



PECC Trade Forum

Rules of Origin and Trade Policy

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Bandar Sri Bagawan
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Rules of Origin and Trade Policy

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ROO AND TRADE POLICY

Need for ROO: Discriminatory Trade Policies

Basic spirit: Accelerated Import Substitution

Purpose of ROO: To prevent trade deflection, or simple Transshipment to avoid payment of custom duties.

*ROO can be abused as mask for protectionist intents.
It may force producers to use higher-cost inputs for the
Sake of preferential access.*

*ROO can seriously erode the effectiveness of trade
Facilitation which recently receives a strong attention
In trade negotiations.*

PREFERENTIAL RULES OF ORIGIN

*Sufficient or substantial processing (transformation)
Prior to shipment.*

*Proving origin: Change of tariff classification; ratio
Of local value added; specific manufacturing process.*

*A preferential trading area can opt for one or more
Methods of establishing sufficient processing.*

*Criteria of origination are somehow arbitrary. How
Local is local enough?*

NEW FEATURES OF COMPETITION

Global production system or intra-product division of Labor where komponents are dispersed to diverse Locations, each contributing a declining fraction of Unit total cost.

Rising overhead as fraction of total cost necessitates Higher speed of geographical dispersion of products.

Fragmentation into RTAs: End of 2002 259 RTAs Had been notified to WTO of which 176 are in force.

TYPICAL FEATURES OF ROO

Cumulation: Bilateral, diagonal and full.

Tolerance rule or De Minimis.

*Absorption principle: parts or materials of originating
Status = domestic origin in any further processing.*

Duty Drawback

Territoriality: Treatment of outward processing.

IMPLICATIONS OF ROO

ROO can affect the sourcing and investment decisions.

*ROO can distort domestic competition among firms
That source materials from different origins.*

*ROO can hinder the exploitation of economies of
Scale.*

*ROO tends to discriminate against small and less
Developed members of a PTA and against SMEs inside
A particular member.*

No evidence that ROO has stimulated development.

ROO is costly. Reduces incentive to make use of PTA.

Increase complexity of world trading system

ROO AND PTAs IN EAST ASIA

Should be as neutral as possible.

Cross-product and cross-agreement differences add to complexity and Costs of compliance.

Restrictive ROO targeted at sensitive products are not Effective in dealing with adjustment difficulties.

Proliferation of FTAs with different ROOs is likely to Further slow down custom clearance and erode the Effectiveness of facilitation.

Cumulation mechanism = important given the trend of Proliferating FTAs round ASEAN. Full cumulation Allows firms to exhaust benefits of FTAs.

RECOMMENDATIONS

The current ROO of AFTA enhances integration in ASEAN.

Product-specific ROOs should be avoided.

*Extending AFTA's ROO to ASEAN+ agreements would
Maintain simplicity and would not compromise trade
Facilitation objectives.*

*ASEAN should consider agreeing on rule disallowing
Bilateral agreement by a member without full
Cumulation.*