

The Fiscal Impact of Trade Reform: Lessons from Country Case Studies

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Cross-country results show a negative impact of trade reform on customs revenue, with the cut-off tariff rates below which revenue falls as a percent of GDP estimated to lie between 23.5 and 38.5 percent. The theoretical literature suggests replacement revenue from a non-cascading value added tax (VAT) on domestic consumption, but cross-country studies have not in general found encouraging results on the revenue additionality from a VAT, especially in poor countries. The central lesson from the country case studies was that the situation on the ground is much more nuanced than the cross-country studies indicated. Principally, the studies identified the revenue impact as a function of the starting point of the country in question. Very simply, the issue is: When does trade reform begin?