

MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

Tariff Elimination in the Electronics/Electrical Sector

Communication from Japan, Korea, Singapore, and the United States

The following communication, dated 1 July 2005, is being circulated at the request of the Delegations of Japan, Korea, Singapore, and the United States.

I. INTRODUCTION

1. The electronics/electrical sector, which includes information technology, electrical equipment and machinery, semiconductors, audio visual products and consumer electronics, continues to be one of the most dynamic in terms of export growth, as countries develop global production networks to meet international demand for these products. As a result, liberalization in this sector has proven to be an effective policy tool contributing to an increase in trade and job-creating investment in developing countries. Participation by key WTO Members in a sectoral initiative covering all electronics/electrical products will further open markets to these important products and will give developing countries additional opportunities to further develop this sector.

2. The development of global production and distribution networks has changed the landscape of trade in electronics/electrical products. Increased trade flows in both intermediate and finished products clearly demonstrate that sophisticated integrated production systems are now built across borders. These global developments have been augmented by the reduction and elimination of trade barriers (tariff and non-tariff) by both developed and developing countries either through autonomous liberalization or through the WTO Information Technology Agreement (ITA). Future expansion of this sector through additional multilateral trade liberalization will encourage growth at both global and national levels.

3. The electronics/electrical sector includes the information technology (IT) subsector where many tariffs have been eliminated through implementation of the WTO Information Technology Agreement (ITA). Since the ITA provides duty-free treatment for a finite list of IT products, the number of products that fall outside of the original ITA product list has continued to evolve and converge with technologies in other areas, and therefore, many of these highly-traded items are still subject to prohibitive tariffs in key markets. For example, multi-chip integrated circuits (MCPs) used in cell phones and other handheld devices, which were developed after 1997 and currently account for more than \$4 billion in global trade each year, still face unnecessarily high tariffs in many countries.

II. BENEFITS OF TARIFF ELIMINATION IN ELECTRONICS/ELECTRICAL SECTOR

A. BENEFITS FOR THE DOMESTIC ECONOMY AND THE GLOBAL ECONOMY

4. Electronics/electrical products are critically important for a broad range of economic activities. These products increase the efficiency and integration of businesses on a micro level, contributing to improvements in productivity and competitiveness of economies generally. In particular, IT and telecommunications infrastructure, including the Internet, are essential for the successful development of all manufacturing sectors, as are many electronics/electrical products. Additional liberalization in electronics/electrical products will streamline import processes for these inputs, helping countries to diversify and expand their manufacturing base. This is likely to lead to increased demand for labour and technological innovation, and will help build more integrated production and distribution networks as enterprises develop and grow across borders.

5. A recent UNCTAD report¹ illustrates the growing importance of this sector for developing countries. For example, the developing country share of exports of electronics/electrical products has grown from negligible levels in 1985 to 25 percent in 2003. UNCTAD also cites the increasing globalization of supply chains as a major contributing factor to growth in this sector: “A number of developing countries have succeeded in entering these sectors and related value chains in recent years. Their experiences indicate that these sectors can provide opportunities for developing countries, including least developed countries and other commodity-dependent economies, to accelerate growth, increase domestic value added of exports, increase productivity and competitiveness, and enhance employment and quality of jobs, thereby contributing to the achievement of the objectives and goals of the United Nations Millennium Declaration.”

B. BENEFITS FOR CONSUMERS AND SMALL BUSINESSES

6. Electronics/electrical products also support many aspects of citizens’ daily lives. The expansion and liberalization of trade in electronics/electrical products, for example, would benefit consumers, as fewer trade barriers will result in lower prices on these essential items. Further, SMEs will benefit from the diversification of trading relationships and technological innovation that can be sparked by improved access to new technologies. As these new products flow across borders, businesses, including SMEs, will have the opportunity to contribute at different stages of technological innovation and find new niches in the supply chain.

C. BENEFITS FOR THE PUBLIC

7. Electronics/electrical products also help governments to provide public administration services more efficiently and effectively. Information technologies, in particular, can assist countries at all levels of development to build systems that provide high-quality public services. Furthermore, these products also contribute to the provision of public education, which is a key aspect of human capital development. Developing human capital is important not only for industrial development, but also for each country’s overall development.

8. In the event of natural disasters or epidemics, information technology networks play a crucial role in transmitting information quickly. Enhanced access to these products through expanded trade will contribute to each country’s ability to manage these situations.

¹ UNCTAD (December 2004), “Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade: Trends, Issues, and Policies” (TD/B/COM.1/EM.26/2)

III. CRITICAL MASS

9. In order to build on the success of the ITA and help countries build infrastructure and foster movement of electronics/electrical products across borders, a Doha sectoral initiative on electronics/electrical products should be broadly constructed on the basis of critical mass. The critical mass approach, which was used to create the ITA, brings major traders and/or producers in the sector together to decide which products and what level of global trade (exports and imports) and/or production should be covered by a sectoral initiative. This approach enables countries with the greatest trade interest in the sector to negotiate the products included in a tariff elimination or harmonization initiative.

10. Product coverage for electronics/electrical products sectoral initiative should be wide-ranging and simple for Members to implement. This could be accomplished by using broad product coverage that would include a significant range of products, potentially including information technology, electrical equipment and machinery, semiconductors, audio visual products and consumer electronics.

IV. SPECIAL AND DIFFERENTIAL TREATMENT

11. With regard to special and differential treatment for developing countries participating in an electronics/electrical sectoral initiative, flexibility could be provided in a variety of ways. These options could include, but are not limited to the following:

- longer implementation periods
- different implementation patterns for different product groups or subsectors
- “zero for x”
- participation in a smaller number of products

12. For example, longer implementation periods have been used successfully in the past to address developing countries’ concerns regarding special and differential treatment, and were used in the implementation of the ITA. Exactly how special and differential treatment would be provided to participating developing countries would be negotiated and determined by participants in the initiative. As an example, the staging agreed to by participants in the ITA is included below.

Example: Implementation Period:

Singapore Ministerial Declaration - 13 Dec 1996
1st reduction - no later than 1 July 1997
2nd reduction - no later than 1 Jan 1998
3rd reduction - no later than 1 Jan 1999
4th reduction(elimination) - no later than 1 Jan 2000

13. Under the ITA, each party eliminated customs duties through equal annual cuts beginning in 1997 and concluding in 2000. Extended staging of reductions was granted in limited circumstances and some developing country Members extended the tariff elimination period up to 2005.
