



RIETI Policy Symposium

Assessing Quality and Impacts of Major FTAs

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Comments on “Rules of Origin in Major FTAs”

by Inkyo CHEONG and CHO Jungran

Antoni Estevadeordal

Principal Advisor

Integration and Regional Programs Department

Inter-American Development Bank



Cheong-Cho: Analysis of “representative” FTAs / RoO

FTAs considered

NAFTA

EU-Mexico

Australia-NZ CER

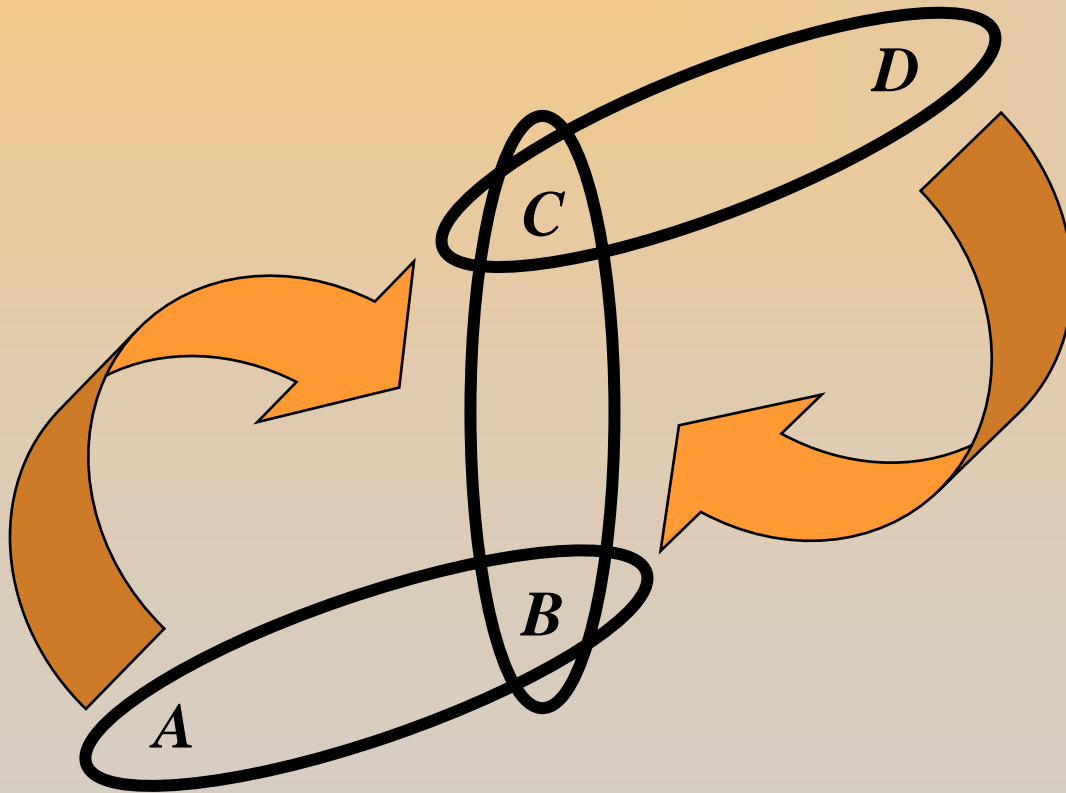
Japan-Singapore EPA

Japan-Mexico EPA

ASEAN-China FTA

Korea-Mexico FTA

Chile-Korea FTA





Why preferential RoO ?

- ★ The main justification for preferential RoO is to avoid TRADE DEFLECTION (ensure that non-members do not obtain access to PTA preferences)
- ★ RoO define the share of inputs that have to be used or production processes that have to be performed within the PTA area in order to benefit from preferential access.



Why RoO are so important?

- ★ FTAs (RoO) have proliferated around the world
- ★ RoO can insulate an industry from the FTA
- ★ RoO can protect intermediate good producers by favoring intra-PTA supply links
- ★ RoO can attract investment in strategic sectors
- ★ RoO effects in the S/R different than in the L/R



What are the economic impacts of RoO?

- Theoretical literature shows that restrictive RoO may distort trade, investment, and production patterns
- We need more empirical evidence:
 - Good news: Evidence that RoO are used to avoid trade deflection
 - Bad news: RoO have potential negative impacts on:
 - Administrative costs for firms
 - Low utilization of preferences
 - Effects on final and intermediate goods trade (and investment) patterns



Product-Specific RoO

(restrictiveness)

★ **Wholly obtained or produced**

Where only one country enters into consideration in attributing origin

★ **Substantial transformation**

Where two or more countries have taken part in the production process

- **Change in Tariff Classification**
- **Regional Value Content**
- **Technical Requirement**



Regime-Wide RoO *(facilitation)*

★ Provisions adding leniency to RoO:

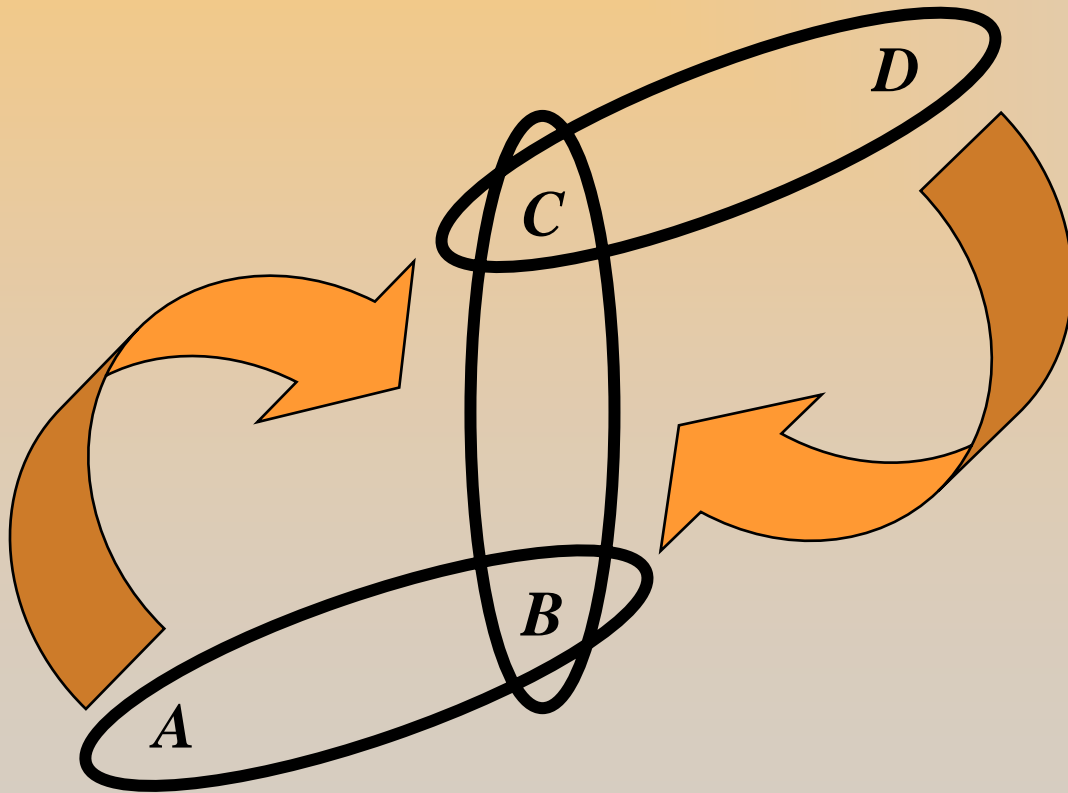
- *De minimis*
- Cumulation
- Self-certification
- Roll-up or absorption principle

★ Provisions that may make RoO more restrictive:

- Lists of operations insufficient to confer origin
- Complex certification methods
- Inefficient customs verification and administration



Cheong-Cho: Analysis of “representative” FTAs / RoO



Conclusions:

*East Asia RoO
Divergence...*



*Potential for SB
Effects...*

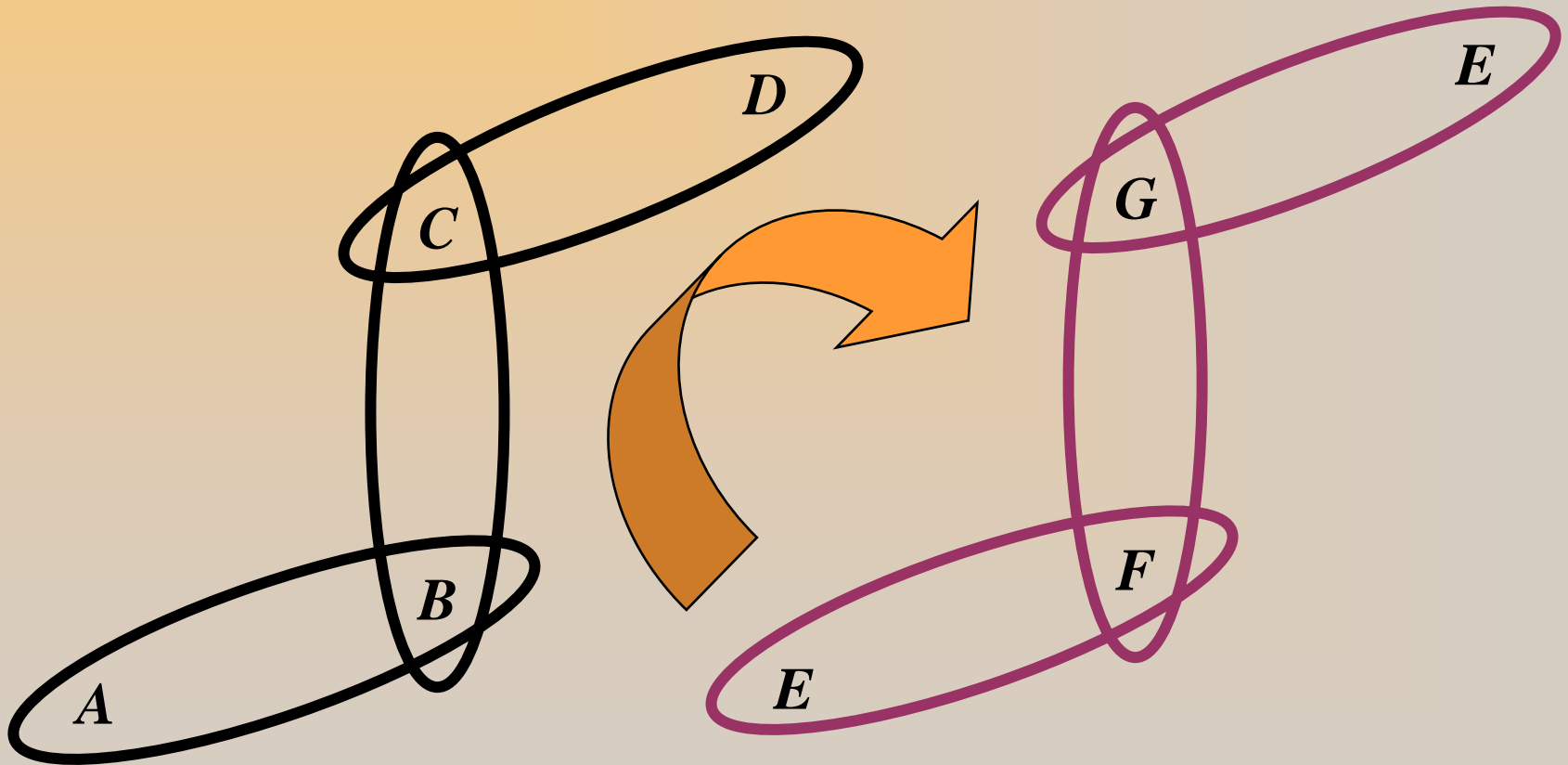


East Asian FTA...



Comment #1: On East Asia Divergence...

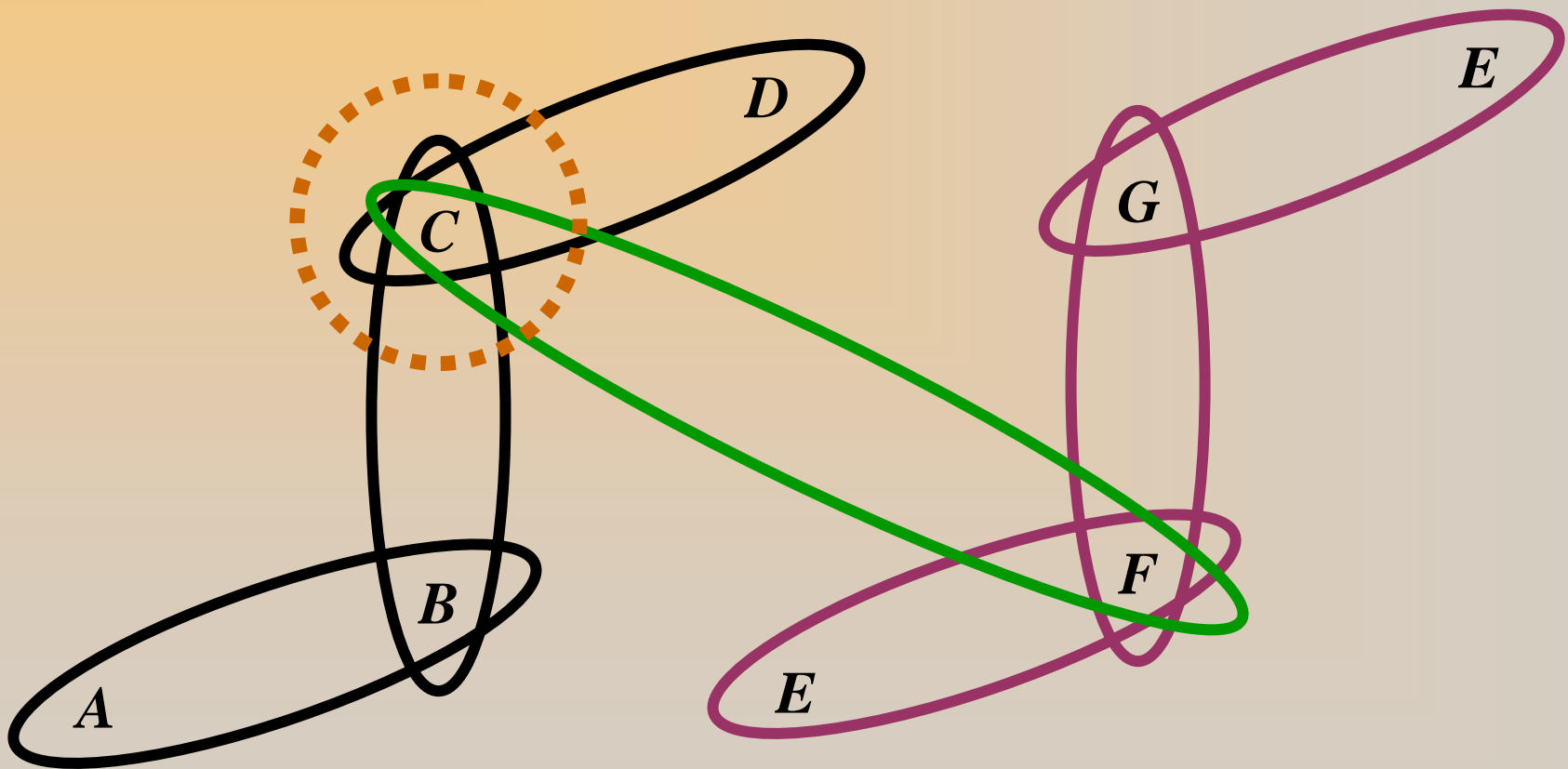
Intra-regional vs. extra-regional divergence...





Comment #2: On SB Effects in East Asia...

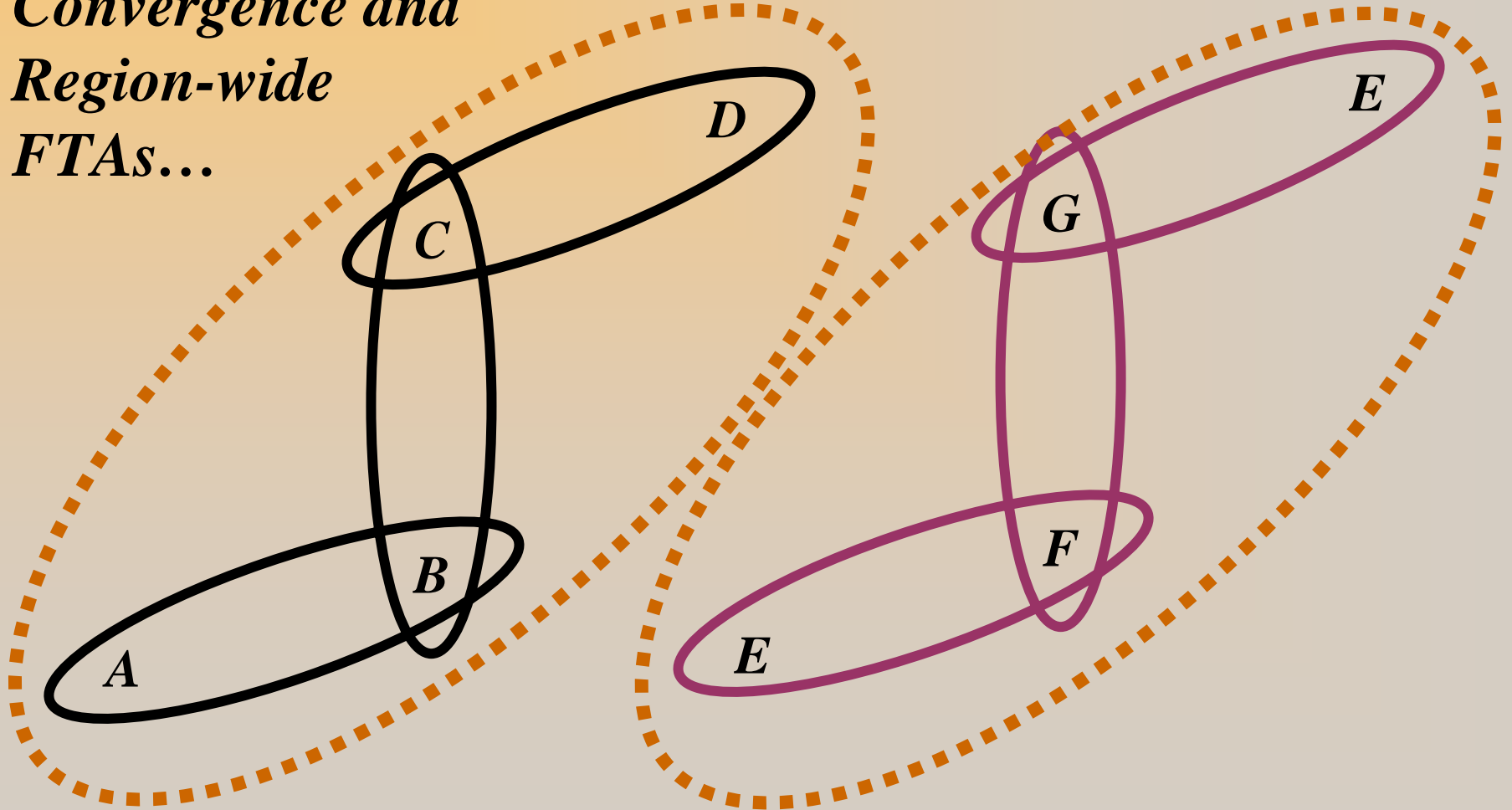
Aggregate effects vs. country effects...





Comment #3: On East Asia FTA...

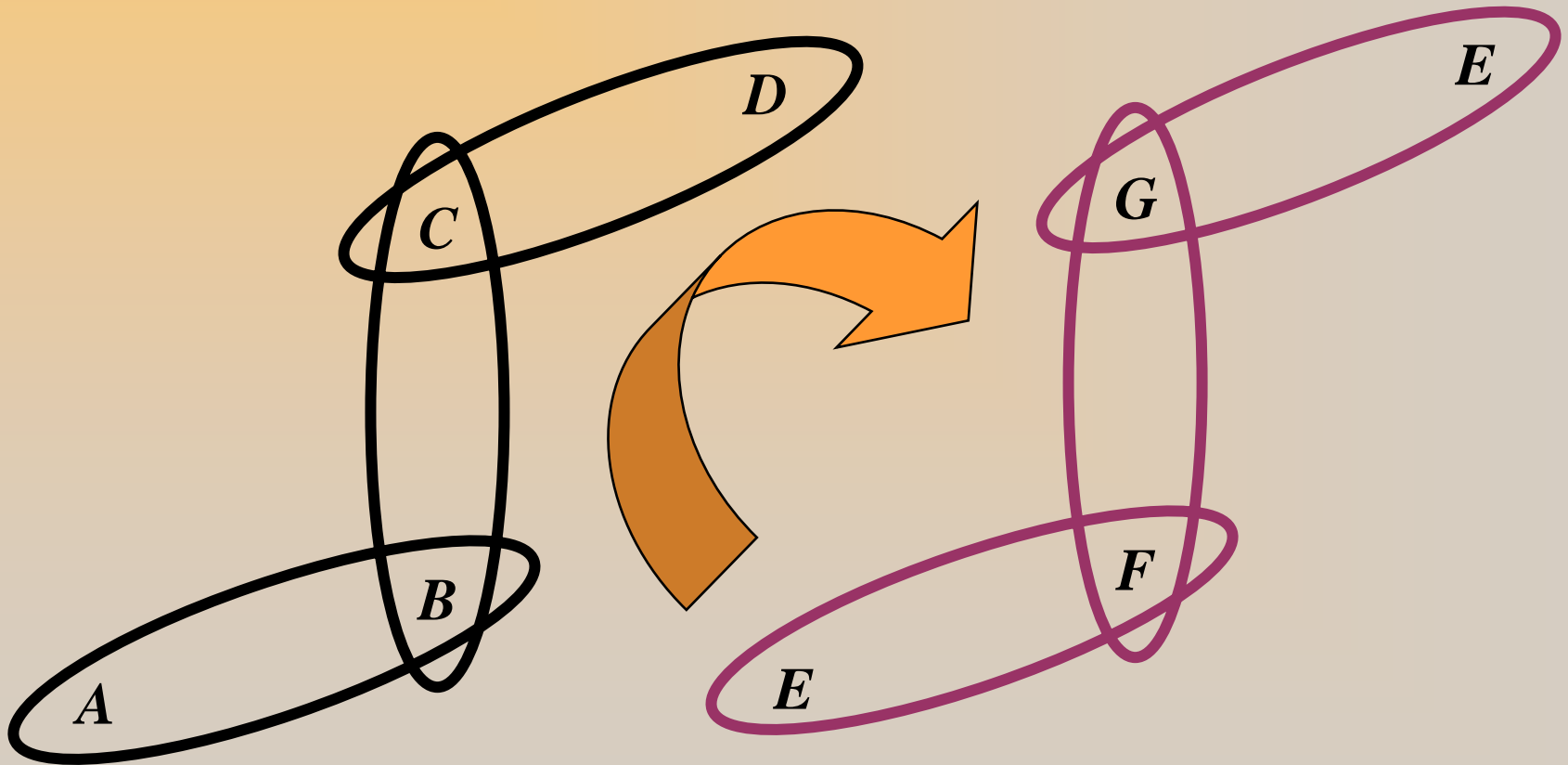
*Convergence and
Region-wide
FTAs...*





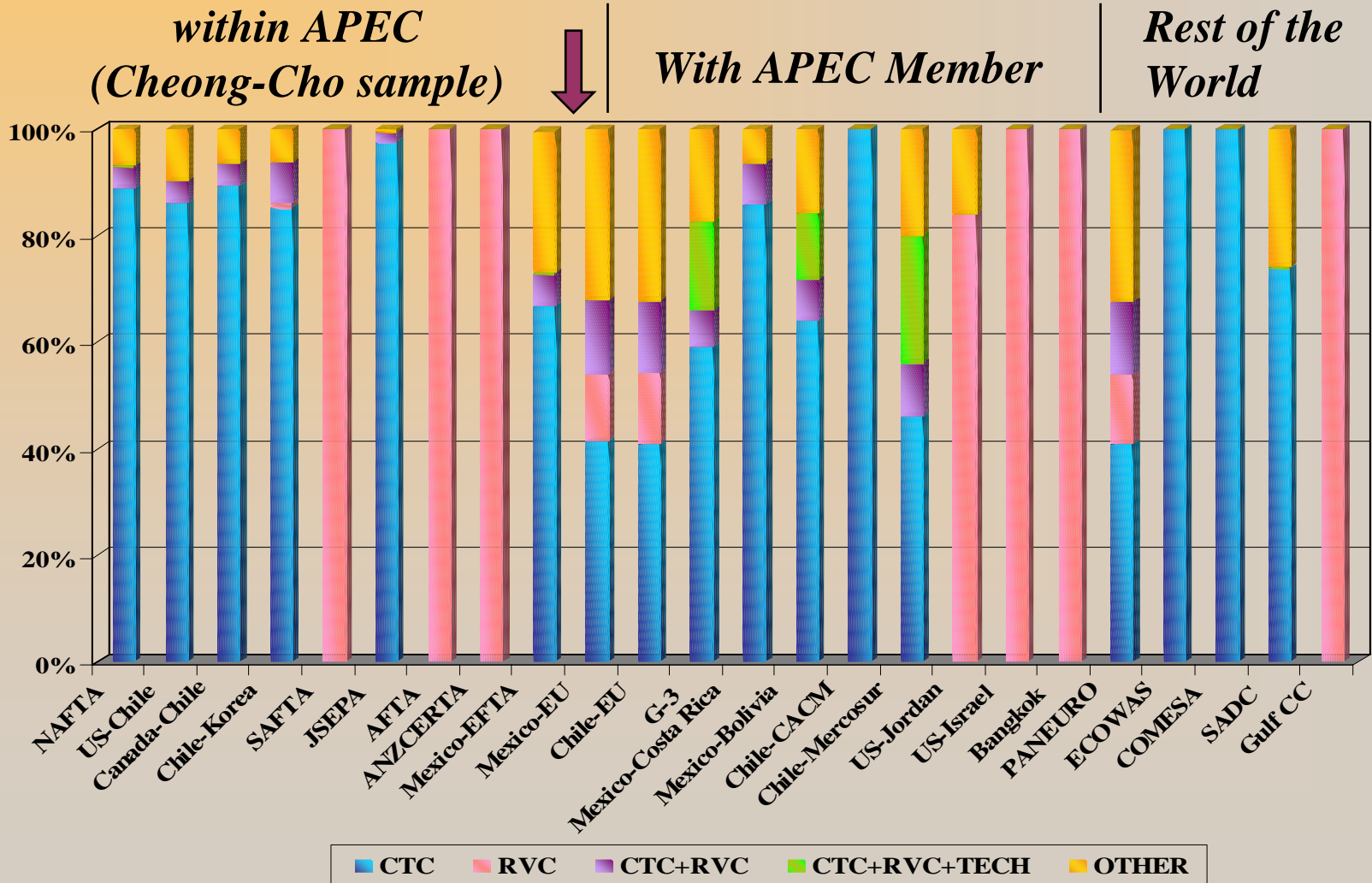
Comment #1: On East Asia Divergence...

“within” region vs. “between” regions divergence...





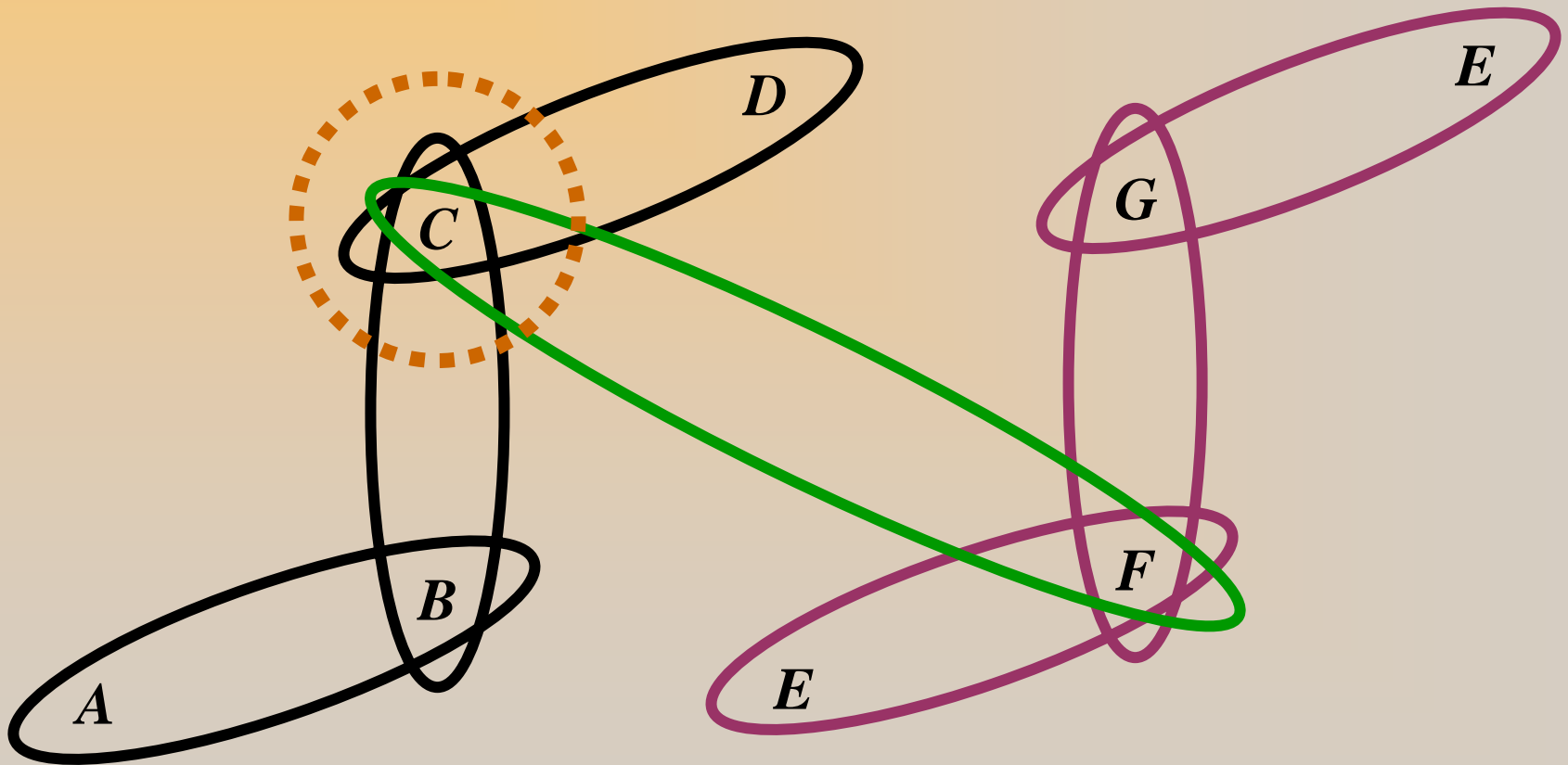
Product Specific RoO: CTH / RVC / TECH Combinations





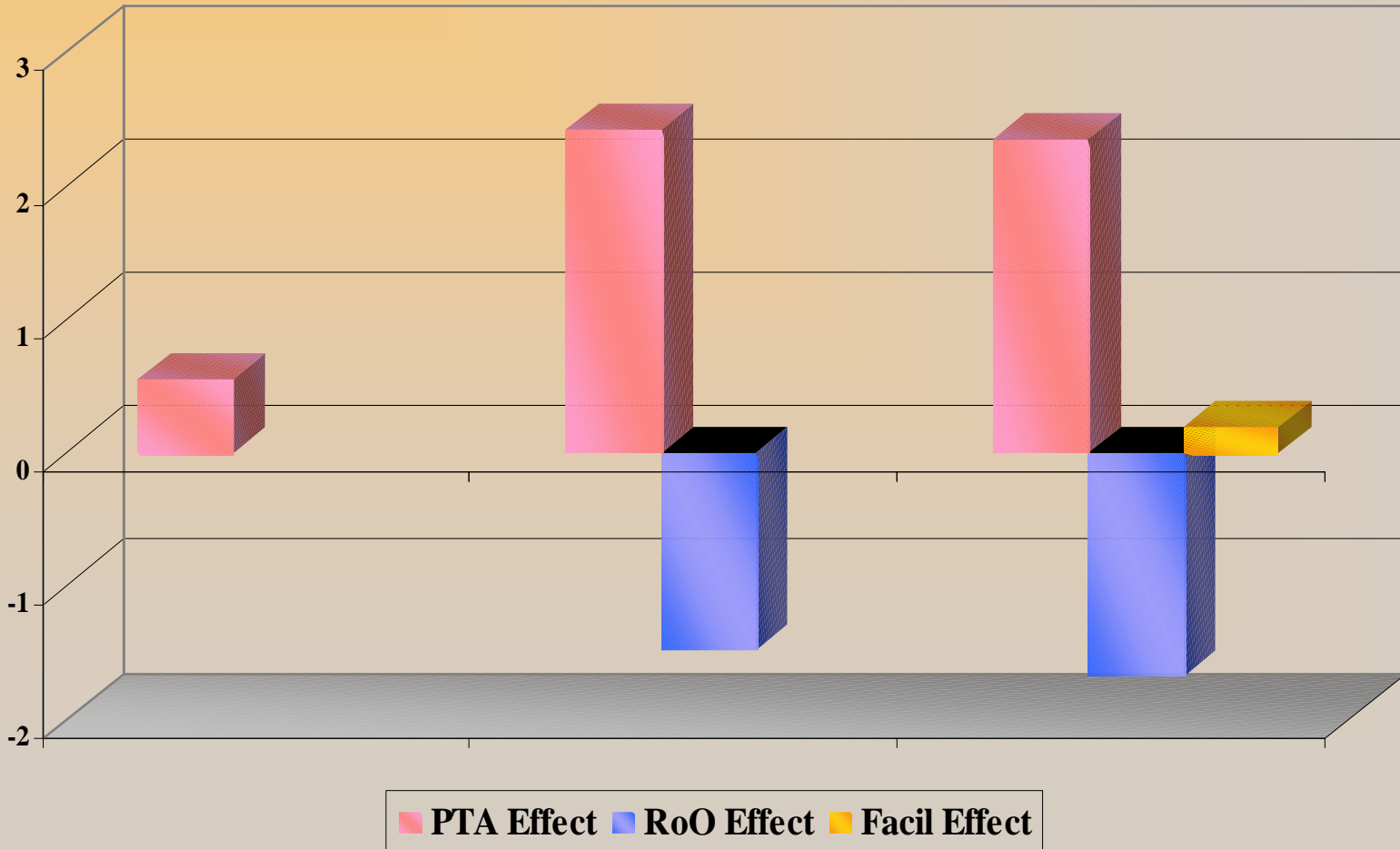
Comment #2: On SB Effects in East Asia...

Aggregate effects vs. sector effects vs. country effects...



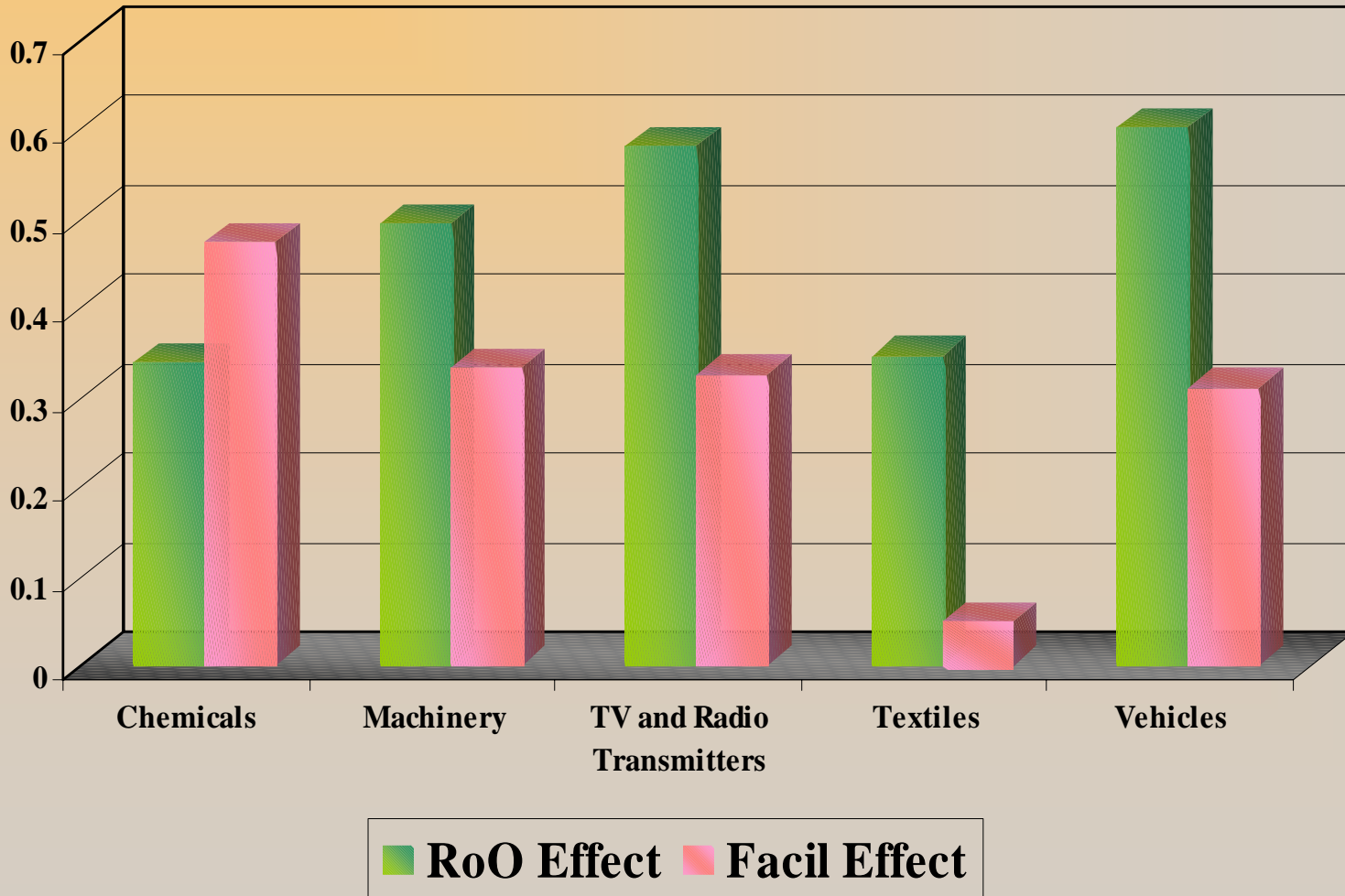


Trade Effects of PTAs with Rules of Origin





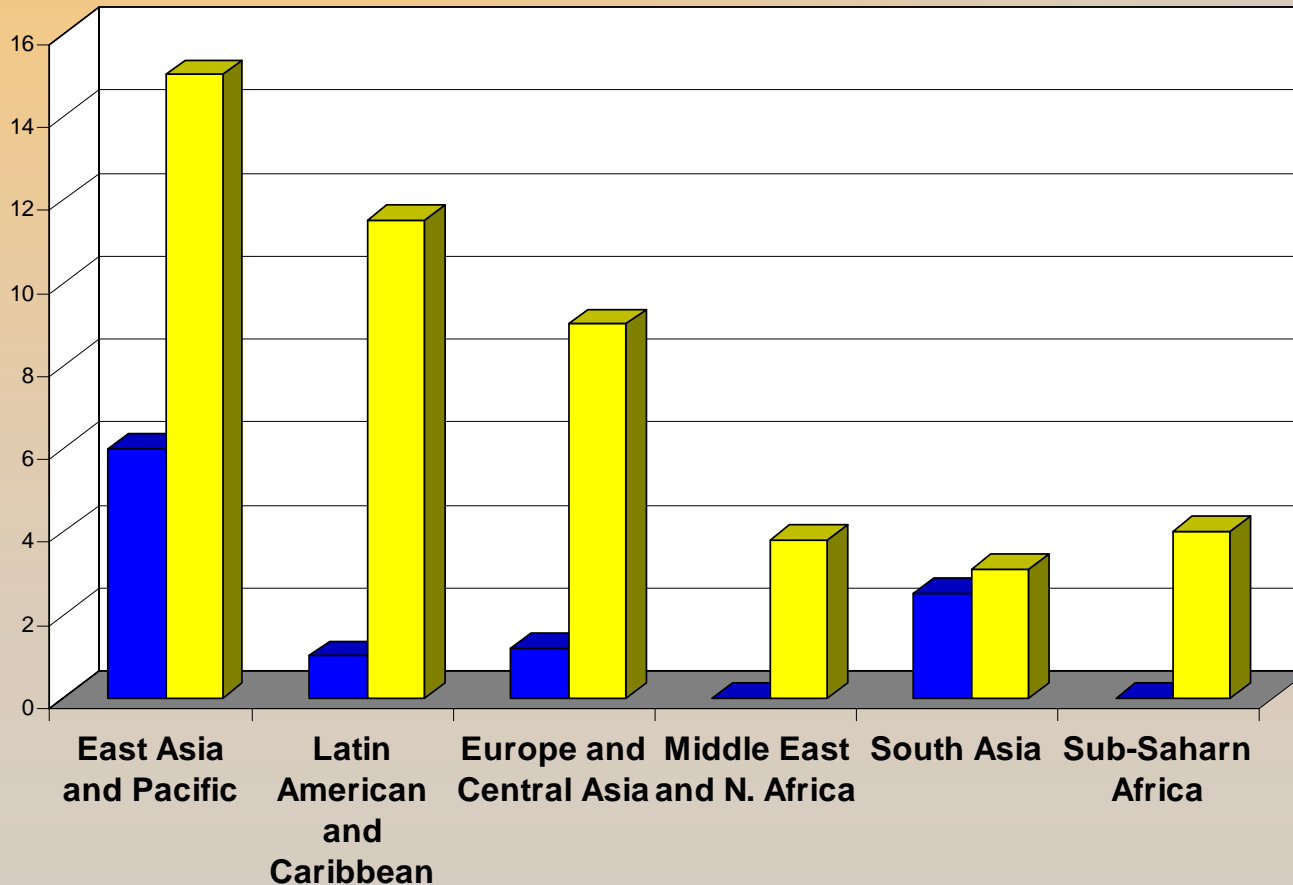
Do RoO Divert Trade in Intermediate Goods?





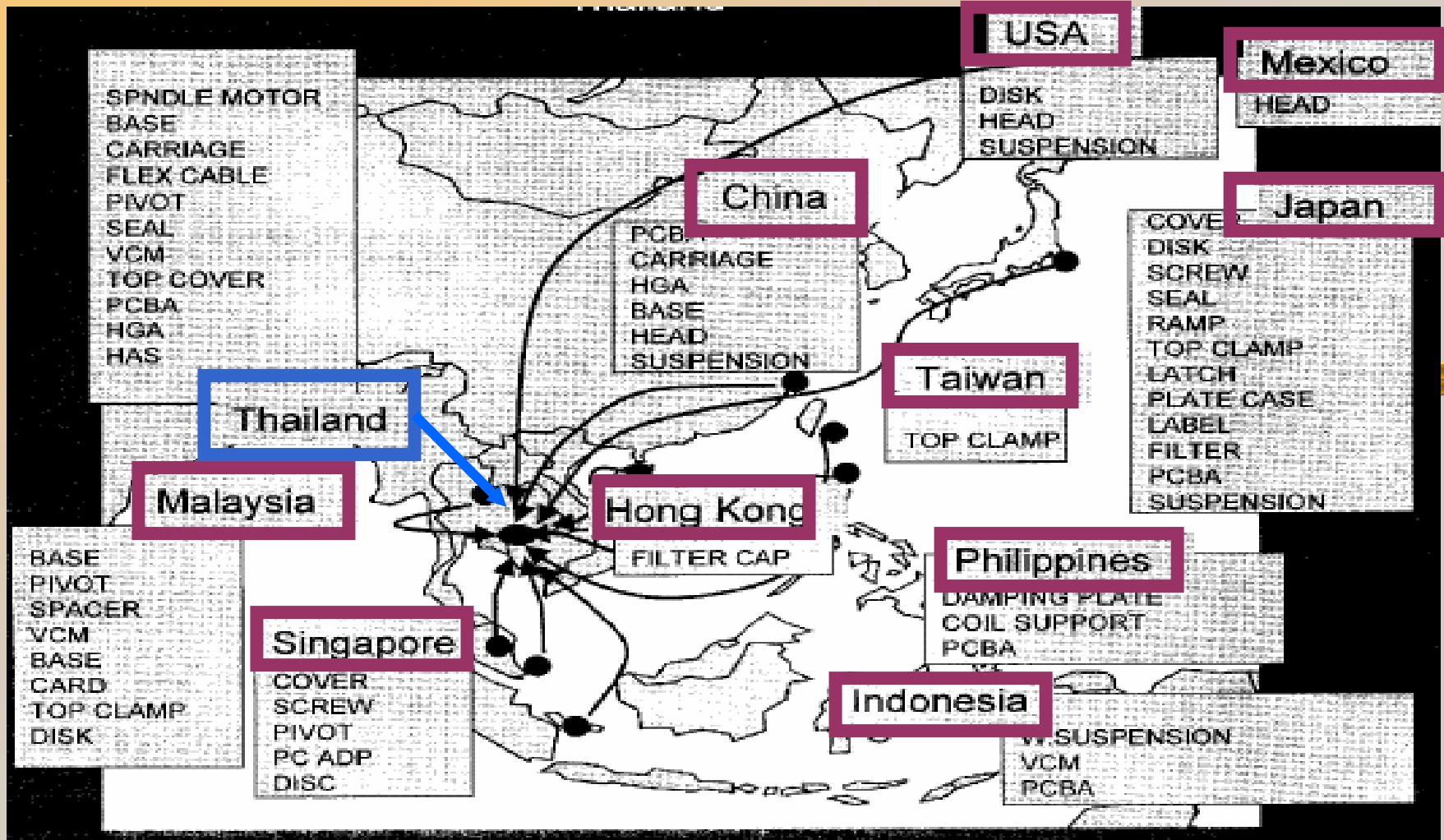
Trade in intermediates is very important in East Asia...

Export share of parts and components 1980-2002





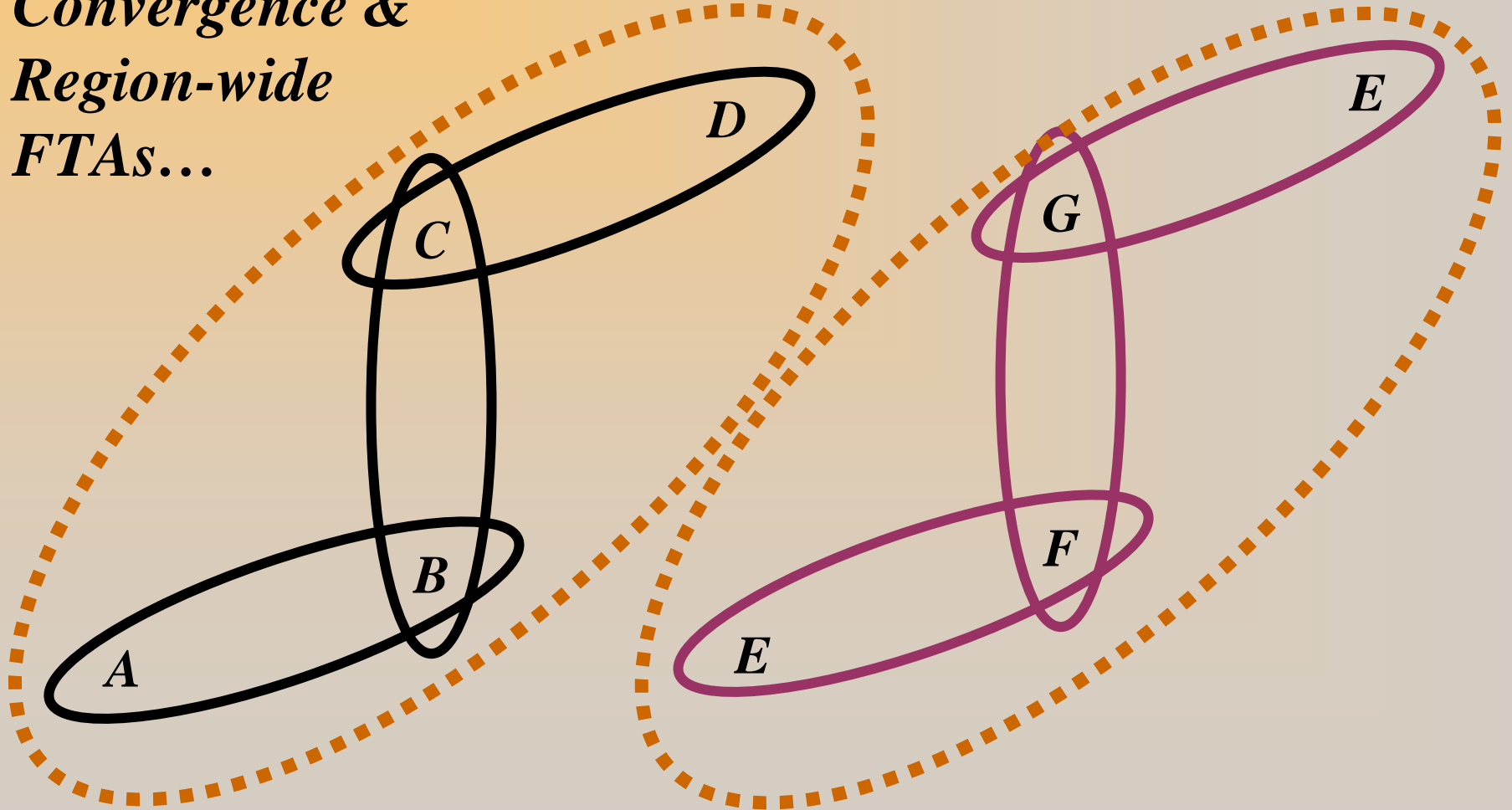
Building a computer harddisk in Thailand...





Comment #3: On East Asia FTA...

*Convergence &
Region-wide
FTAs...*





Why convergence in RoO Regimes?

- ★ Countries' operating in two or more RoO theaters:
 - Complicate firms' supply relations
 - Force specialization of production to a certain market(s) when RoO are strict
 - Increase transaction costs when certification methods diverge
 - Particularly important for developing countries that are often spokes to different RoO hubs



Do pre-conditions exist ?

- ★ Potential for effective “cumulation” areas among existing FTAs depends on:
 - Degree of intra-regional tariff elimination / sequencing...
 - Degree of common RoO regimes...
 - Potential for negotiation “regional” cumulation regime...



What are the policy options?

- ★ Negotiate simple, non-restrictive RoO in RTAs?
- ★ Regional/multilateral harmonization of RoO (Doha mandate)?
- ★ Creation of a broader-single integration zones (FTAAP, AFTAA)?
- ★ Promote convergence and cumulation across existing RTAs?
- ★ Silver bullet: multilateral tariff liberalization?