

Rules of Origin, Regional Integration and South East Asia

Summary of Key Issues

Rules of origin are major factor determining the impact of FTAs

Complex and restrictive rules of origin limit benefits of tariff removal

New agreements with different rules of origin can affect existing intra-regional trade flows

Practical Implications

Negative impact falls particularly heavily on LDCs

Limits spread of transnational production networks

Can compromise objectives regarding trade facilitation

Cumulation is a key issue

ROO are a key trade policy issue!

ROO can distort trade and investment decisions

can be administratively burdensome

can constrain market access and reduce the value of preferences.

ROO are a key element determining the magnitude of the economic benefits of preferential trade agreements and who gets them.

Example: only 50 per cent of eligible exports from LDCs enter the EU duty free under the EBA.

Complex and restrictive rules of origin limit benefits of tariff removal

Restrictive rules of origin constrain sourcing of inputs

ROO which vary across products and agreements *add to the complexity and costs* of participating in and administering trade agreements.

The burden of such costs fall particularly heavily upon small and medium sized firms and upon firms in low income countries.

Complex rules of origin discriminate against small low income countries where the scope for local sourcing is more limited.

Simple, consistent and predictable rules of origin are more likely to foster the *growth of cross-country production networks*.

New agreements with different rules of origin can affect existing intra-regional trade flows

New agreements with different rules of origin can constrain trade with existing partners

New rules can change sourcing decisions away from use of inputs from existing partners

Proliferating trade agreements with differing ROO will further complicate customs procedures and *may compromise progress on trade facilitation.*

Cumulation is a key issue.

Full cumulation provides for deeper integration and allows low income countries the greatest flexibility in sourcing inputs.

Common ROO facilitate the spread of full cumulation and therefore to the development of regional production networks

Conclusions

A coordinated approach to ROO in can be beneficial in avoiding a highly complex and extremely difficult to administer systems of rules of origin

Clear and consistent ROO, with minimal costs to firms in adhering to them, *are fundamental to improvements in effective market access* and the facilitation of trade and investment