

Trade-led Growth in Times of Crisis

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Paper title: Rules of Origin as an Instrument of Trade Protection: An Analysis of Theory, Empirical Evidence and Current State of Play

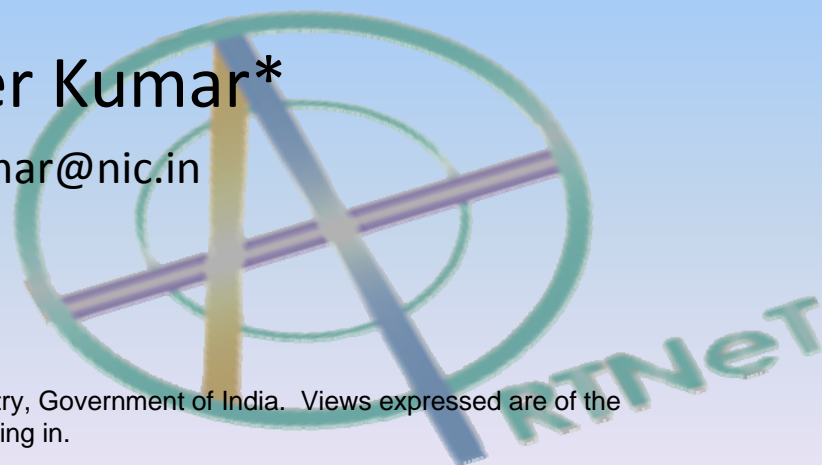
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Scheme of Presentation

- Global Scenario
- Rules of Origin (ROO): Meaning, Types and Methods
- Theoretical Economics of ROO
- Empirical Evidence
- Current State of Play
- Design of ROO
- Policy Implications

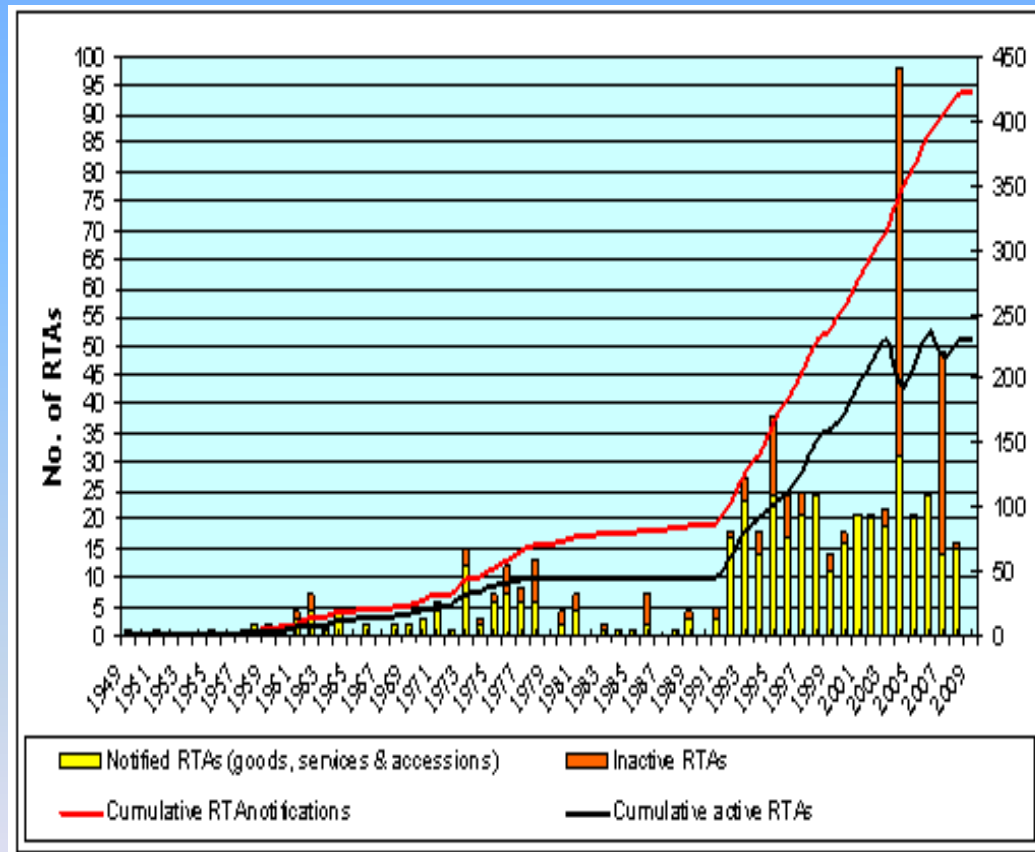


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Global Scenario

- Number of preferential trade agreements (PTAs) has increased at phenomenal pace.
- Half of the world trade passes through the channels of PTAs (World Bank, 2005).
- ROO are inherent part of PTAs



Rules of Origin (ROO)

➤ Meaning:

Criteria to determine the economic nationality of internationally traded products.

➤ Types:

- non-preferential
- preferential ROO

➤ Methods:

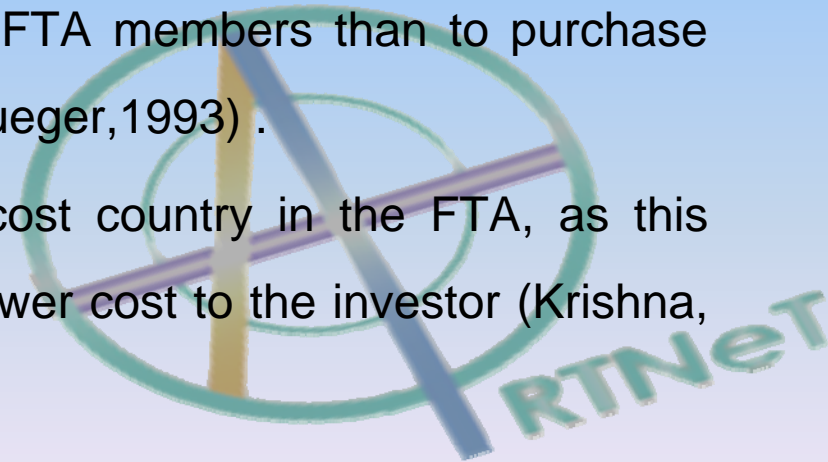
- Change in Tariff Classification (CTC) Rule;
- Domestic Content Rule;
- Specific Process Test; and
- a combination of above rules.



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Theoretical Economics of ROO (1)

- Economic impact of ROO is determined by the specific nature of the ROO input requirement, the market structure for the domestic intermediate produces, and the substitution possibilities for production by the final goods producers (Grossman).
- Producers of a final good in an FTA would find it advantageous to purchase higher-cost (protected) inputs from other FTA members than to purchase from lower cost ROW sources (Anne O Krueger, 1993) .
- ROO tend to lead to FDI in the lower cost country in the FTA, as this provides access to the FTA market at a lower cost to the investor (Krishna, Kala and Anne Krueger, 1995).



Theoretical Economics of ROO (2)

- FTAs are often not liberalizing (Ju, Jiandong and Kala Krishna, 1998):
 - ROO are hidden protection: they create what looks like tariffs on imported intermediate inputs and affect the price of domestically made inputs as well.
 - ROO are negotiated industry by industry, there is enormous scope for well organized industries to essentially insulate themselves from the effect of the FTA by devising suitable ROO.
- Developed countries are increasingly likely to employ policies that discriminate amongst imports on the basis of how they have been produced. This is equivalent to employing a ROO, and may be justified on the grounds of “protecting the environment” or “discouraging the use of child labour” (Rod Falvey and Geoff Reed, 2000).

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Theoretical Economics of ROO (3)

- Restrictive ROO will lead to increased investment in the FTA due to which production is reallocated among FTA members, and trade is diverted from non-members (Rodriguez, 2001).
- ROO has a direct bearing on the political economy of the FTA endorsement (Rupa Duttagupta and Arvind Panagariya's, 2003)



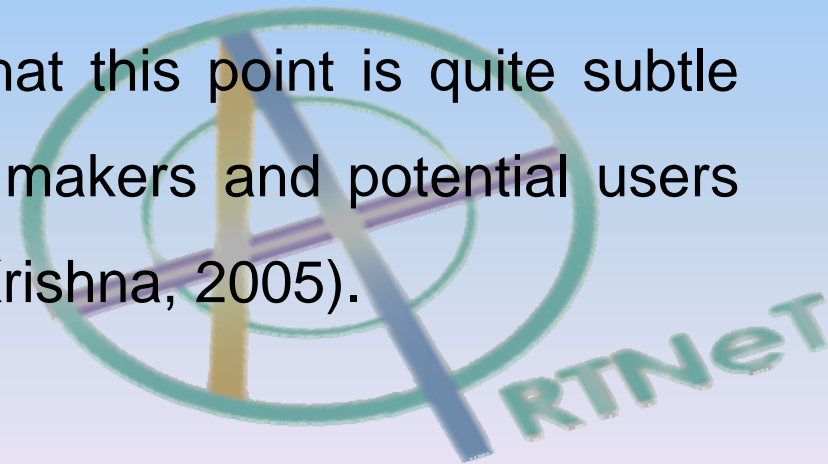
retical Economics of ROO (4)

can insulate an industry from the consequences of
it can provide hidden protection.

precise form of the RoO matters.

the period matters.

g more restrictive RoO may result in higher not
s. She emphasised that this point is quite subtle
s a warning to policy makers and potential users
y well backfire (Kala Krishna, 2005).



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