TRADITIONAL MARKET ACCESS ISSUES IN RTAs: AN UNFINISHED AGENDA IN THE AMERICAS?

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PRELIMINARY DRAFT

Background paper prepared for the Seminar
REGIONALISM AND THE WTO
World Trade Organization
Geneva, 26 April 2002

[*] The views expressed in this document are the author's and do not necessarily reflect those of the Inter-American Development Bank.

INTRODUCTION

Among all structural reforms implemented in the 1990s in Latin America, trade liberalization in general, and preferential market access liberalization in particular, stands out as one of the most consistent policies advocated by countries in the region. Although the extent of liberalization has varied from country to country and from sector to sector, economic historians will look back at this period as the most open in the region since the period before the Great Depression of the 1930s. However, the agenda on market access in the hemisphere is far from being finished, but it offers an extraordinary laboratory to examine key structural issues regarding some traditional market access liberalization issues in modern Regional Trade Agreements (RTAs). This is the objective of this document, to present a detailed descriptive X-ray on how much market access liberalization has been achieved in the Western Hemisphere in recent times, and what is left to be completed analyzing the complex web of simultaneous unilateral, multilateral and preferential (bilateral or regional) liberalization efforts. These simultaneous policy efforts have defined a new paradigm in the region in the way trade policy and RTAs have been designed and implemented. This new paradigm was first named by ECLAC as "Open Regionalism" and most recently, in similar but more theoretical fashion, analyzed by Ethier (1998) and Devlin and Estevadeordal (2001) under the name of "New Regionalism".

I. THE COMPLEX WEB OF MARKET ACCESS LIBERALIZATION IN THE AMERICAS

I.1. Unilateral, Multilateral and Preferential Liberalization

Starting in the mid to late 1980s, most of the developing world was moving toward substantial market-oriented economic reforms, which included, almost without exception, unilateral trade liberalization policies. In addition, all of this was happening in the context of multilateral efforts in Geneva to liberalize trade in goods and services around the world, which culminated in the Uruguay Round Agreements of 1994 and the creation of the World Trade Organization in 1995. Moreover, a growing interest in regionalism was taking hold around the word, especially in Latin America, in the context of old regional initiatives or as newly crafted preferential trade agreements.

The mid-1990s marked the tenth anniversary of the beginning of the wave of substantive unilateral trade reforms undertaken by most countries in the region. The depth of these reforms is self evident when looking at the average regional tariff rates that went from 40 percent in the mid-1980s to 11 percent in mid-1990s. For most countries those tariff cuts were in the order of 50 percent and they were implemented over relatively short periods of time (two to three years). Average maximum tariffs in the region fell from more than 80 to 40 percent with only very few countries currently applying maximum tariffs of up to 100 percent on a small number of products. Tariff dispersion, on average, has declined from 30 percent in the mid-1980s to an average of 6 percent today; however, some important tariff peaks remain (Table 1).

Also, in the mid-1990s, the Final Act of the Uruguay Round was signed at Marrakech (April 1994), ending almost a decade of multilateral trade negotiations. The agreements, which made up the final package entered into force on January 1995, including the agreement establishing the World Trade Organization, which is responsible for administering the most sophisticated, and comprehensive world trade agreement ever signed. The Uruguay Round negotiations (1986-1994) were primarily concerned with two basic issues on market access. First, ensuring greater access to markets by reducing or eliminating obstacles to trade in goods and services. Second, making the new levels of market access legally binding under more stringent WTO regulations and procedures. In the area of tariff liberalization, this latest round of GATT negotiations achieved an average tariff reduction of 38 percent in industrialized countries and, from the standpoint of the Latin American and the Caribbean countries, implied substantial commitments to dismantle import barriers. The central obligation with respect to tariffs requires countries to limit their levels to a specified maximum or so-called GATT tariff commitment or " binding". The latest round resulted in a significant increase in the number of bound tariff lines. In the case of developed countries, the increase went from 22 to 72 percent; and in the case of countries in transition, it went from 78 to 98 percent. Latin America as a whole agreed to bind practically all tariff lines. This is especially significant when compared to the existing levels of tariff bindings before the Uruguay Round began. In Latin America as a whole, only 38 percent of tariff lines for industrial products were bound, equivalent to 57 percent of imports. For agricultural products, the percentages were 36 and 74 percent, respectively.

Table 1. Tariff Structure in Latin America 1985 - 2000

		1985	1988	1991	1994	1997	2000
Average Tariff Rates (Unweighted Averages)	Argentina	39.3	30.8	14.2	15.4	14.1	15.5
	Bolivia	22.7	16.6	9.2	9.7	9.6	9.7
	Brazil	55.1	41.5	20.4	9.7	14.9	15.8
	Chile	20.2	15.1	10.8	10.9	10.8	10.0
	Colombia	46.5	46.3	16.4	11.3	11.4	12.2
	Ecuador	58.7	44.5	16.6	11.0	9.9	14.3
	Mexico	33.6	10.2	12.6	12.4	13.7	17.9
	Paraguay	18.7	18.6	13.6	7.3	10.0	13.2
	Peru	64.4	70.5	16.2	15.6	13.1	13.6
	Uruguay	35.9	26.9	21.3	13.6	10.1	13.8
	Venezuela	31.6	42.2	15.1	11.3	11.5	12.8
Tariff Dispersion (Standard Deviation)	Argentina	9.4	10.3	6.0	8.8	6.4	6.2
	Bolivia	4.6	1.3	2.5	1.1	1.4	1.2
	Brazil	28.0	19.5	16.8	6.9	7.1	6.2
	Chile	1.6	.9	1.5	.9	1.2	0.5
	Colombia	16.9	17.4	8.0	5.8	5.8	6.2
	Ecuador	56.0	35.0	10.4	6.0	8.3	6.6
	Mexico	20.3	6.6	5.2	5.5	14.2	14.8
	Paraguay	13.8	13.7	11.8	6.8	6.3	6.6
	Peru	24.6	24.4	5.8	3.8	3.6	3.6
	Uruguay	14.9	11.3	6.5	5.9	6.4	6.7
	Venezuela	25.2	36.3	11.0	6.1	5.8	6.5
Tariff Peaks (Average tariff rates top 1 Percent products with Highest tariffs)	Argentina	51.5	57.6	25.0	30.0	27.2	31.3
	Bolivia	32.3	17.0	10.0	10.0	10.0	10.0
	Brazil	108.0	85.0	70.0	20.0	35.0	34.0
	Chile	27.4	20.0	11.0	11.0	11.0	10.0
	Colombia	85.0	88.0	51.4	20.0	20.0	22.7
	Ecuador	245.0	125.0	37.0	20.0	24.5	25.7
	Mexico	105.5	20.0	20.0	20.0	56.2	113.5
	Paraguay	50.0	50.0	52.0	32.0	23.7	24.5
	Peru	104.0	109.0	25.0	25.0	25.0	25.0
	Uruguay	60.0	45.0	30.0	20.0	22.0	23.0
	Venezuela	100.0	139.9	40.0	20.0	20.0	25.0

Source: Estevadeordal and Shearer (2002)

These unilateral and multilateral reforms have been accompanied in Latin America and the Caribbean by an active agenda of Free Trade Agreements (FTAs).[1] FTAs have a long history in the region. In the 1950s there was much discussion of a Latin American Common Market. Following a decade of negotiations the Latin American Free Trade Association (LAFTA), comprising the South American countries and Mexico was

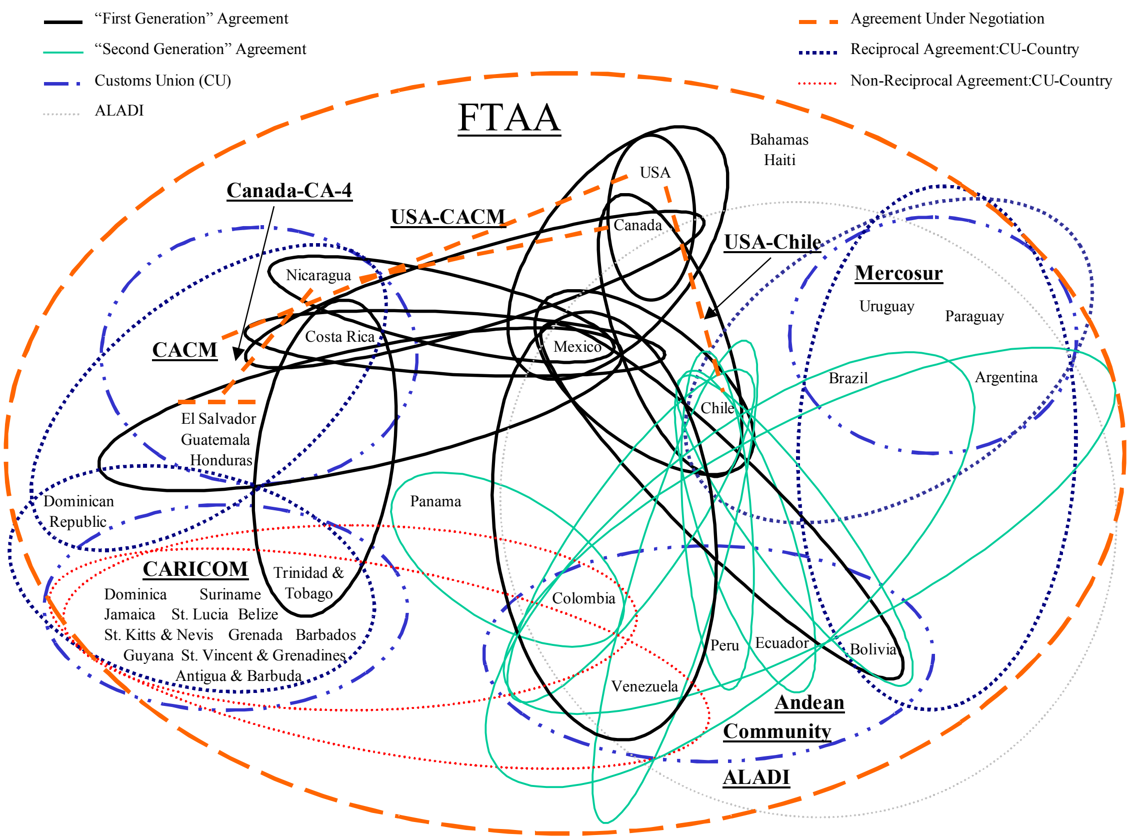
[1]. A detailed comparative analysis between the "Old" and "New" Regionalism can be found in Devlin and Estevadeordal (2001) and an application in the case of Mercosur in Estevadeordal, Goto and Saez (2001).

launched in 1960. The same year the Central American Common Market (CACM) was also officially launched. Also, the Andean Group (AG) was founded in 1969. While the agreements experienced some success (especially the CACM), it was short lived. By the second half of the seventies all of them were in great difficulty and most of them fell into open crisis in the 1980s. These old Post-War regional initiatives can be characterized by the following stylized facts. First, the central objective of the agreements was to support the prevailing state-led import substitution industrialization (ISI) model of development. The model was expressive of export pessimism, skepticism regarding private markets, and great concern about the presence and dependence on foreign firms. The goal was to industrialize by substituting imports behind high levels of national protection (effective protection reached levels of 150-200 percent), state planning and direct public sector intervention in markets. Second, regional integration was seen as an instrument to overcome the limitations of the ISI model through the creation of a regional market. The approach was to eliminate internal barriers to trade while maintaining high levels of external protection and expanding industrial planning to the regional level. Third, the liberalization mechanisms were mostly based on multiple positive lists coupled with by complex arrangements for special and differential treatment for the less developed members. Fourth, the creation of a costly bureaucratic architecture inspired by the European model in most of the agreements *cum* sectoral industrial programming, eroded credibility with the private sector. Fifth, in terms of liberalization and trade, the old schemes generally did not succeed in meeting their most basic objectives. Negotiations and liberalization schedules bogged down quickly. Hence, effective liberalization was limited and growth of intra-regional trade modest (Central America was probably the only important exception). Other disciplines often did not go beyond paper accords.

The debt crisis of the early 1980s and consequent balance of payments problems induced a deep recession in Latin America and with that, a severe contraction of intra-regional trade. However, to the surprise of many observers, new regional initiatives began to appear in the second half of the 1980s and a true resurgence materialized in the decade of the 1990s. The initial preferential arrangements were the so-called Economic Complementary Agreements (*Acuerdos de Complementación Económica* or ACE in Spanish) under the framework of the Latin American Integration Association (LAIA, or ALADI, *Asociación Latinoamericana de Integración* in Spanish), that was created in 1980 as the successor to LAFTA. ALADI eschewed the objectives of the 1960s in favor of limited agreements confined to market access via the exchange of partial or full preferences on specific products. However, by the time the multilateral talks ended in 1994, a new generation of regional preferential agreements had already spread throughout much of Latin America. Months before the signature of the Final Act of the Uruguay Round, the North American Free Trade Agreement (NAFTA) was implemented. In addition, important advances were made in the Southern Cone in preparation for the launching of MERCOSUR in January 1995, a customs union project among Argentina, Brazil, Paraguay and Uruguay building upon some previously signed bilateral ACE agreements. Later in the year, in December 1994, the most ambitious initiative for economic integration was launched during the Miami Summit under the acronym of FTAA (Free Trade Area of the Americas). Moreover, during the same time period two countries in the hemisphere were in the process of consolidating their positions as strategic trade hubs in the region for the time to come. Mexico was able to secure in 1994 three important agreements--which were based on the NAFTA model-- with Costa Rica in April, with Colombia and Venezuela (known as the G-3 Agreement) in June and with Bolivia in September. All three agreements were implemented at the beginning of 1995. Mexico then built on this momentum by concluding agreements with Nicaragua in 1997 and the Northern Triangle in 2000 and successfully broadened and deepened its agreement with Chile in 1998. The Americas' other trade hub, Chile, acquired its status by building in a gradual and consistent fashion. It signed its first and most basic agreements, in terms of scope and nature of coverage, with Mexico in 1991, Venezuela in 1992, Colombia in 1993 and Ecuador in 1994. The level of scope and sophistication then somewhat expanded in Chile's 1996 agreement with MERCOSUR and 1998 agreement with Peru. Nevertheless, the broadest expansion yet in the nature of Chilean agreements came in 1996 with the signing a free trade agreement with Canada, which almost completely mimicked the NAFTA. Subsequently, Chile's 1998-upgraded agreement with Mexico was based on the NAFTA model as was its

1999 accords with the countries of the Central American Common Market. Most recently, Chile has been negotiating a free trade agreement with the United States based on the NAFTA model. When concluded, it will add to the ever-growing list of North-South Agreements in the Hemisphere of this type. In addition, around the same time, important institutional and policy reforms were carried out in existing agreements such as the Andean Pact (renamed Andean Community in 1997), CARICOM and the Central American Common Market.

Figure 1. Trade Agreements Signed and Under Negotiation in the Americas



This dynamism has also been present at the extra regional level, in particular, in the context of the APEC initiative. Mexico joined APEC as a full member in November 1993, Chile entered one year later and Peru in 1998. Moreover, during the II Presidential Meeting of APEC in November 1994 in Indonesia (the same year of the launching of the FTAA), the leaders agreed to achieve the goal of free trade and investment in the region by no later than 2010 for the industrialized economies and 2020 for developing countries. This brief review of the integration efforts in the mid-1990s would be incomplete without reference to the European Union involvement with Latin America. In December 1995 a trade and economic cooperation agreement with MERCOSUR was signed. A Framework Cooperation Agreement with Chile followed this in June 1996. However, the most far-reaching process to date has been the *Economic Partnership, Political Coordination and Cooperation Agreement* between Mexico and the European Union. The broad framework agreement was signed in 1997 and led to the signing of a comprehensive free trade agreement between the two parties in 1999. Formal launching of negotiations of Association Agreements by the EU with MERCOSUR and Chile were agreed on April 2000.

This historical overview provides some insights on how the new regionalism in Latin America and the Caribbean has interacted (and will interact in the future) with other approaches to trade liberalization. Some of the commitments undertaken by the Latin American and Caribbean countries during the Uruguay Round negotiations can be explained by successful unilateral trade liberalization reforms carried out at the national level. In turn, those same commitments at the multilateral level acted as lock-in mechanism for the domestic reforms. At the same time, the Uruguay Round agreements set the stage for the pursuit of regional agreements under a common umbrella of global trade rules and a clearer set of disciplines under which preferential agreements can be negotiated. Moreover, while the reciprocal nature of the multilateral round provides a national political underpinning to further liberalization, and the economic advantages of free trade achieved at the multilateral level are well understood, it is sometimes difficult to evaluate net gains in a negotiating forum of more than one hundred countries with very different strategic interests acting as a constraint to new commitments. Regional and bilateral agreements offer certain advantages in this respect. These agreements are based on reciprocity principles involving a smaller group of countries. This can provide a better environment to reach consensus on the complex range of issues in modern trade agendas, to better evaluate the potential gains from this bargaining exercise and to gain private sector understanding and support for the liberalization process. Ethier (1998) has also pointed out that the incentives for exploiting the advantages of regional negotiations are greater the more successful are the multilateral rounds. In sum, this wave of new regionalism in the Americas including the deepening of agreements already in existence and the hemispheric wide FTAA negotiations should be seen as complementary forces to the unilateral reforms and multilateral efforts. Also, and most importantly, they are key laboratories for the development and the *learning-by-doing* of new paradigms in the design and implementation of trade policy around the world.[2]

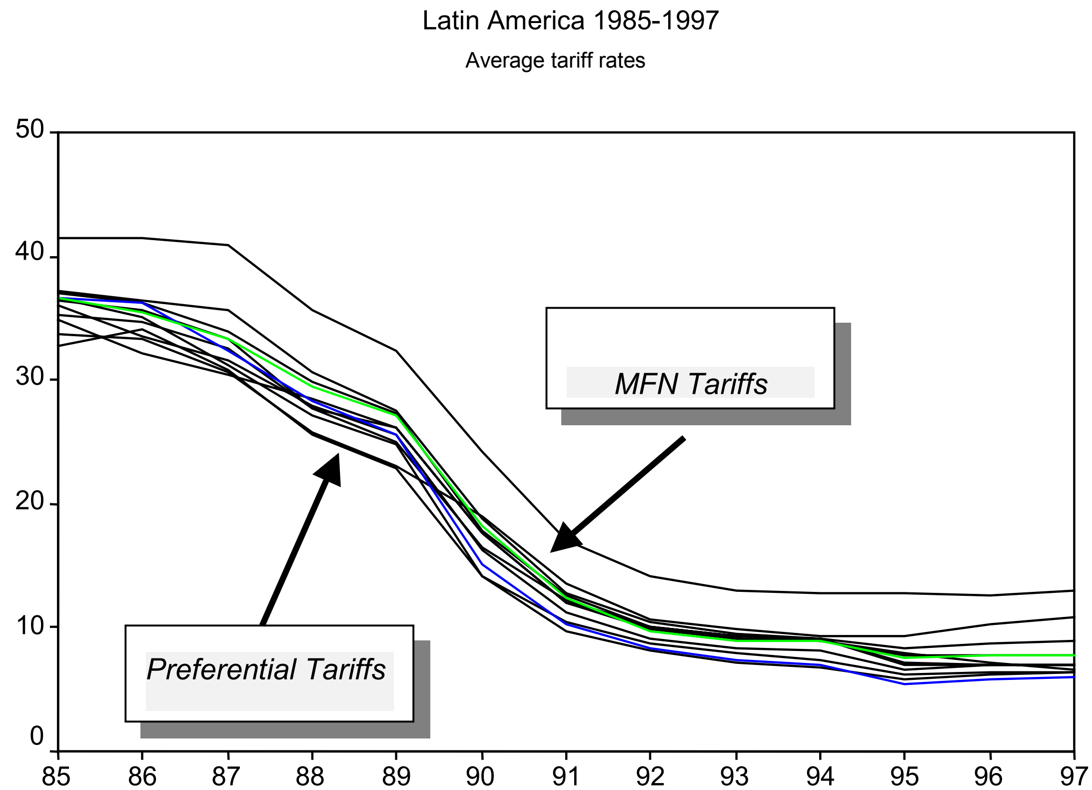
I.2. Instruments for Preferential Market Access Liberalization

a) Preferential Tariffs

Market access in traditional preferential agreements, in particular the Latin American ACE agreements, used to be negotiated by means of a fixed preferential tariff below the MFN rates and, in many cases, only for a selected group of products or sectors. Unilateral and multilateral tariff reductions had the effect of progressively eroding the margins of preference initially agreed upon. To maintain constant those margins over time countries had to renegotiate the agreements on a continuous basis. Later on, preferential agreements were based on constant relative margin of preference by means of negotiating a preferential tariff reduction as a percentage of the current MFN applied rates. Nowadays, most of the "new" FTAs have followed the NAFTA model in many respects, moving towards tariff phase-out programs that are relatively quick, automatic, and nearly universal. The tariff elimination process follows pre-specified timetables ranging from immediate elimination up to generally a 10-year period phase-out, with special phase-out periods for those products regarded as "sensitive". Additionally, some products are exempted from the liberalization program. The negotiations usually start with an agreement on a base rate or base level from which phase out schedules will be applied. Those base rates usually coincide with the MFN applied rates to third parties at the time of negotiations. This was the case, for instance, in NAFTA after initial proposals to use GATT bound rates were rejected. In other cases, it has been necessary to take into account previous preferences negotiated under other agreements in order to establish the initial base rate. These rates can also be subject to negotiations with the aim of beginning the phase-out schedules from lower rates. In a second stage, parties must agree on specific tariff elimination programs or phase-out schedules to bring the initial base rates to zero in a defined time period.

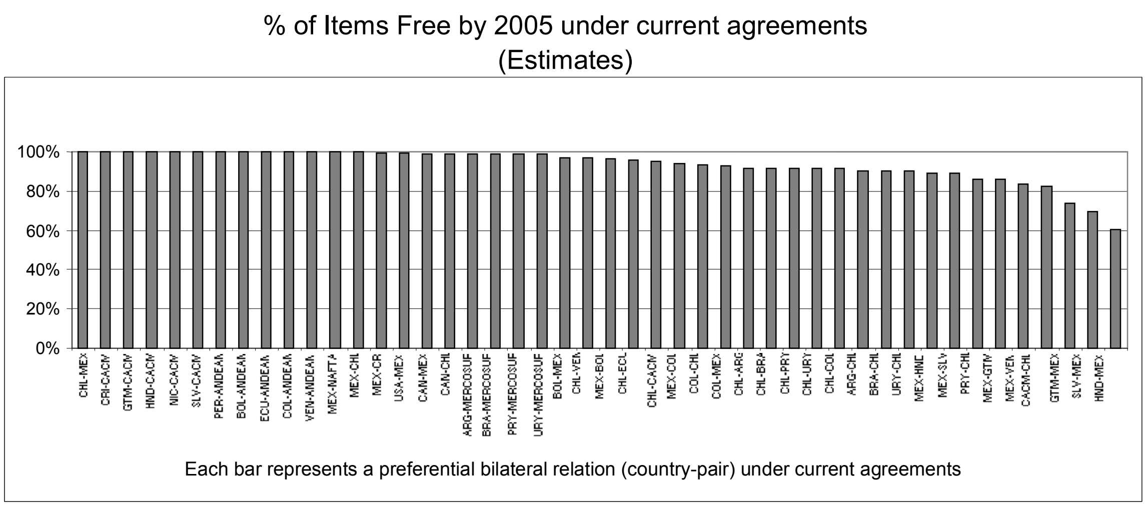
[2]. See Devlin and Ffrench-Davis (1999) and Devlin and Estevadeordal (2001).

Figure 2. MFN & Preferential Tariff Liberalization



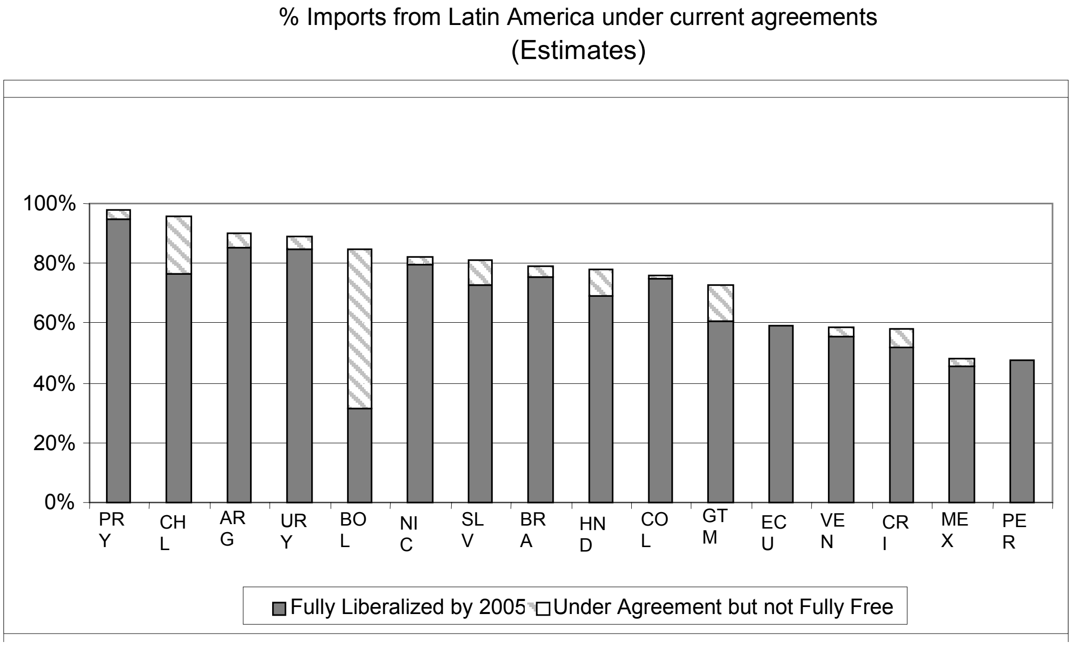
Source: Estevadeordal and Shearer (2002)

Figure 3a. Trade Liberalization by 2005



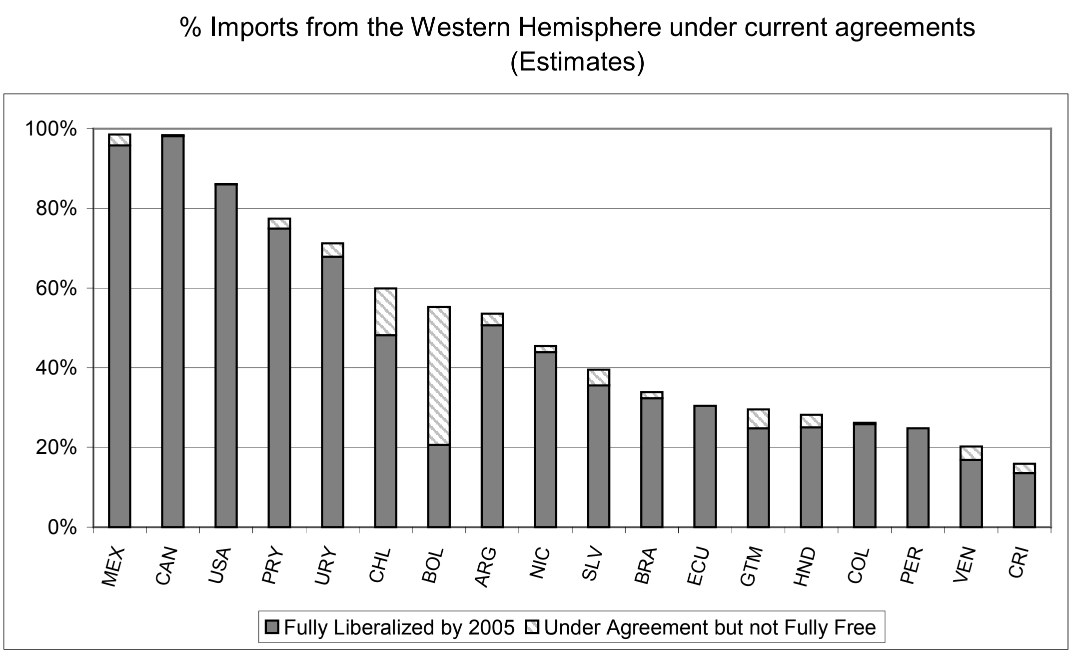
Source: Estevadeordal, Harris and Shearer (2002)

Figure 3b. Trade Liberalization by 2005



Source: Estevadeordal, Harris and Shearer (2002)

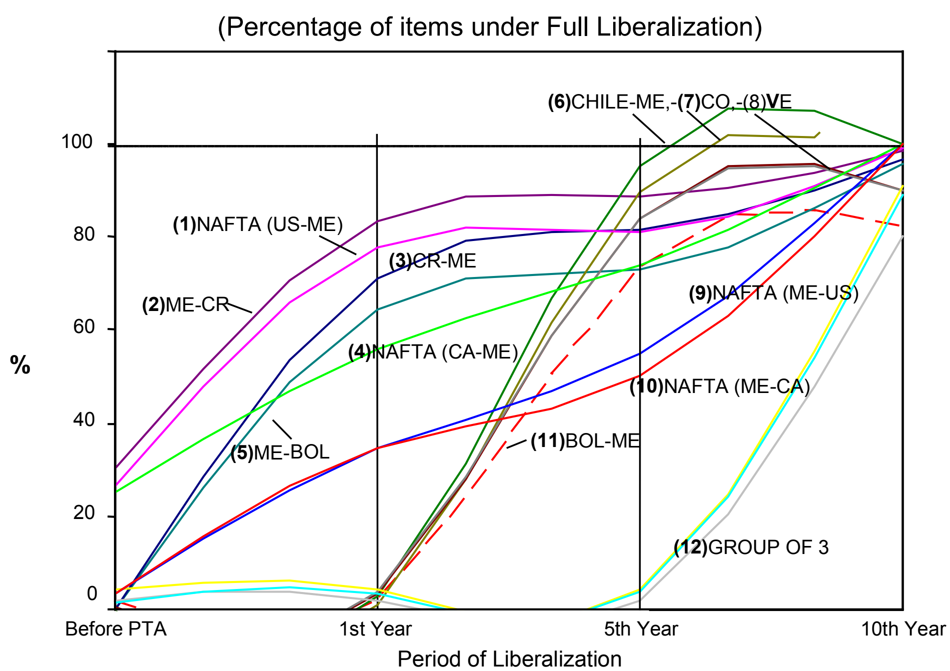
Figure 3c. Trade Liberalization by 2005



Source: Estevadeordal, Harris and Shearer (2002)

Figure 2 displays the evolution of MFN tariffs compared to the average preferential tariffs in several countries from mid-1980s to 1997 showing the simultaneous lowering of external and internal barriers, as one of the key stylized facts highlighted by Ethier (1998) in his analysis of the new regionalism. Figure 3 presents several estimates of degree of liberalization by 2005 as a result of implementing existing liberalization programs of current agreements. Although most programs will eliminate internal tariffs for almost all products by 2005 (the average percentage of exceptions is around five percent, which contrasts favorably with most of the old agreements), the internal dynamics of the phase-out programs varies widely across agreements. Figure 4a and 4b normalizes the liberalization phase-out paths of several agreements as if all of them had started on the same date. It then presents the percentage of items and bilateral trade that will be subject to zero tariffs over a ten-year time period, the usual GATT consistent framework for creation of a free trade area.[3] The figure shows the different built-in speeds of each agreement. For some agreements, more than fifty percent of the products become free of tariffs during the first year of implementation of the agreement. For others, those percentages will not be reached until the 5th year or later. Four patterns are observed. First, a high percentage of trade was liberalized in the first year of the US and Canadian NAFTA liberalization schedules vis-à-vis Mexico, the Mexico-Costa Rica FTA and the Mexican liberalization to Bolivia. In the case of the Chilean bilateral agreements and the liberalization of Bolivia to Mexico a high level of liberalization occurred by year five. A third pattern is the Mexican side of NAFTA, which undertakes the bulk of its opening between years 5 and 10. Finally, the G-3 did not undertake much liberalization at all until after year five. The figure also displays a relatively high degree of *nominal* reciprocity in liberalization schedules with the notable exception of NAFTA and the Mexico-Bolivia FTA. The picture tells a different story when considering the amount of bilateral trade affected by the different tariff elimination programs. It is important to note the caveat that the projections are based on the import structure of the initial period and therefore assumes an unrealistic null elasticity of imports to the elimination of import tariffs. The data in Figure 4b shows a much higher degree of variance and no discernable pattern regarding the speed of the programs and the levels of reciprocity. When the examination it is done by sectors (not shown), the intra-sector dispersion among the agreements is quite marked and, in particular, the agricultural products generally have the most gradual liberalization schedules. Figure 5a and 5b presents an estimate of the degree of sensitivity built-in in those agreements defined as the percentage of tariff lines with slow phase–out schedules (more than 10 years) or fully exempted from the agreement.

Figure 4a. New Regionalism: Speed of Intraregional Tariff Liberalization



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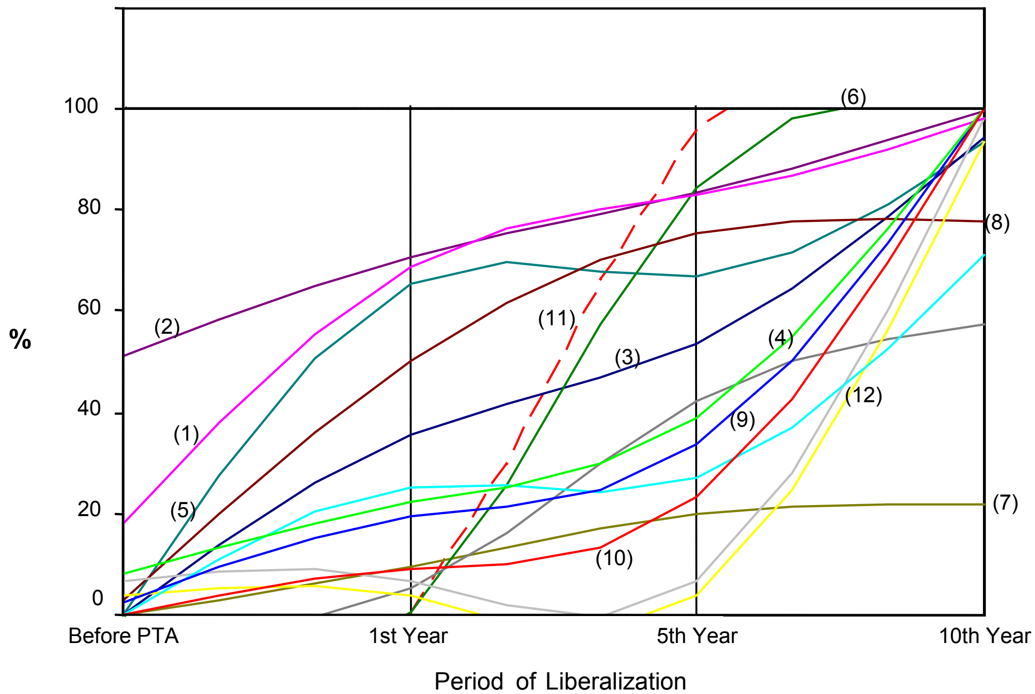
[3]. In reality, of course, the phase-out programs are discrete in time rather than continuous. However, for visual purposes the figures smooth out the discrete phases with a continuous fitting line.

Figure 4b. New Regionalism: Speed of Intraregional Tariff Liberalization

(Percentage of Trade under Full Liberalization)



Source: Devlin and Estevadeordal (2001)

Figure 5a. Sensitive Products in Selected RTAs

Percentage of Tariff Line Items Excluded and Slow Liberalization Phase-out (>10 years)

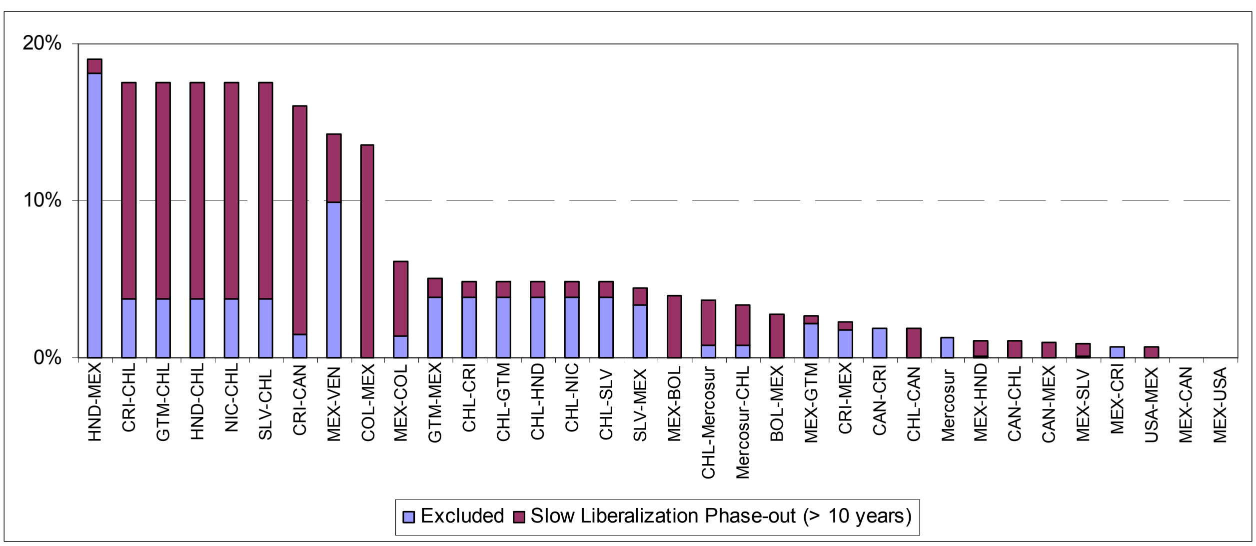
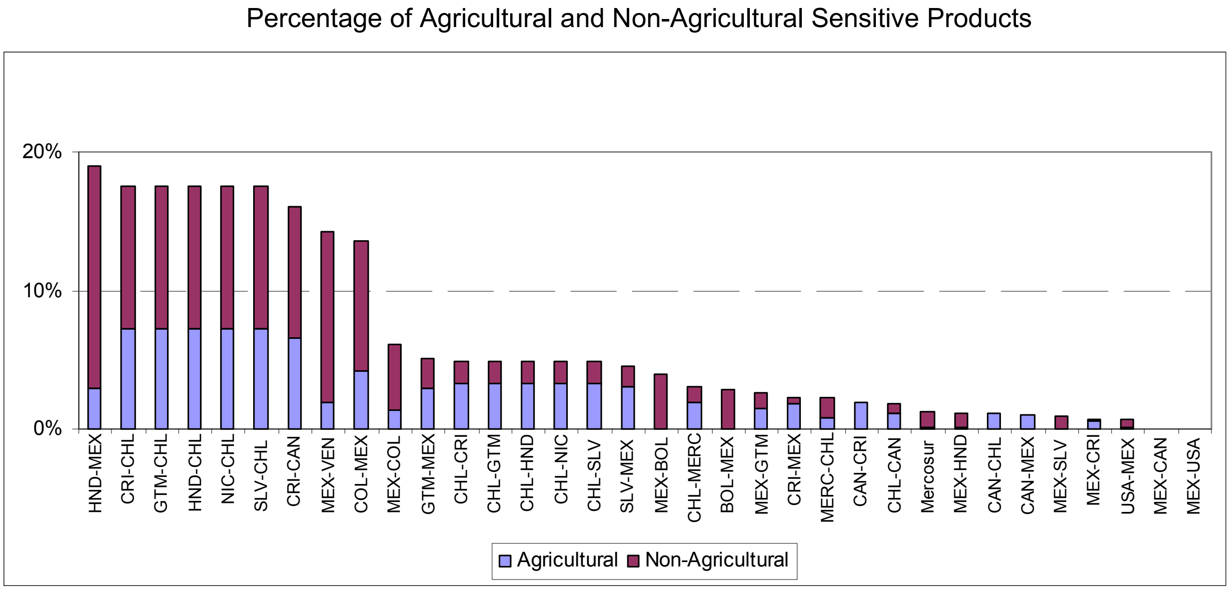


Figure 5b. Sensitive Products in Selected RTAs

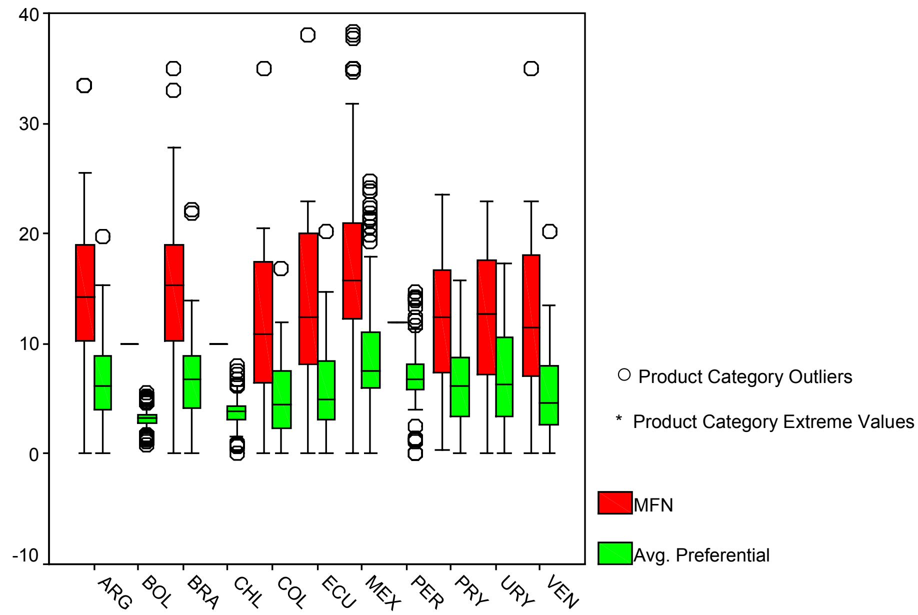


Source: Estevadeordal, Shearer, and Harris 2002

Figures 6 and 7 present the current average levels and distribution of the bilateral preferential rates among Latin American countries (1999-2000 data) vis-à-vis the multilateral tariff rates. A complete analysis requires looking at relative margins of preference, that is, the levels of tariff preferences relative to MFN rates. Examining first the MFN tariff profiles in Figure 6, the 11 countries fall into three rough groups. The first is characterized not only by higher MFN tariffs, but a wider distribution of tariffs as well. Argentina, Brazil, and Mexico fall into this category, the three of them having the three highest tariff medians as well as the three highest extreme values. A second group has smaller overall dispersion and lower tariffs compared to the first group. Interestingly, however, the inter-quartile regions for these countries tend to be larger than those of the first group. This grouping consists of Colombia, Ecuador, Paraguay, Uruguay, and Venezuela. A final group of countries, consisting of Bolivia, Chile, and Peru, has for the most part uniform tariff structures. Furthermore, these countries tend to have lower median tariffs than those in the other two categories, and Bolivia and Chile have the two lowest medians of all.

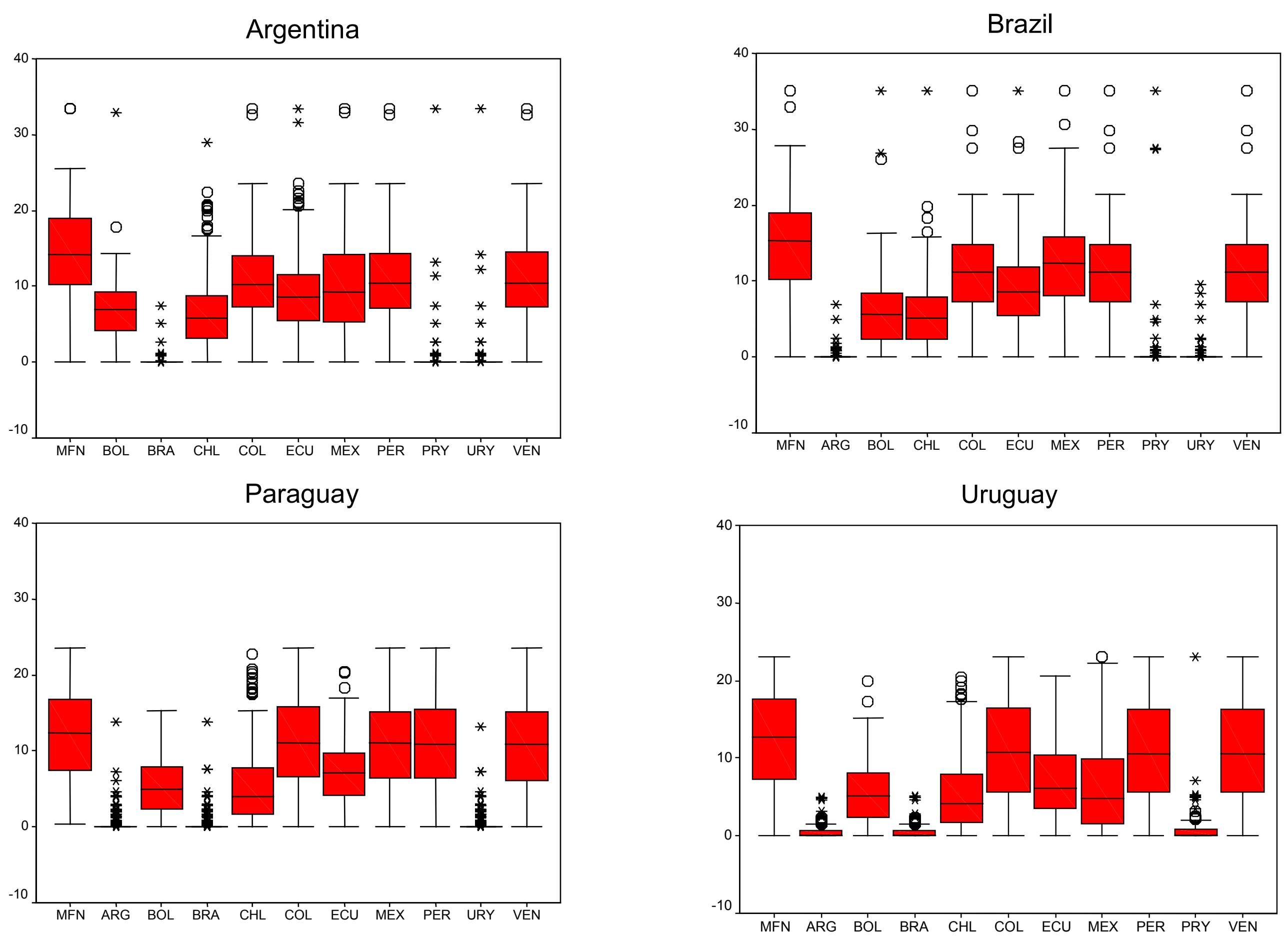
These differences among categories become even more important when we take into account the preferential tariff structures. In fact, the median preferential tariffs for the Argentina-Brazil-Mexico group fall significantly; although not below those of the countries in the second grouping and the inter-quartile ranges of the preferential distribution are completely below the MFN structures of each respective country. In a sense, the “most protectionist” group is at the same time the one offering the highest margins of preference to the rest. The second group does give notable preferences to their regional trading partners, but apparently not to the same extent. Finally, the preferential tariff structure of the Bolivia-Chile-Peru group preserves the uniformity principle in terms of lower dispersion with significant margins of preference as well.

Figure 6. MFN and Preferential Tariff Structure in Latin America 1999-2000

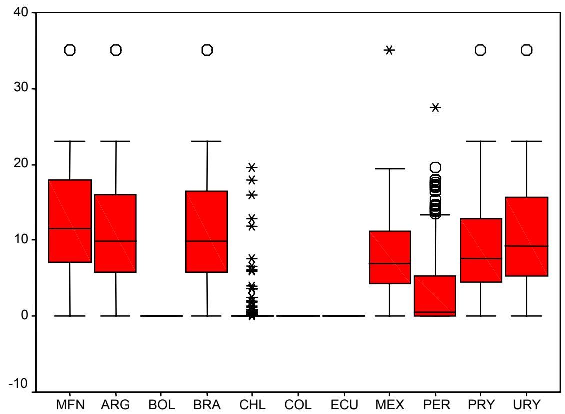


Source: Estevadeordal and Shearer (2002)

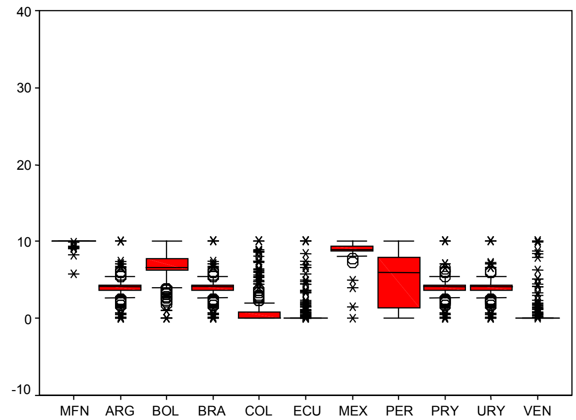
Figure 7. MFN and Preferential Tariff Structure in Latin America 1999-2000 by Country



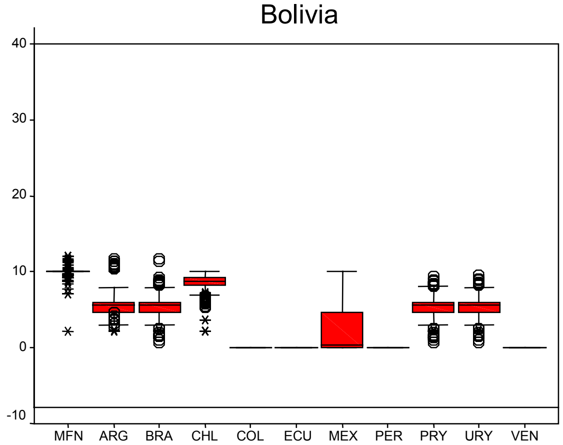
Venezuela



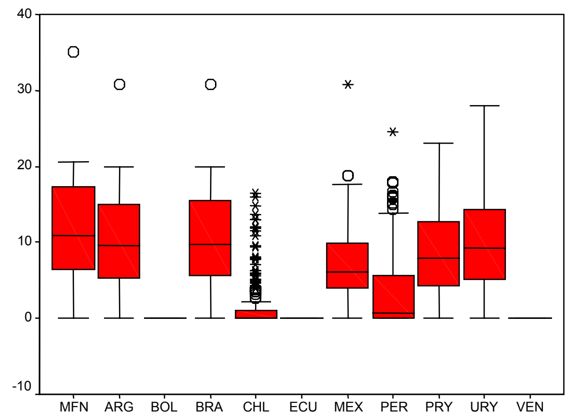
Chile



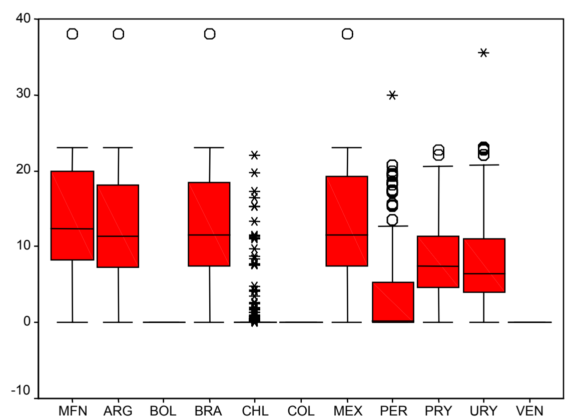
Bolivia



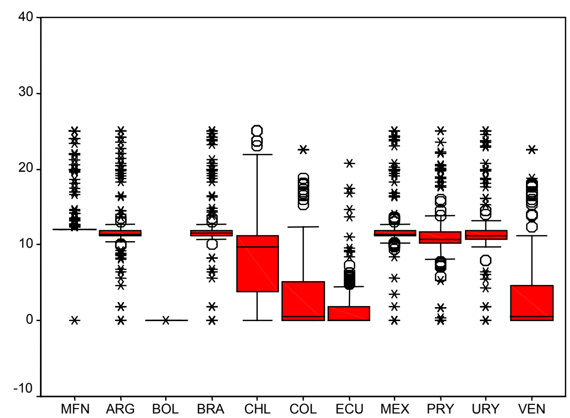
Colombia



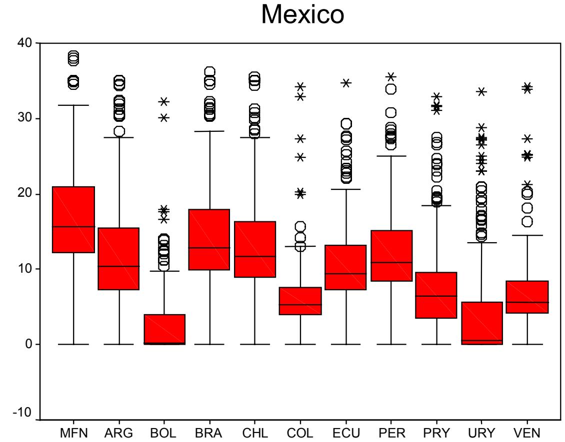
Ecuador



Peru



Mexico



b) Rules of Origin

Because of its discriminatory nature, a preferential agreement must distinguish "non-member originating" from "member originating" products in order for a product to be granted preferential access. The growth of international trade in goods that are not manufactured in a single country has made the issue of the rules for determining the "origin" (RoO) of goods traded into one of the most important and complex areas of preferential market access negotiations. Although this has been an area well known to trade lawyers and customs specialists (Vermulst et alt. (1994)) it has just recently caught the attention of economists. The economic analysis of RoO has been relatively limited, both in terms of formal modeling as well as empirical testing. It has been argued, from an analytical point of view, that the way in which RoO are defined and applied within modern preferential agreements plays an important role in determining the degree of protection they confer and the level of trade distortion effects which they produce.[4]

One of the most convincing treatments of the potential "hidden" protectionism of RoO has been elaborated by Krishna and Krueger (1995) who argued that RoO can induce a switch in the sourcing of low cost non-regional to high-cost regional inputs in order for producers to take advantage of the preferential rates. Since the tariff applies to the transaction value of final goods whenever preferences are deep and RoO are restrictive there is an incentive for regional producers to buy intermediate goods from regional sources. So, by displacing low-cost intermediate goods from the rest of the world, restrictive rules of origin provide additional protection to regional producers of intermediate goods to the apparent detriment of downstream or final goods producers. This apparent conflict could be explained because of the specific production relations that exist between component producers and users.

If the linkages between the different parts of the production chain are very tight, it may be difficult for a foreign final good producer to locate components within the region and remain competitive, that is, RoO "export protection" both for the intermediate and final goods producers. Moreover, outside producers of intermediate goods hurt by restrictive RoO may have an incentive to move production facilities into the lower-cost country within the region, even though it is not the lowest cost producer worldwide. This situation could potentially distort efficient investment decisions and hinder the liberalizing effects of a FTA.

Conceptually, there are two basic criteria to determine origin. The criterion of "wholly obtained or produced", where only one country enters into consideration in attributing origin, and the criterion of "substantial transformation", where two or more countries have taken part in the production process. The first criteria applies mainly to commodities and related products which have been entirely grown, extracted from the soil or harvested within the country, or manufactured there from any of these products. Such products acquire origin by virtue of the total absence of the use of any second country components or materials. Even a minimal content of imported components will imply losing its qualification of "wholly produced". Most countries have adopted the precise definition contained in the Kyoto convention (Annex D.2) for this criterion.

The "substantial transformation" criterion is the second concept recognized by the Kyoto Convention as a basis on which origin of goods may be determined. The Kyoto Convention does not offer a single approach for defining substantial transformation. One of the goals underlying the NAFTA negotiations on RoO was to develop specific criteria to give more precision to this concept. There are at least three methods in the NAFTA agreement:

- A change in tariff classification, requiring the product to change its tariff heading, chapter under the Harmonized Commodity Description System (Harmonized System) in the originating country.

[4]. See Hoekman (1993) for a conceptual discussion and Estevadeordal (2000) for an econometric application in the case of NAFTA.

- A domestic content rule or regional value content, RVC, requiring a minimum percentage of local value added in the originating country (or setting the maximum percentage of value originating in non-member countries).
- A technical requirement, TECH, prescribing that the product must undergo specific manufacturing processing operations in the originating country.

These methods have been used with different degrees of precision under different FTAs. In the case of agreements negotiated in the Americas, we find at one extreme of this "continuum" traditional agreements where a general rule is being used across the board for all tariff items (e.g., under the traditional LAIA agreements the general RoO that applies across-the-board is based on a Change in Tariff Classification at the heading level or, alternatively, a regional value added of at least 50 percent of the FOB export value). At the other extreme we encounter the type of RoO negotiated under NAFTA that incorporates a general rule plus additional specific rules negotiated at the product level (6 digit HS), combining in many different ways the three methods described above. An immediate precedent with a lower degree of specificity can be found in the FTA agreement between the United States and Canada. RoO negotiated under the G-3 agreement, the Mexican bilateral with Costa Rica and Bolivia and the recent Chilean bilateral with Mexico and Canada are also close to the NAFTA model. Meanwhile, rules introduced under the MERCOSUR and MERCOSUR bilateral with Chile and Bolivia, as well as the Central America Common Market, can be considered intermediate models be0tween the two extreme cases.

The structure of RoO in a selected number of Latin American FTAs is presented in Table 2. The table illustrates the high degree of specificity used in the making of the RoO in these modern RTAS in the region (see also Cornejo and Garay (1999))

Table 2. New Regionalism: Structure of Rules of Origin in Selected Agreements

		FTA US-CA	NAFTA	G-3	Mexico-Costa Rica	Mexico-Bolivia	Canada-Chile	MERCOSUR-Chile	MERCOSUR-Bolivia
RULES OF ORIGIN BASED ON CHANGE OF CHAPTER	**CC**	16,7	27,0	20,0	27,8	20,9	26,5		
	CC/E		5,8	6,0	5,8	6,7	5,3		
	CC/OR	8,4		5,5		6,3			
	CC/E/OR		5,7	6,7	5,8	6,2	7,9		
	CC/RC/OR			2,7		1,2			
	CC or CH/RC					1,0			
	CC or CH/E/RC		1,3				2,0		
	CC or CS/RC	12,8							
	CC or CS/E/RC		1,1				1,0		
	CC/E or CH/E	16,2							
	CC/E or CH/RC	2,5							
	CC/E or CS/E/RC		11,2						
	SUBTOTAL	*56,6*	*52,1*	*40,9*	*40,4*	*41,3*	*42,7*	*0,0*	*0,0*
RULES OF ORIGIN BASED ON CHANGE OF HEADING	ch	21,1	7,9	14,8	14,9	15,2	8,9		
	CH/E	6,3	14,2	13,2	16,3	13,9	14,6		
	CH/RC	5,8	3,1	2,0	2,6	2,2	3,4	10,0	11,9
	CH/OR			1,0				20,0	21,2
	CH/E/OR	5,8				1,7			
	CH/RC/OR			8,1		10,0		24,0	22,3
	CH/E/RC/OR			4,9					
	CH or RC				1,0			46,0	44,6
	CH or CH/RC								
	CH or CS/RC		6,9	1,0	1,1				
	CH or CS/E/RC				7,4		7,5		
	CH/E or CS/E/RC						1,1		
	CH/E or CH/RC								
	CH/E or CH/E/RC		1,9		2,6		2,5		
	SUBTOTAL	*39,0*	*34,0*	*45,0*	*45,9*	*43,0*	*38,0*	*100,0*	*100,0*
RULES OF ORIGIN BASED ON CHANGE OF SUB-HEADING	CS	1,1	1,3	1,0	1,6	1,7	11,0		
	CS/E				1,3	1,3	1,6		
	CS/RC			4,6	4,2	4,2			
	CS/E/OR								
	CS or RC				1,3	1,3			
	CS or CS/RC								
	CS/E or CS/RC								
	subtotal	*1,1*	*1,3*	*5,6*	*8,4*	*8,5*	*12,6*	*0,0*	*0,0*
	TOTAL	96,7	87,4	91,5	94,7	92,8	93,3	100,0	100,0

Notes: Only percentages above 1% of the total are reported. The following abreviations are used (see text): CC - Change of Chapter; CH - Change of Heading; CS - Change of Subheading; CI - Change of Item; E - Change of Tariff Classification including Exceptions; OR - Other Technical Requirements; RC - Regional Value Content Criteria.

Source: Devlin and Estevadeordal (2002)

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