Can the European Union reform of rules of origin be used as a model for the other WTO members?

An empirical impact analysis on the use of trade preferences granted to Least Developed Countries

Pramila Crivelli, PhD
Assistant Professor
Goethe University Frankfurt

Joint research with
Stefano Inama, UNCTAD

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Background

- Research project arising from negotiations at WTO on rules of origin

- Despite years of discussions, no multilateral disciplines on Rules of origin (RoO)

- Major problem: lack of evidence that a given set of RoO is better or more trade creating and less costly than another one.

- At the WTO, LDCs argued that the EU reform of EBA rules of origin in 2010, moving from stringent to more liberal RoO, should be a model for the rest of the world.

- Despite correlation and factual evidence the causal link between reform of RoO and increase of trade volume and utilization rates has been objected

Mechanics of trade preferences

- The Everything But Arms (EBA) preferences scheme grants to Least Developed Countries (LDCs) full duty free and quota free access to the EU for all products (except arms and armaments)

- At the time of customs clearance, unless a certificate of origin (CO) or an origin declaration by the importer is presented, MFN rate of duty will be levied.

- CO or exporter declarations are issued upon compliance with Rules of Origin (RoO) requirements.

→ **Use of preference is conditional on RoO compliance**

How to quantify PTA utilization?

- **Utilization rates** answer the question : to which extent preferential treatment is used whenever the products are covered by the preferential scheme ?

- Customs based: the ratio among goods eligible for PTA treatment with those that have effectively received it

$$UR_{ijht} = \frac{Imports\ receiving\ preferential\ treatment_{ijpt}}{Imports\ covered\ by\ the\ prferential\ agreement_{ijht}} * 100$$

- Product *h*, importer *i*, exporter *j*, year *t*.

Trade/Utilization Rates Impact of the European EBA Rules of Origin Reform of 2010

EU Imports from **effective LDCs**
Art of Apparel & Clothing Access,
Not Knitted/ Crocheted

- GSP Utilization Rate - HS 62 (left axis)
- Imports Covered - HS 62 (right axis)
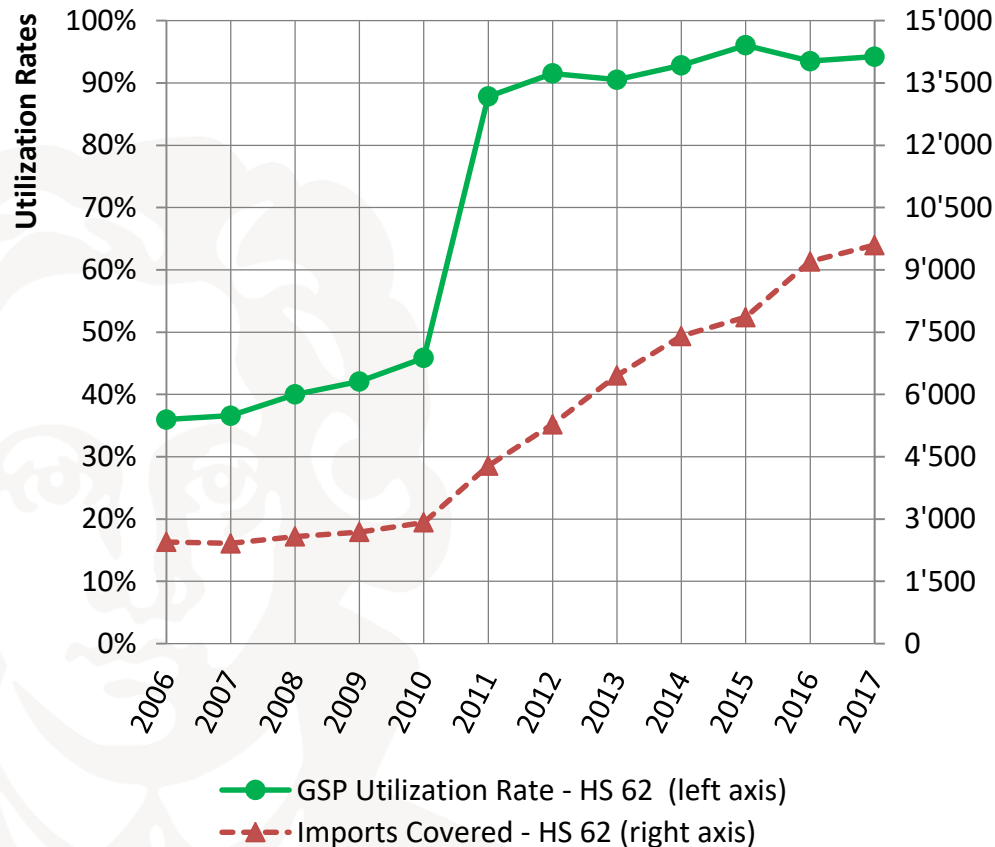
EU Imports from **Cambodia**
Bicycles and Parts thereof
HS 871200, 871491 - 871499

- GSP Utilization Rate - Bicycles (left axis)
- Imports Covered - Bicycles (right axis)
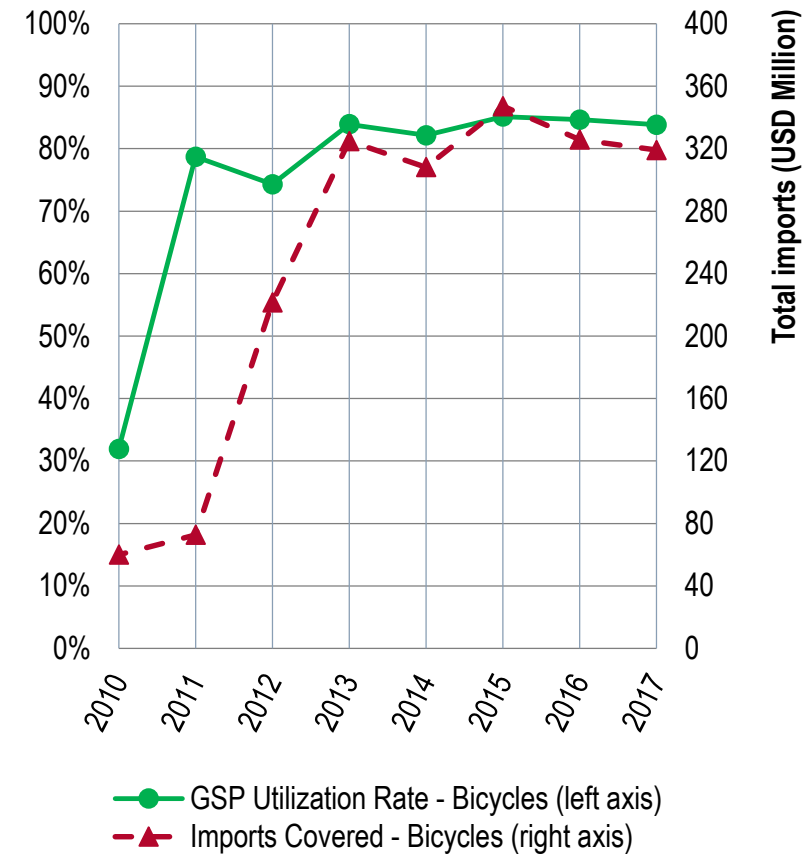
Contribution

- Provide empirical evidence of a causal relation between more liberal RoO and the increase in utilization rates (UR) and trade volume.

- Show that some countries benefit more than others from trade preferences

- Fill a gap: such analysis has been lacking as an input to multilateral and regional trade negotiations to generate consensus and reforms

Methodology

PSRO coding - time varying measure of RoO stringency

- Detailed product specific coding of RoO change in stringency following the EU reform of EBA RoO in 2010 (HS-4 digit level).

Panel data econometrics

- Fixed effects model to isolate various external factors other than RoO that can affect the utilization rates and trade volume.

Codifying the **change** in stringency of PSRO

HS and product description	Old PSRO	New PRSO	Stringency Change
Chapter 62 – Garment, not knitted or crocheted	Manufacturing from yarn	Manufacuring from fabric	Less Stringent
HS 8712 Bicycles	Manufacture where the value on non-originating material does not exceed 40% of the ex works price of the finished products	Manufacture where the value on non-originating material does not exceed 70% of the ex works price of the finished products	Less Stringent
1509 and 1510 Olive oil and its fractions	Manufacture from materials of any heading, except that of the product	Manufacture in which all the vegetable materials used are wholly obtained	More Stringent + Different form
2002 and 2003 Tomatoes, mushrooms and truffles prepared or preserved otherwise than by vinegar of acetic acid	Manufacture in which all the fruit, nuts or vegetables used are wholly obtained	Manufacture in which all the materials of Chapters 7 and 8 used are wholly obtained	Similar

Triple Difference Empirical Model

$$Y_{ijht} = \alpha + \boldsymbol{\beta_1}(LS_h \times P_t^{2010} \times EU_i) + \boldsymbol{\beta_2}(LS_h \times P_t^{2010})$$
$$+ \beta_3(MS_h \times P_t^{2010} \times EU_i) + \beta_4(MS_h \times P_t^{2010})$$
$$+ Controls + \gamma_{ijh} + \gamma_t + \epsilon_{ijht}$$

- Y_{ijht} : UR / log of imports receiving GSP treatment of reporter *i*, partner *j*, product *h* at year *t*.

- LS_h , MS_h : RoO stringency reform dummy variable (Less (LS) / More (MS))

- P_t^{2010}: Post 2010 dummy variable equals 1 from 2011 to 2014

- EU_i : Dummy variable equals 1 if reporter *i* = European Union

- γ_{ijh} and γ_t : Country-pair-product and year fixed effects

- $Controls$: Log of total imports ($limp_{ijht}$), preference margin (PM_{ijht}), time trend, country pair / sector - post 2010 interacted fixed effects $[\gamma_{ijp}, \gamma_{ij(hs2)p}]$

- Robust standard errors clustered at the country-pair and HS-Chapter level.

Utilization rates (covered imports >1'000USD)

	(1) PM>0	(2) PM>0	(3) PM>0	(4) PM>3	(5) PM>5	(6) PM>8
β_1: $LS_h \times P_t^{2010} \times EU_i$	**7.936****	**8.894*****	**9.419*****	**10.95*****	**15.08*****	**17.06*****
	(2.43)	(2.76)	(3.01)	(2.98)	(3.62)	(4.17)
β_2: $LS_h \times P_t^{2010}$	-4.012*	-3.956*	-4.689	-5.743*	-7.252**	-9.792**
	(-1.87)	(-1.66)	(-1.64)	(-1.79)	(-2.06)	(-2.50)
β_3: $MS_h \times P_t^{2010} \times EU_i$	-2.790	0.0237	0.779	1.072	4.774	5.517
	(-0.42)	(0.00)	(0.11)	(0.16)	(0.67)	(0.66)
β_4: $MS_h \times P_t^{2010}$	8.959*	6.286	-1.123	-1.700	-4.376	3.371
	(1.86)	(1.15)	(-0.16)	(-0.25)	(-0.60)	(0.32)
β_5: PM_{ijht}	-0.109	-0.0907	-0.0903	-0.0396	-0.0300	0.00200
	(-0.77)	(-0.66)	(-0.65)	(-0.28)	(-0.20)	(0.01)
β_6: $limp_{ijht}$	3.120***	2.830***	2.771***	3.603***	3.816***	3.968***
	(7.63)	(9.19)	(9.50)	(9.98)	(9.31)	(8.07)
Fixed Effects						
Rep x Part x HS6 ; Year	Yes	Yes	Yes	Yes	Yes	Yes
Rep x Part x P_t^{2010}	No	Yes	Yes	Yes	Yes	Yes
HS2 x Rep x Part x P_t^{2010}	No	NO	Yes	Yes	Yes	Yes
Observations	54'739	54'739	54'739	38'041	30'310	20'799
R²	0.071	0.089	0.100	0.126	0.147	0.182

Time trend and fixed effects included but not reported, robust standard errors in parenthesis, clustered at the Partner and HS-Chapter level.

Results

- In the EU, utilization rates in sectors that have been liberalized are higher than the utilization rates of the same sectors in countries where no reform has been implemented.

- This effect
  - ➢ lies between 8pp-15pp when PM is between 0 and 5 percent.
  - ➢ increases with the value of (covered) trade.
  - ➢ is heterogeneous across countries.

Robustness

- EU RoO reform increased the imports receiving GSP treatment by 30% on average. This coefficient is increasing with the value of covered imports and preference margin.

- The probability of starting to use the preference is positively affected by the reform (xt-logit)

- Preference margin does not appear to be a significant determinant of the UR

- Positive impact on the probability of starting to use the preference (xt-logit)

Conclusion and futher reflexion/work

- More liberal RoO introduced by EU generated significant trade and economic effects, especially on ASEAN LDCs, less for African countries.

- UR could be used to inform governments and achieve consensus towards RoO reforms at the WTO and in FTA negotiations, especially in ASEAN or African FTAs such as AfCFTA.

- EBA was established in 2001 with the objective to promote economic development and reduce between countries inequalities by supporting the poorest.

- Paradox: non-discriminatory preferences generate different market response and may strengthen inequalities among the beneficiary countries. → Need for other forms of aid for trade measures to trigger productive capacities

Thank you for your attention