BIAC Statement for the Consultations with the OECD Trade Committee

- 20 October 2003 -

1. After the dust has settled over the failure of the 5th WTO Ministerial in Cancun BIAC would like to use the opportunity to emphasise that OECD business remains strongly committed to the multilateral trading system with the WTO at its centre.

2. Liberalising international trade remains vital to lifting much of the developing world out of poverty. It is vital for business that negotiators overcome the deadlock on agriculture. BIAC supports further work of the Trade and Agriculture Committees of the OECD on explaining the detrimental effects of excessive government agricultural support in OECD countries on producers and exporters in developing countries.

3. At the same time, BIAC expects developing countries and emerging markets to increase their own market access commitments for agricultural and industrial goods and services. To foster greater understanding the OECD Trade Committee ought to concentrate on raising awareness of the benefits of trade liberalisation to the developing world. It is also vital to explain to developing countries that Cancun was a setback for their economic development and a missed opportunity (**see Annex**).

4. For BIAC it is a top priority to get the Round started again and to achieve real progress on key market access priorities. In this regard it is essential that negotiations focus on the priorities for OECD business and developing countries without overloading the agenda.

5. At the same time, the OECD Trade Committee should extend its analytical work on regional trade agreements (RTAs). To foster greater complementarity, this work should focus on how to best manage the relationship between RTAs and the multilateral trading system.

6. The OECD Trade Committee should strengthen its outreach and use every opportunity to engage non-member representatives in exchanges on trade topics. We see priorities for this work in the following areas:

   Strengthening work of the Global Forum on DDA topics, enhancing work on the facilitation of Russia's accession process to the WTO, focusing work on the implementation of China's accession to the WTO and starting programs for Asia, Latin America and Africa on trade topics.

Business and Industry Advisory Committee to the OECD

Comité Consultatif Economique et Industriel Auprès de l' OCDE

(Annex)

LIBERALISATION OF NON-AGRICULTURAL TARIFF BARRIERS

- BIAC Submission to the OECD Global Forum on Trade, 5-6 June 2003 -

The Business and Industry Advisory Committee (BIAC) has taken the position that market access for industrial goods (including both tariff and non-tariff barriers) is the number one priority for business in the Doha WTO negotiations. BIAC recommends that negotiators pursue the elimination of all industrial tariffs by a fixed date. BIAC believes that such tariff reduction will greatly benefit developing countries as well as OECD members. (See the February BIAC Statement "BIAC Priorities for the WTO Negotiations" attached.)

That BIAC position is based on the observation that the world trading system and open market that it promotes are essential to sustainable economic growth, supporting and diffusing innovation and technology, and reducing poverty by creating wealth.

Importance of Manufactures Trade to Developing Countries

The majority of the trade that brings these benefits is in industrial goods. Trade in manufactures (a proxy for industrial goods) continues to dominate growth in world trade despite the decisive shift to services-based economies underway at the national level. The manufactures share of total trade has been growing steadily since the 1960's and now accounts for almost two-thirds of total trade compared with 20 percent for services.[1] As the OECD reports, trade in manufactures by developing countries is also on the rise. "Between 1950 and 1980, the share of manufactured products in the total exports of developing

[1] See Preeg., E.H., "Surging yet Volatile Productivity Growth in U.S. Manufacturing Industry: The International Trade Dimension," (Manufacturers Alliance/MAPI, ER-524, October 2001), p. 5.

countries hovered between 30 and 40 percent. Beginning in 1981, this hitherto flat trend moved sharply upward, reaching a remarkable 84 per cent in 1996." [2]

In 1996 developing countries sold more than a third of their (total) exports to each other, compared to less than a quarter a decade earlier. [3] The share of developing country merchandise exports going to other developing countries has risen from about 20 percent in 1965 to about 40 percent in 1995.[4]

Gains in Manufactures Liberalisation Will Accrue to Developing Countries

Tariffs are still the main inhibitor of trade in industrial goods. The WTO estimates that 55 percent of all global trade is free but only six percent of that trade is bound duty free within the WTO.[5] Most of the remaining tariff barriers are among developing countries. On average, poorer countries maintain higher protection than rich countries. For industrial products, rich-country tariffs are 3 percent compared to 13 percent for poor countries. Even in textiles and clothing, the poor-country tariffs at 21 percent exceed the rich-country tariffs at 8 percent. [6] While the trade-weighted tariff burden on commercial and industrial goods in the industrialised countries decreased from 40 percent to just under four percent over the last 50 years, it still amounts to 40 percent on average (bound tariffs) in developing countries today (example: average bound tariff rates of 60 percent in India; 1.8 percent in Switzerland).[7]

Because poorer countries have higher levels of tariff protection, they are the ones that stand to benefit most from tariff elimination and greater competition. The majority of gains from liberalisation of manufactures trade will accrue to developing countries. [8]

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[2] See "Open Markets Matter, OECD, 1998 p. 34.
[3] Ibid.
[4] Thomas W. Hertel, "Potential Gains from Reducing Trade Barriers in Manufactures, Services and Agriculture," Federal Reserve Bank of St. Louis Review, Vol 82(4), 2000, p. 79
[5] M. Bacchetta and B. Bora, "Industrial Tariff Liberalization and the Doha Agenda," WTO Discussion Paper # 1, 2003,p.5.
[6] J. Michael Finger and Ludger Schuknecht," Market Access Advances and Retrials: The Uruguay Round and Beyond," World Bank Working Paper 2232, November 1999. Tab SF3 As quoted in Jagdish Bhagwhati and Arvind Panagariya "Wanted: Jubilee 2010 against Protectionism," (American Enterprise Institute, November 2001),pp. 1-2.
[7] "WTO Market Access Unfinished Business – Post Uruguay Round Inventory: Special Study No. 6 (2001)
[8] Thomas Hertel, Op. cit., p. 92; and Thomas Hertel and Will Martin, "Developing Country Interests in Liberalizing Manufactures Trade," paper presented at the World Bank's Conference on Developing Countries and the Millenium Round, WTO Secretariat, Geneva, Sept. 19-20.

The business models of global manufacturing companies support this analysis. For many manufactured products, companies have developed supply chains that draw components from several country manufacture sites to produce the final product. Countries chosen to supply components must, in turn, be able to import raw material and manufactured inputs for these components without high tariff costs if the supply chain is to be cost effective, yielding products that can compete in the marketplace. Companies are less likely to outsource industrial production in markets protected by high tariffs. However, companies both trade and invest to deliver a product. More and more, firms prefer to sell their goods abroad by investing, rather than through trade. Formerly, such investment often found motivation in the need to leap over protective tariffs that denied trade market access. Today this is much less the case. Foreign investments are designed to make products adapted to local needs and tastes, which is now cost effective because of innovations in the technology of the production process. This type of investment also depends on low-cost import of manufactured components.

BIAC recognises that the rate of tariff liberalisation may have to take account of the situations in individual economies. At the same time, the experience of the Uruguay Round has demonstrated that the former approach to Special and Differential Treatment (SDT) for developing countries, which in practice resulted in their non-participation, has had the perverse effect of impeding access to the benefits of trade and competition. To that end the meaning of SDT, the circumstances for its application and the timing for its phase out should be clarified in specific terms.