

**MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS**

NTBs of the Electronics Industry  
Korea's Contribution to Vertical Approach to NTBs Negotiation

Addendum

The following communication, dated 5 November 2004, is being circulated at the request of the Delegation of Korea.

**I. INTRODUCTION**

1. The Doha Ministerial Declaration states that NAMA should address not only tariffs but also NTBs. In the context of this Agenda, NAMA is currently discussing possible NTBs modalities including request/offer, horizontal and vertical approaches. Some members have proposed the possibility of a vertical approach in several industries. Korea wishes to contribute to the NTB discussions based on its own experiences in the electronics industry, which most member countries are interested in, and which accounts for a considerable share in global trade as well as having shown continuous growth.

**II. WHY NTBS ARE IMPORTANT TO THE ELECTRONICS INDUSTRY**

**A. THE NEED TO ELIMINATE "THE ELECTRONICS NTBS"**

2. Most member states, including both developed and developing countries, have shown interest in the electronics industry for its high-tech and labor-intensive characteristics. In the case of major electronics parts, technological sophistication is required. And in the case of assembled electronics products, in which these high-tech parts are used as components, a large labor force is needed in order to create value-added, thereby making the industry labor-intensive.

3. The structure of production and trade in the global electronics industry shows that the industry is well balanced in terms of international division of labor. According to an electronics research institution, 26 developed countries account for 61.4% while 25 developing countries account for 38.6%<sup>1</sup> of production among 51 major electronics producing countries. The UN has reported that developed countries account for 58.4% of imports while developing countries account for 41.6%, and that the former is responsible for 56.9% of exports while the latter, 43.1%<sup>2</sup> of global electronics trade.

<sup>1</sup> The yearbook of world electronics data (2003-2004), REED ELECTRONICS RESEARCH (UK); Classifying the EC members as developed countries.

<sup>2</sup> 2001 International Trade Statistics Yearbook, UN.

4. The electronics industry takes up a considerable share in international trade and its share is continuously growing. Therefore, the need to eliminate NTBs in this industry is greater. The electronics industry's exports have shown vigorous growth, registering a growth rate of 41.8% in the last ten years. It accounted for 13.8% of total exports in 1991, but this figure jumped to 19.1%<sup>3</sup> in 2001. In 2002, the electronics industry accounted for 19.6%<sup>4</sup> of global trade (export: 19.57%, import: 19.64%), further supporting the need to remove NTBs in the electronics industry.

5. The electronics industry has a lower tariff rate than the overall average of bound tariffs of non-agricultural products. The average tariff rate of electronic products is assumed to be 11.9%, while the overall average of bound tariffs is assumed to be 12.7%<sup>5</sup>. Moreover a drastic cut in electronics tariffs is expected, whether by formula cut or by sectoral elimination, in future DDA tariff negotiations. On the other hand, the reduction of tariffs is taking place rapidly, given that many ITA items are being introduced into the electronics industry.

6. Even if an ambitious tariff cut is implemented, NTBs will continue to be a formidable obstacle in the trade liberalization of electronics industry. As such, the removal of electronics NTBs will promote free trade and contribute to boost global welfare, thereby enabling many countries to share in the benefits of eliminating NTBs. According to a study<sup>6</sup> of NTBs notifications submitted to the WTO secretariat until April 2004, NTBs in the electronics industry accounted for 11.2% of total NTBs reported by 30 countries. This figure is the highest among manufactured products. Among 1,326 cases that cited specific products, 148 cases were related to electronic products.

7. The Korean Experience tells a similar story. According to a recent survey conducted by a Korean institution<sup>7</sup>, 65% of electronics-related companies pointed out that NTBs had a greater impact as a trade barrier than tariffs. 33.5% of the respondents said that NTBs undermined free trade and 45.3% said that NTBs were a burden on companies. As such results show, about 80% of Korea's electronics-related companies responded that NTBs hindered free trade, and this finding would not be isolated to Korean companies alone.

8. In the WTO, The Committee of Participants on the Expansion of Trade in Information Technology Products (ITA Committee) has also recognized the importance of eliminating NTBs in the industry. The zero-tariff negotiations on IT-related products are almost complete. Given its serious trade-distorting effects, the ITA Committee is focusing on outright abolition of NTBs.

#### B. TYPES OF THE ELECTRONICS NTBS

9. According to the above-mentioned survey on Korean companies, the NTBs that seriously undermine trade in the electronics industry are those related to: 1) TBT, 2) customs clearance, 3) quantitative restrictions, 4) pre-shipment inspection (pre-check of a consulate post on export items), 5) others (restrictions on trade licensing, obligations of export and local contents, etc.).

#### TBT:

i) In relation to certification, only the inspection results of designated inspection agencies in importing countries are recognized, and such practice leads to excessive waiting time due to lack of processing capacity and extra costs because of overlapping inspections with other agencies. ii) Unnecessary costs occur because of different certification standards among countries and because of

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<sup>3</sup> 1991-2001 International Trade Statistics Yearbook, UN.

<sup>4</sup> 2002 International Trade Statistics Yearbook, UN.

<sup>5</sup> The figures are verified by Korea, based on the data of IDB CD-ROM release 11 (December 2003).

<sup>6</sup> Analysis of NTBs notifications (May 2004), Korea Trade-Investment Promotion Agency.

<sup>7</sup> Research of NTBs of concern to Korean companies (January 2004), Korea International Trade Association.

excessively tighter standards, thus requiring the adaptation for separate product specifications in order to meet individual importing countries' standards.

#### Customs clearance:

The development of technology, especially in the phenomenon of "Digital Convergence", is leading to the production of multi-functional electronic products. However, as customs regulations lag in relation to technological innovation, customs agencies are classifying these new products based on the existing HS code system, but HS codes do not have accurate classifications for those products, customs agencies arbitrarily classify such products imposing higher tariff rates. For example, an increasing number of people are watching TV programs or movies on personal computers recently. Therefore, some manufacturers of computer monitors are producing monitors equipped with some TV functions. Also, consumers can install peripheral devices on their PCs to expand capabilities, such as to watch TV programs or movies. Computer monitor is an ITA product with a 0% tariff rate. However, if there is a possibility that computer monitors could be ultimately used for watching TV (e.g. monitors equipped with the AV cable), some member countries are classifying these monitors as TVs and are imposing high tariff rates. Such classification is based on arbitrary judgment of the customs agencies, not on the official classification criteria of international organizations such as the WCO.

#### Quantitative restrictions:

Quantitative restrictions on imports have significantly decreased but are modified into different kinds of quantitative restrictions. For example, there are cases of domestic production quota system and domestic sales quota which are unfairly designated and allocated to the advantage of companies owned by domestic investors, which causes discrimination against foreign-invested companies, including new market entrants.

#### Pre-shipment inspection (pre-check of a consulate on export items):

Excessive amounts of unnecessary documents, high fees, and complex procedures are required to go through pre-shipment inspection in the consulate post of the importing country stationed in the exporting country. For instance, the approval of relevant agencies and consulate officers are needed for the export-related documents including export declaration, commercial invoice and certificate of export price. When there is no consulate post in an exporting country, the applicant must go to the consulate post in a neighboring country to receive approval.

#### Other cases:

i) In some cases, foreign-invested companies are excluded and specific domestic importers are given import licenses, and this discriminatory import licensing has the effect of being barriers that hinder free trade. ii) *De jure* export obligation or local contents obligation is not forced, but such obligation is imposed on *de facto* basis through approvals and licensing of administrative agencies. For example, in case of electronic products related to telecommunications equipment in a member state, 50-70% of local production should be used for export and 60% of parts used should be locally produced.

### **III. HOW TO ELIMINATE "THE ELECTRONICS NTBS"**

#### **A. THE PROCEDURAL ROADMAP TO ELIMINATE ELECTRONICS NTBS**

10. In order to effectively deal with NTBs which require expertise at the NAMA negotiations, sub-groups could be established in different industries. And then the sub-group of electronics could explore electronics industry-related issues, build a consensus on NTBs elimination and lay out

individual countries' specialized approaches to remove NTBs as well as the methods of implementation.

11. In the case of NTBs that require expertise, such as customs clearance, customs classification and TBT, experts from existing bodies under the WTO or other relevant international organizations can be called upon to hold discussions. This does not mean that NTBs negotiations will be transferred to other bodies but the participation of experts are guaranteed in sub-groups.

12. A mechanism should be established to ensure the implementation of results of NAMA negotiations. This will monitor individual countries' efforts to remove NTBs and their progress with the implementation. This can be more efficient than the dispute settlement procedures that are relatively complicated and time-consuming. It can also go towards promoting voluntary improvements through negotiations.

#### B. POSSIBLE ALTERNATIVES TO RESOLVE THE ELECTRONICS NTBS

13. To resolve the electronics NTBs according to their patterns, the following alternatives could be suggested. The resolution process of NTBs will be wholly addressed by the NAMA sub-group on electronics:

-- Given that TBT-related electronics NTBs require expertise, it would be efficient to encourage standardization and mutual recognition through WTO-related bodies or international standards organizations. For example, i) the inspection agency should not be limited to the local authorities but expanded to places approved by international standards organizations such as the IEC and the ILAC. Overlapping inspections can be avoided by recognizing the results of internationally approved inspection agencies. ii) MRA at the WTO level, not at the bilateral level, can be pursued by the NAMA sub-group or the existing WTO TBT Committee. A model MRA could be proposed with the participation of various international standardization organizations.

-- Given the characteristics of customs clearance-related NTBs in the electronics industry, they should be discussed not only at the WTO bodies, such as trade facilitation negotiations, but also at customs-related international organizations such as the WCO. Negotiations should aim to establish a standardized customs system. For example, international organizations, which have expertise such as WCO and the WTO Customs Valuation Committee, would work together for resolving the issues of customs classification and customs valuation.

-- Solutions for NTBs in relation to pre-shipment inspection, including pre-check on export items, can be sought by using the existing WTO agreements. For example, to reduce the submission of unnecessary documents and excessive fees when a consulate post in the exporting country checks export items, relevant provisions can be included in the Agreement on Pre-shipment Inspection.

-- Elimination for NTBs that could violate GATT provisions, such as quantitative restrictions, restrictions on trade licensing, export obligations, local contents obligations could be sought by establishing institutional mechanisms that guarantee the implementation of the GATT. For example, a separate channel for discussion could be established for continuous negotiations to remove NTBs. NAMA could adopt a stronger monitoring system or a separate NTBs committee could be established.

#### IV. CONCLUSION

14. Given the experiences of Korean companies in NTBs in the electronics industry, Korea hopes that NAMA will actively address the electronics NTBs because it believes that NTBs are causing various trade distortions throughout the electronics industry. For the items of mutual interest to both developed and developing countries such as electronic products, the vertical approach should be sought more actively.

15. As is seen in the electronics industry, even if NTBs are to be removed through negotiations, they are very likely to return in modified forms, given that NTBs cannot be uniformly regulated based on a concrete and clear definition by nature. Therefore, institutional mechanisms such as a regular monitoring system should be considered when setting up NTBs modalities (e.g. the establishment of NTBs committee) in order to effectively implement what has been agreed upon in negotiations and prevent modified NTBs.

16. Lastly, in the case of developing countries and LDCs, NTBs are mostly attributed to the lack of capacity such as export/import procedures, facilities and human resources. When establishing NTBs negotiation modalities, S&D factors such as support for computerization of customs clearance, capacity building and technical assistance programs should be considered to reduce NTBs within the developing countries and LDCs.

### Attachment 1

#### Comparison of Production share between Developed and Developing Countries in Electronics Industry

##### Summary of Developed and Developing Countries' 2003 Production & Market Shares>

Production share		Market share	
Developed	Developing	Developed	Developing
61.39%	38.61%	70.46%	29.54%

##### Total Global Breakdown of 51 major producers by country

\*Unit: US\$ million

\*Classifying the EC members as developed countries

	Country	Production value	Production (%)	Market size	Market share(%)
1	United States	300,662	25.94	376,425	31.98
2	Japan	180,046	15.53	150,789	12.81
3	Germany	45,226	3.90	55,883	4.75
4	England	42,236	3.64	49,225	4.18
5	France	28,666	2.47	32,532	2.76
6	Ireland	17,113	1.48	7,132	0.61
7	Italy	15,761	1.36	25,306	2.15
8	Canada	11,509	0.99	26,530	2.25
9	Netherlands	8,563	0.74	13,798	1.17
10	Hungary	8,477	0.73	6,866	0.58
11	Switzerland	7,904	0.68	8,134	0.69
12	Finland	7,522	0.65	4,149	0.35
13	Sweden	6,888	0.59	7,771	0.66
14	Spain	6,495	0.56	13,692	1.16
15	Belgium	4,847	0.42	7,391	0.63
16	Poland	3,982	0.34	7,480	0.64
17	Australia	3,480	0.30	13,188	1.12
18	Austria	3,232	0.28	5,486	0.47
19	Czechoslovakia	3,223	0.28	4,223	0.36
20	Denmark	2,341	0.20	3,393	0.29
21	Portugal	2,312	0.20	3,489	0.30
22	Norway	1,344	0.12	3,161	0.27
23	Slovakia	1,107	0.10	1,969	0.17
24	Slovenia	785	0.07	1,084	0.09
25	Greece	593	0.05	2,355	0.20
26	New Zealand	472	0.04	2,063	0.18
	<b>DEVELOPED NATIONS</b>	<b>714,786</b>	<b>61.39</b>	<b>833,514</b>	<b>70.46</b>
27	China	130,431	11.25	120,216	10.21
28	South Korea	66,107	5.70	33,677	2.86
29	Chinese Taipei	49,031	4.23	23,982	2.04
30	Singapore	38,335	3.31	17,677	1.50
31	Malaysia	36,305	3.13	14,936	1.27
32	Mexico	28,856	2.49	29,686	2.52
33	Thailand	18,743	1.62	11,161	0.95

34	Brazil	14,106	1.22	19,913	1.69
35	Philippines	13,790	1.19	5,648	0.48
36	Indonesia	9,223	0.80	5,152	0.44
37	Israel	8,246	0.71	7,546	0.64
38	Puerto Rico	6,313	0.54	3,593	0.31
39	Hong Kong, China	5,820	0.50	8,586	0.73
40	India	5,706	0.49	8,225	0.70
41	Vietnam	2,772	0.24	2,178	0.19
42	Russia	2,543	0.22	7,114	0.60
43	Turkey	2,361	0.20	7,894	0.67
44	Romania	1,486	0.13	2,444	0.21
45	South Africa	1,071	0.09	4,150	0.35
46	Ukraine	803	0.07	1,824	0.15
47	Venezuela	734	0.06	2,314	0.20
48	Saudi Arabia	667	0.06	2,540	0.22
49	Egypt	508	0.04	1,569	0.13
50	Croatia	231	0.02	834	0.07
51	Bulgaria	182	0.02	601	0.05
<b>DEVELOPING NATIONS</b>		<b>444,370</b>	<b>38.61</b>	<b>343,460</b>	<b>29.54</b>
<b>TOTAL</b>		<b>1,159,155</b>	<b>100.00</b>	<b>1,176,972</b>	<b>100.00</b>

Source: The yearbook of world electronics data, 2003-2004, REED ELECTRONICS RESEARCH(UK).

## Attachment 2

### Global Electronics Industry's Export Growth Trends: 1991-2001

\*Unit: US\$ million  
 \*Classify the SITC 751-778 as electronics industry

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Total global exports</b>	3,398,672	3,721,263	3,634,614	4,167,811	4,925,668	5,149,910	5,337,073	5,339,494	5,500,477	6,062,739	5,814,640
<b>Electronics exports</b>	468,953	487,433	539,755	658,711	825,978	865,403	986,027	942,617	1,039,073	1,318,099	1,109,223
<b>Electronics (%)</b>	13.80	13.10	14.85	15.80	16.77	16.80	18.48	17.65	18.89	21.74	19.08

Reference: 1991-2001 International Trade Statistics Yearbook, UN

