteers**
  - **Welfare increase outweighs fiscal loss**

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