



# ***Rules of Origin (ROO) in Free Trade Agreements***

Prepared for RIETI Policy Symposium “Assessing  
Quality and Impacts of Major Free Trade Agreements”  
March 23-24, 2007, ANA Hotel Tokyo

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## **One of Basic requirements for High Quality FTAs - Market Access**

**Although the quality of FTAs can be evaluated with several criteria, the most important component will be the degree of market access.**

**Market access ?**

# Major Points

I Introduction

II Coverage of tariff  
elimination in FTAs

III Stringency of Rules of  
origin (ROO)

IV Assessment of Market  
Access in FTAs

V Conclusion

# Market Access

Market access is determined with coverage of tariff elimination, the improvement of non-tariff barriers (NTBs), simplicity of ROO, harmonization of trade rules, and so on. While some of these elements such as NTBs, harmonization of trade rules are not easily measured quantitatively, coverage of tariff elimination and simplicity of ROO are quantitatively measurable, and thus, this paper tries to assess the quality of FTAs with these two elements.



IV

## Assessment of Market Access in FTAs

**FTA**



Why stringent and complex ROO in FTAs?



1. Trade deflection, transshipment of non-originating
2. Superficial transformation
3. Industrial policy – intermediate goods or specific sectors



An FTA with wide coverage of tariff elimination and simple ROO will bring most of the economic gains that are expected ex ante.



Although an FTA specifies tariff elimination for all goods, net impacts on trade will be reduced if exporters (manufacturers) are obliged to pay high costs in complying complex and stringent ROO in the FTA. If small portion of tariff lines are included in the list of trade liberalization and stringent ROO is applied, only limited impacts on trade can be expected from an FTA.

**V****Strict ROO vs Compliance Costs**

- ✓ **ROOs act like trade barriers, since they cause extra costs in production and management.**
- ✓ **Producers/exporters need to pay costs for calculating production costs and producing bookkeeping related documents.**
- ✓ **Also, extra costs will be incurred in complying with technical and specific process and regional value contents as specified in the ROO protocol, and these costs will be added to the prices of export goods.**
  - ✓ **Refer to Koskinen (1983) and Herin (1986)**
- ✓ **Low utilization of preferential tariff treatments**



# The Effects of Tariff Elimination and ROO on Trade

		Stringency of ROO	
		Less	More
Coverage of tariff elimination	Wide	High impact	Low impact
	Narrow	Low impact	Limited impact



# Tariff Elimination in FTAs

	Coverage of Tariff Elimination	Remarks
<b>ANZCER</b>	<b>Complete</b>	<b>Gradual liberalization (1983, 1988)</b>
<b>NAFTA</b>	<b>- 3%(HS8) of agriculture excluded</b>	<b>Quota for textiles is specified</b>
<b>EU-Mexico</b>	<b>- EU: 35.2%(HS8) of agriculture excluded</b>	<b>Mexico: 26.1% exception for agriculture</b>
<b>AFTA</b>	<b>- 98% of total tariff lines are included in liberalization package</b>	<b>- Intra-regional trade share: 20-25% - Utilization of CEPT is very low (3%)</b>
<b>China-ASEAN FTA</b>	<b>- Around 98% of tariff lines are liberalized</b>	<b>- Extremely sensitive items are excluded</b>
<b>JSEPA</b>	<b>- 58% of agricultural HS(6) excluded</b>	<b>Agriculture with positive tariffs are excluded</b>
<b>KCFTA</b>	<b>- 30% of agricultural HS(6) excluded</b>	<b>Additional liberalization will be discussed after the DDA</b>

**Source: Author's calculation based on tariff concessions in related FTAs**



## Summary of ROO in Major FTAs

	NAFTA	EU-Mexico FTA	AFTA	China-ASEAN FTA	Japan-Singapore FTA	Korea-Chile FTA
CTC	Yes	Yes	Not necessarily	Not necessary	Yes	Yes
RVC Ratio	60-50%	50-30%	40%	40%	60-40%	45-30%
Cumulation	Yes	Yes	Yes	Yes	Yes	Yes
<i>De Minimis</i>	7%	10%	No mention	No mention	8-10%	8%

- ROOs in East Asian FTAs are similar to those of Western FTAs in terms of CTC, RVC ratio, Cumulation, and *De Minimis*.

# CTC in FTAs by Japan and Korea (unit: %)

	NAFTA	EU-Mex FTA	Japan's EPA with		Korea's FTA With	
			SGP	Mexico	Chile	SGP
<b>CC+</b>	<b>54.44</b>	<b>14.47</b>	<b>9.22</b>	<b>47.14</b>	<b>30.21</b>	<b>25.18</b>
<b>CTH+</b>	<b>40.65</b>	<b>58.34</b>	<b>90.78</b>	<b>29.14</b>	<b>59.76</b>	<b>67.79</b>
<b>CTSH+</b>	<b>4.35</b>	<b>2.37</b>	<b>0.00</b>	<b>23.47</b>	<b>9.46</b>	<b>6.44</b>
<b>Other</b>	<b>0.56</b>	<b>24.82</b>	<b>0.00</b>	<b>0.25</b>	<b>0.58</b>	<b>0.59</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Information on NAFTA and EU-Mexico FTA is recited from Estevadeordal-Suominen(2004)

# ROO Restrictiveness of FTAs by Japan and Korea

	<b>PAN EURO</b>	<b>NAFTA</b>	<b>US- SGP FTA</b>	<b>Japan -SGP FTA</b>	<b>Japan- Mexico FTA</b>	<b>Korea -Chile FTA</b>	<b>Korea - SGP FTA</b>
<b>Primary</b>	<b>0.3</b>	<b>0.46</b>	<b>0.23</b>	<b>0.33</b>	<b>0.34</b>	<b>0.28</b>	<b>0.3</b>
<b>Supplementary</b>	<b>0.08</b>	<b>0.09</b>	<b>0.04</b>	<b>0.06</b>	<b>0.09</b>	<b>0.11</b>	<b>0.06</b>
<b>Others</b>	<b>0.15</b>	<b>0.13</b>	<b>0.11</b>	<b>0.1</b>	<b>0.10</b>	<b>0.08</b>	<b>0.08</b>
<b>Total</b>	<b>0.53</b>	<b>0.67</b>	<b>0.39</b>	<b>0.49</b>	<b>0.54</b>	<b>0.47</b>	<b>0.44</b>

Source: Information on PANEURO, NAFTA, and US-Singapore (SGP) is taken from the Productivity Commission (2004)

## Overall Assessment of Market Access in FTAs

		Stringency of ROO	
		Less	More
Coverage of tariff elimination	Wide	Group I: ANZCER CA FTA	Group II: NAFTA
	Narrow	Group III: AFTA(?)	Group IV: KCFTA, KSFTA EU-Mexico FTA JSEPA, JMFTA

- ✓ ROO is based on protectionists' viewpoints as well as political economic aspects, reducing welfare gains from a FTA.
- ✓ Japan and Korea lag behind China in terms of FTA quality in East Asian FTAs.
  - ✓ China's simple ROO in the FTA with ASEAN was possible with the leadership of the PRC.
- ✓ Too different versions of ROO in East Asian FTAs
  - ✓ Spaghetti Bowl Effects?



Thank you for listening.