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Towards a Continental Integration agenda (the CFTA)

A new look at Rules of Origin (RoO)

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tralac paper -

<http://www.tralac.org/publications/article/6993-rules-of-origin-looking-outside-the-box.html>

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Industrial policy and the CFTA

- Modern Industrialization and its policy framework emphatically emphasizes that industrialization happens when the complete set of trade and economic policies are aligned.
- This holds from the early Industrial Revolution in Britain through to and including China, Vietnam and Cambodia today.
- Unfortunately it does not generally hold for Africa! **GOVERNANCE is the key word**

One aspect

- This paper is not a comprehensive look at Industrial policy.
- Rather it is about one aspect of industrial policy that is more generally thought of as a trade policy.
- This is Rules of Origin
- The RoO

No mate, it is not an Australian marsupial

- Why?
- RoO - designed mainly to stop trade deflection or 'imports sneaking through the back door'
- But are they an NTB?
- Are they just another NTB that is becoming more trade restrictive than actual tariffs?
- **Is the RoO firmly rooted in its 1970s base?**

Why?

- **Observers have boldly questioned the need for the RoO**
- But unfortunately some indication of origin of goods will always be necessary.
- Identification for reporting purposes and also for several trade-related reasons apart from preferential trade agreements.

The coin has two sides

- Deflection opportunities negated by intra-African transportation and transaction costs
- This natural protection is reducing African international competitiveness
- **But be aware that the RoO similarly restrict intra-African trade.**

RoO in Africa -- tralac

- See work from Eckart Naumann – different regimes for COMESA, EAC and SADC
- He is ‘anticipating national interests to resurface in any attempt to change the latter’ – clearly code for South African dominating?
- Supported by Paul Kalenga (2013) looking at TFTA – RoO used as a protectionist measure to shelter domestic producers of so-called ‘sensitive products’ from competition.

Cost assessment (few studies)

- Harris (2007) - cited two studies, one average compliance costs in the order of 3%-4%; other between 1.4% to 5.7% of the value of the shipment.
- Brenton et al. (2005) - cost can be around 2% to 3% or more of the value of the shipment
- - but even higher, or even prohibitive, in countries where customs mechanisms are poorly developed (read Africa).

Costs into US

- Nuthall (2014) - US textile and clothing sector trade - only 14% of apparel imported into the US actually takes advantage of the FTAs that the US has with 22 countries (and declining).
- Compliance costs from the complexity of FTAs in areas such as ROO were such that the administrative burden was not worthwhile for tariff preferences that could be as high as 17%.

In brief:

“RoO are widely considered ‘hidden protectionism’, an obscure and opaque trade policy instrument that can work to offset the benefits of tariff liberalization. RoO in effect set up walls around RTA members that prevent them from using certain inputs in each final product. This limits the access of member country producers to inputs from the rest of the world, as well as extra-regional input providers' sales to the RTA region. **The more restrictive are the rules of origin, the higher are the walls they create, and the more difficult efficient allocation of resources becomes.**” (Estevadeordal et al., 2005).



Global reforms

- Most influential in textile and clothing trade
- Ample evidence highlights their often unintended effects
- WTO offers the best ground for RoO reforms (Uganda paper)
- But watch the Trans-Pacific Partnership where attention is focusing on the textiles and clothing RoO battle between US and Vietnam
- Implications for African negotiations & trade

Global value chains

- **21st century manufacturing is evolving**
- **modern emphasis upon integrating into global value chains**
- Textile and apparel – RoO cumulation needed to encourage this integration
- Re-examining African-wide trade and trade-related policies is becoming an urgent priority
- As always East Asia provides the blueprints