



# Global Value Chains and Rules of Origin

Hubert Escaith

Darlan F. Martí

WTO

Geneva, 21 September 2016

# Objectives of this presentation

1. Review briefly what “global value chains” are and how they have impact international trade
2. Explore ways in which (non-preferential) rules of origin impact production and trade in a “global value chains” world



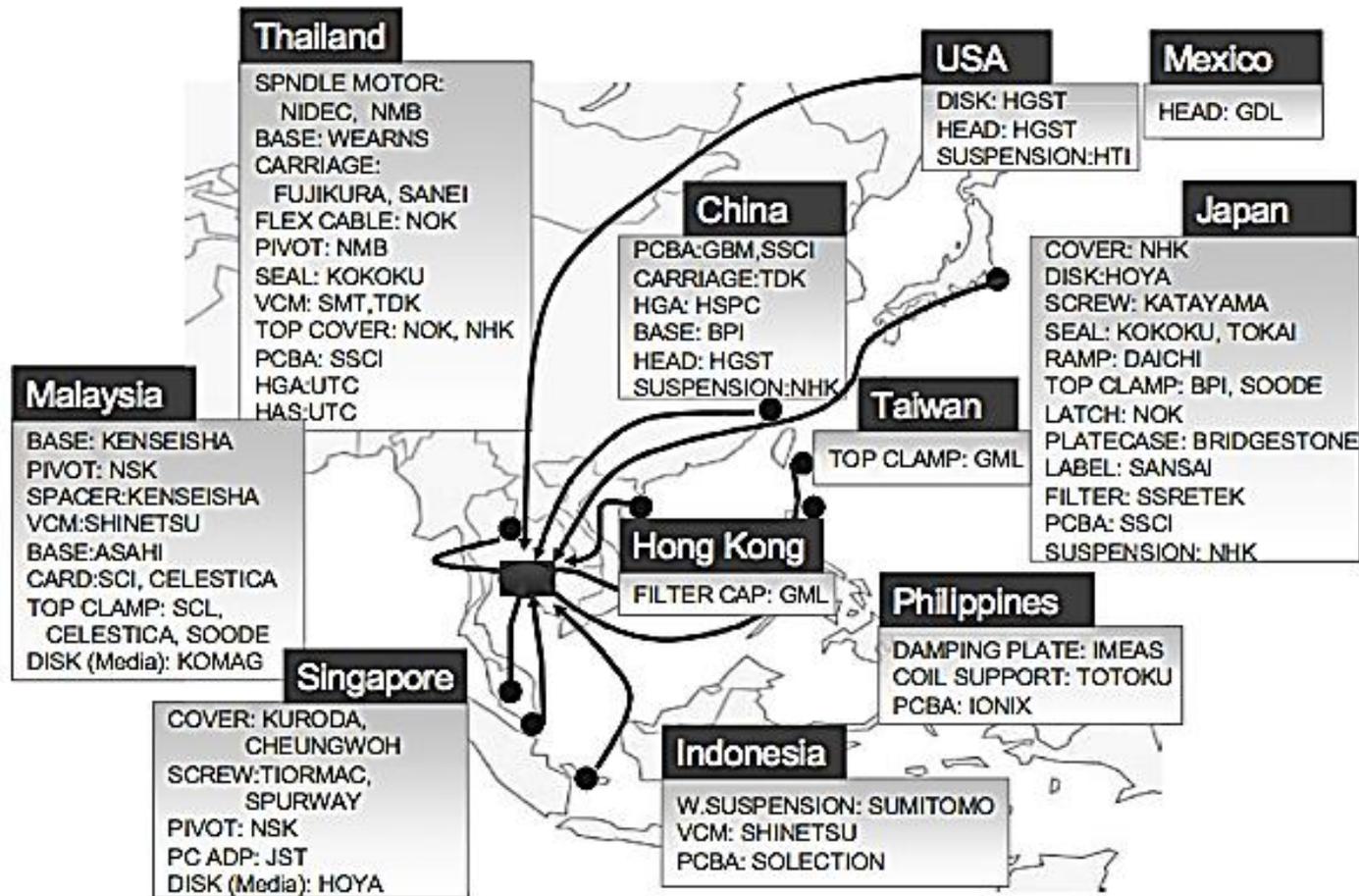
# Global Value Chains

- A value chain refers to all the **activities** and **tasks** which are needed to bring a product from its conception through design, sourcing of components and materials to production, marketing, distribution and retail to final consumers
- These processes need not happen across national borders (need not be international)
- In practice, however, they have become increasingly “global”

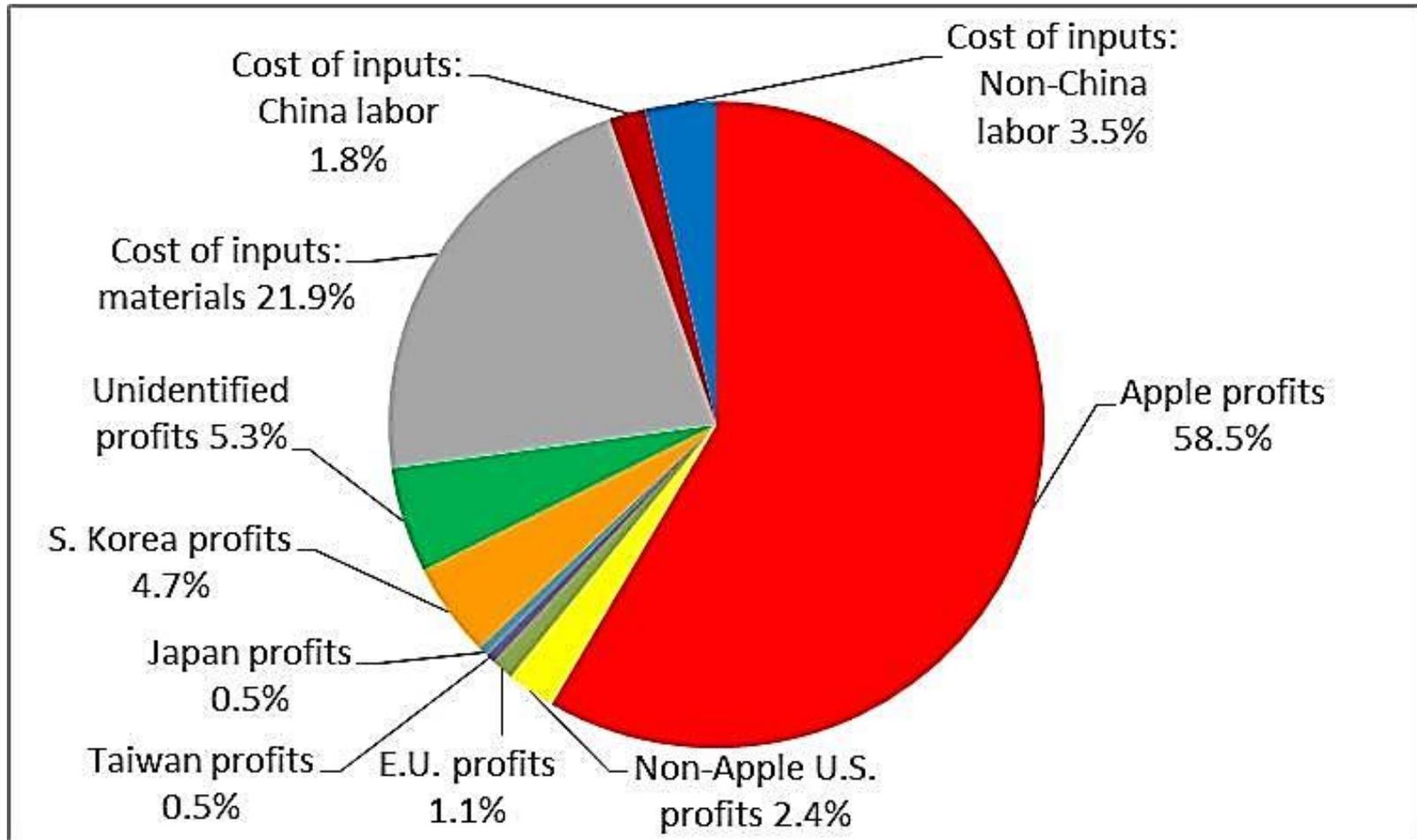
# Global Value Chains

- Growing interconnectedness of production
- Offshore outsourcing (bringing components from or performing tasks in different locations)
- Fragmentation of production: certain countries / firms will specialize in specific components / tasks
- Increase in trade of components
- E.g. Electronics, automobiles, textiles & clothing

# Example 1: Hard disc drive assembler in Thailand

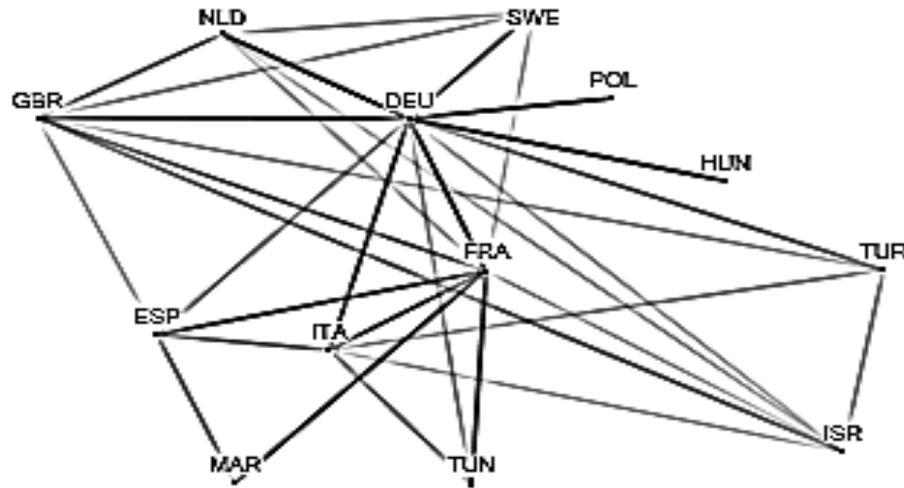


# Example 2: iPhone value chain

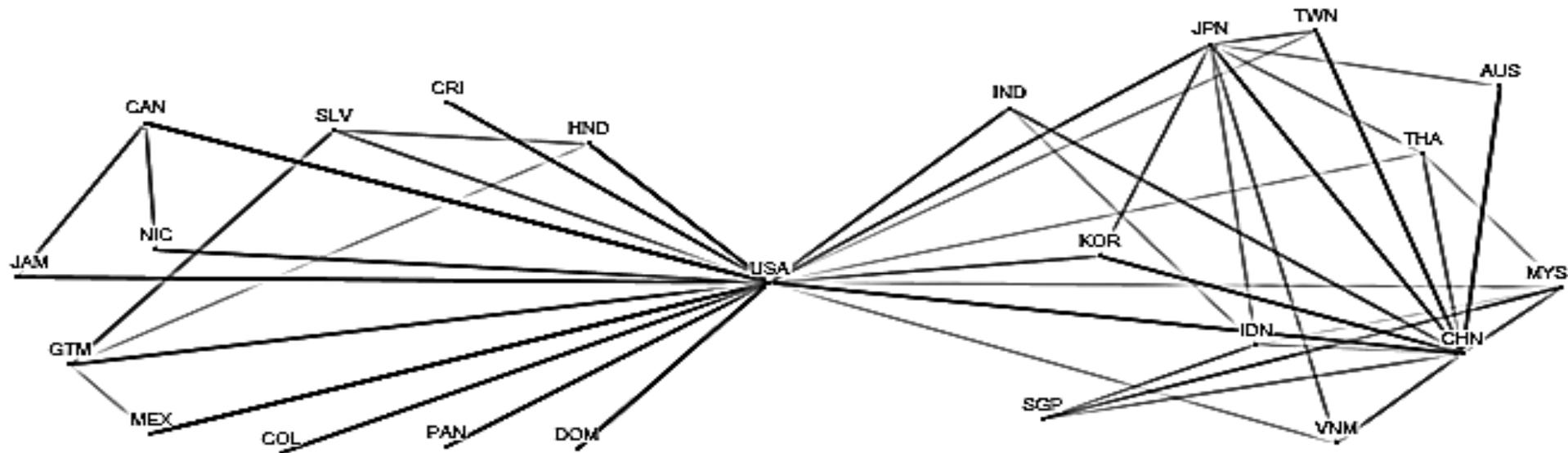


# Some GVCs are more regional than Global

*Asia-Pacific, Euro-Med, North-Meso Americas*

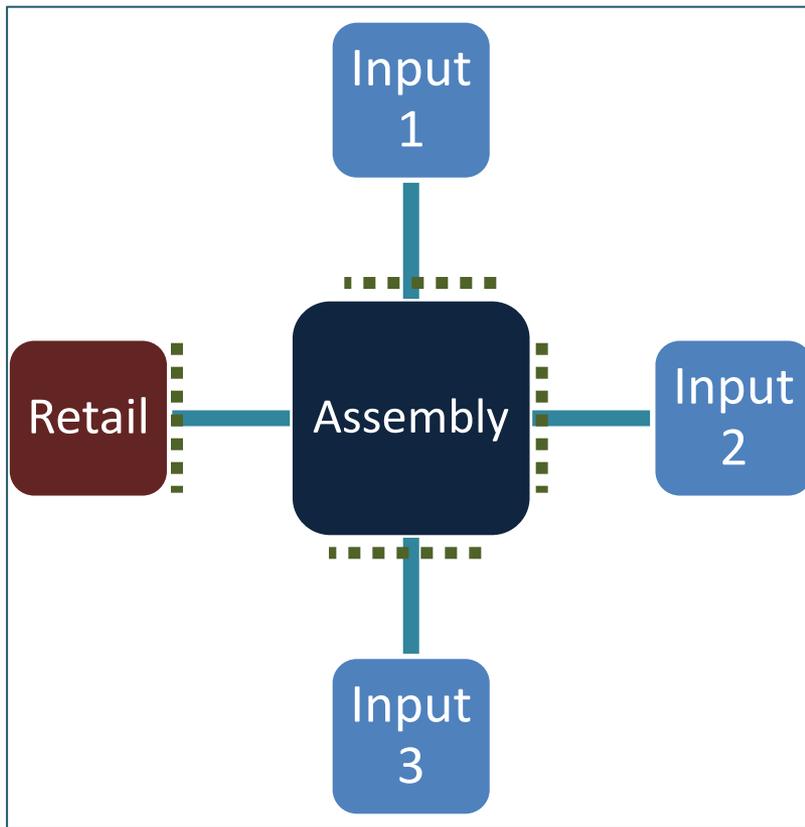


Source: WTO based on Comtrade and BEC (intermediates flows >10%) 2010-12

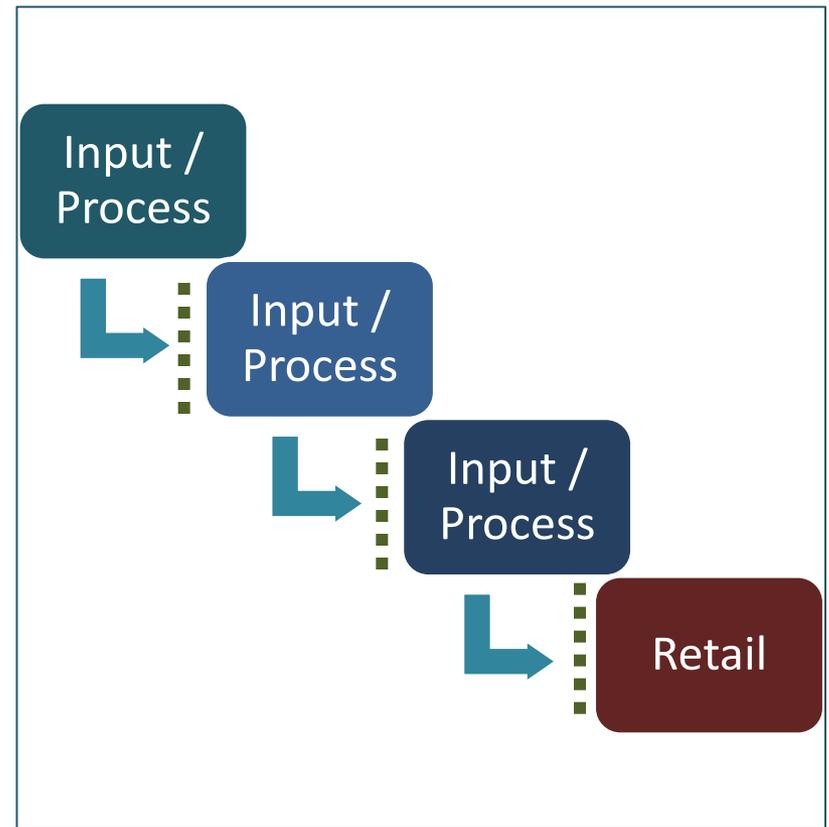


# Global Value Chains

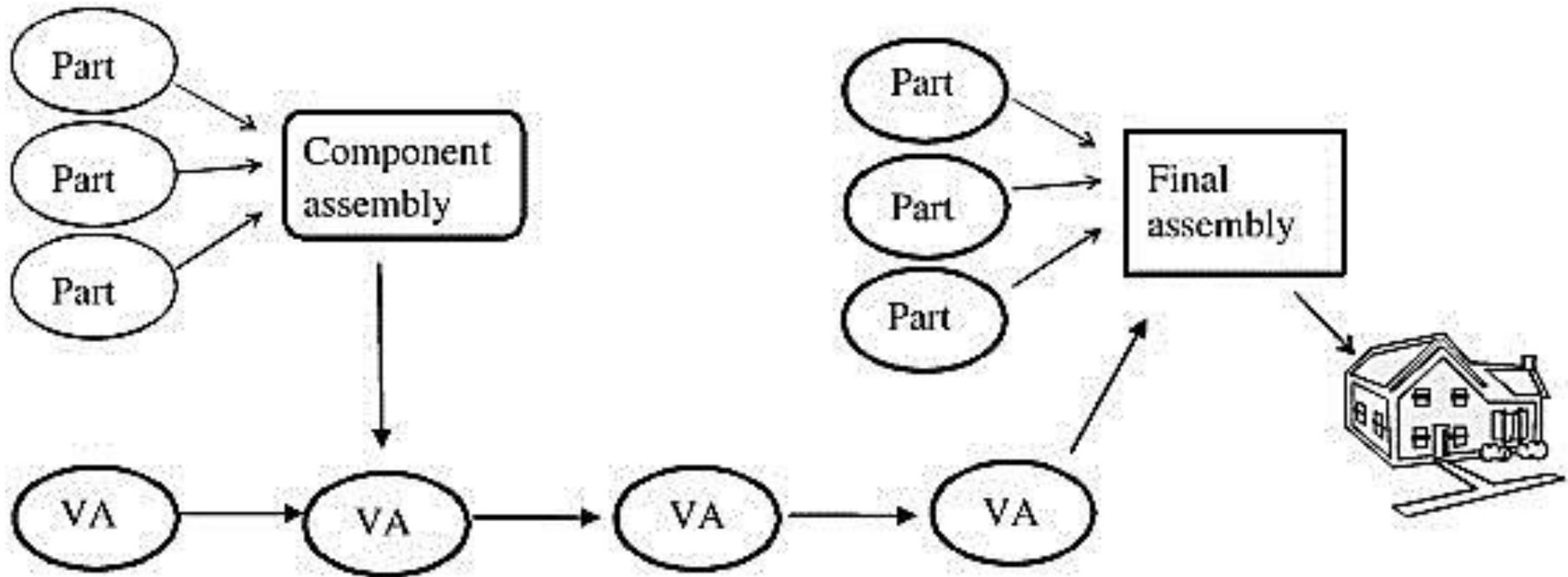
“Spider web”



“Snake”



# Many of them are hybrid types of Snakes and Spiders



Source: Richard Baldwin and Anthony J. Venables (2013) "Spiders and Snakes: Offshoring and Agglomeration in the Global Economy", *Journal of International Economics* 90 (2013) 245–254.

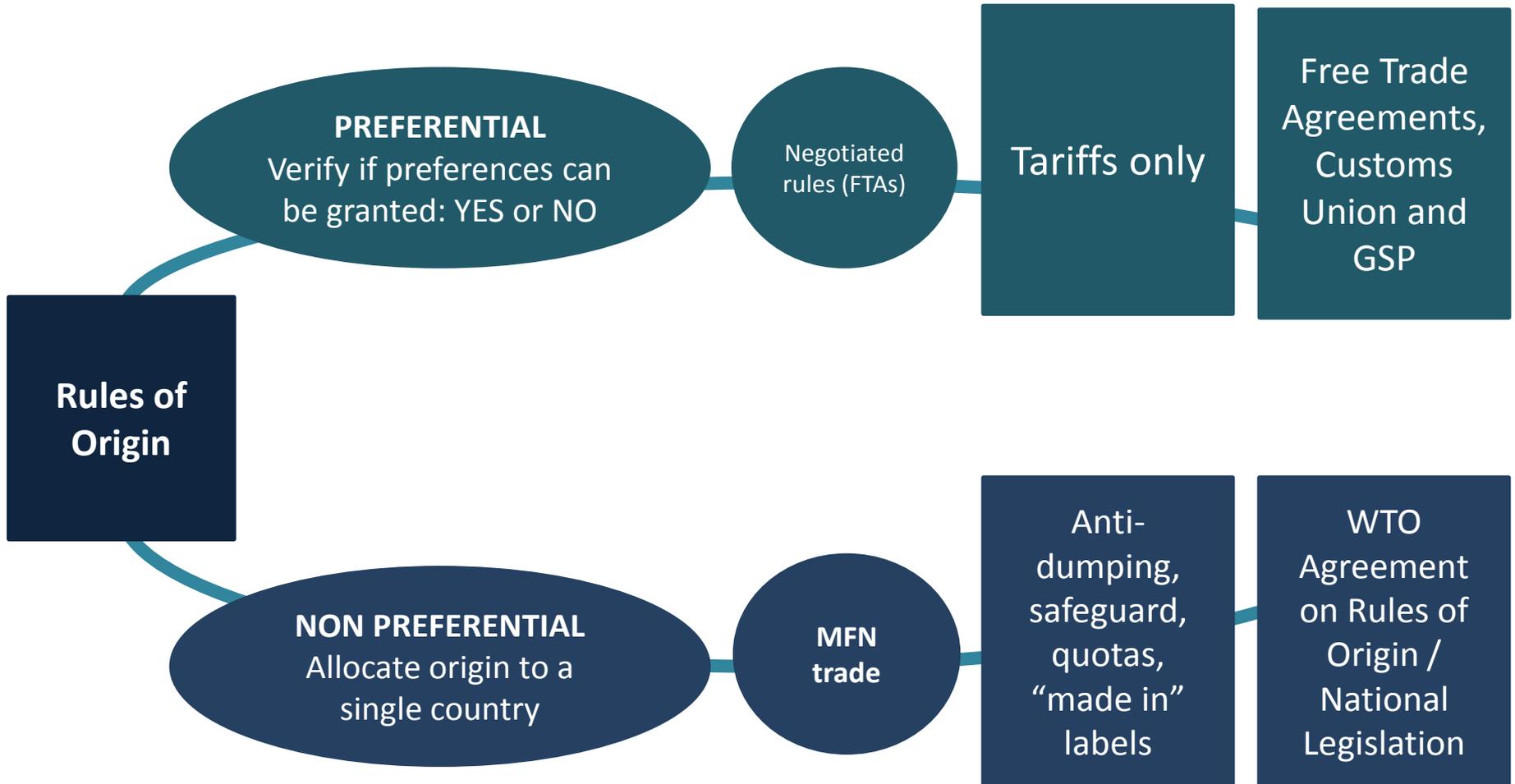
# What economic forces led to the rise of GVCs?

- Technological (ICT) revolution
- New Production and Management Practices (the “*Toyota*” Model)
- Policy
  - Integration of formerly centrally planned economies to the global market “effectively” quadrupling the global workforce
  - Trade and investment liberalization in many economies
  - Deregulation of services markets

# What links with Rules of Origin

- Rules of origin: difficulty of “**attributing**” a single country of origin in situations in which several countries are involved
  - Wholly obtained products: no problem
  - Substantial Transformation requirements: clarity about the rules, predictability and stability of the rules
- How should the origin be attributed so that it offers useful information to consumers and governments? (*why are rules of origin required? Which **objective** do they serve?*)
- Focus on the **last** country where a substantial transformation occurred
- Distinguish Preferential and Non-Preferential Rules

# Preferential and Non-Preferential



# What links with Rules of Origin

- Costs of understanding the rules applicable in each case (importing country): in-house regulatory compliance team, tracking systems (firm's product codes vs. HS system)
- Preferential RO: these costs may be offset by the benefit received (duty-free treatment under a RTA or PTA)
- Non-preferential RO: perception is often that compliance costs are not necessarily justified (MFN duties apply in all cases)
- Non-preferential RO: difficulties associated with other trade policy instruments (labelling, anti-dumping, quotas)

# Non Preferential Rules of Origin

## Notifications under Art.5.1 of the WTO Agreement on RO

■ Apply NP RO   ■ Do not apply NP RO   ■ No notification

47

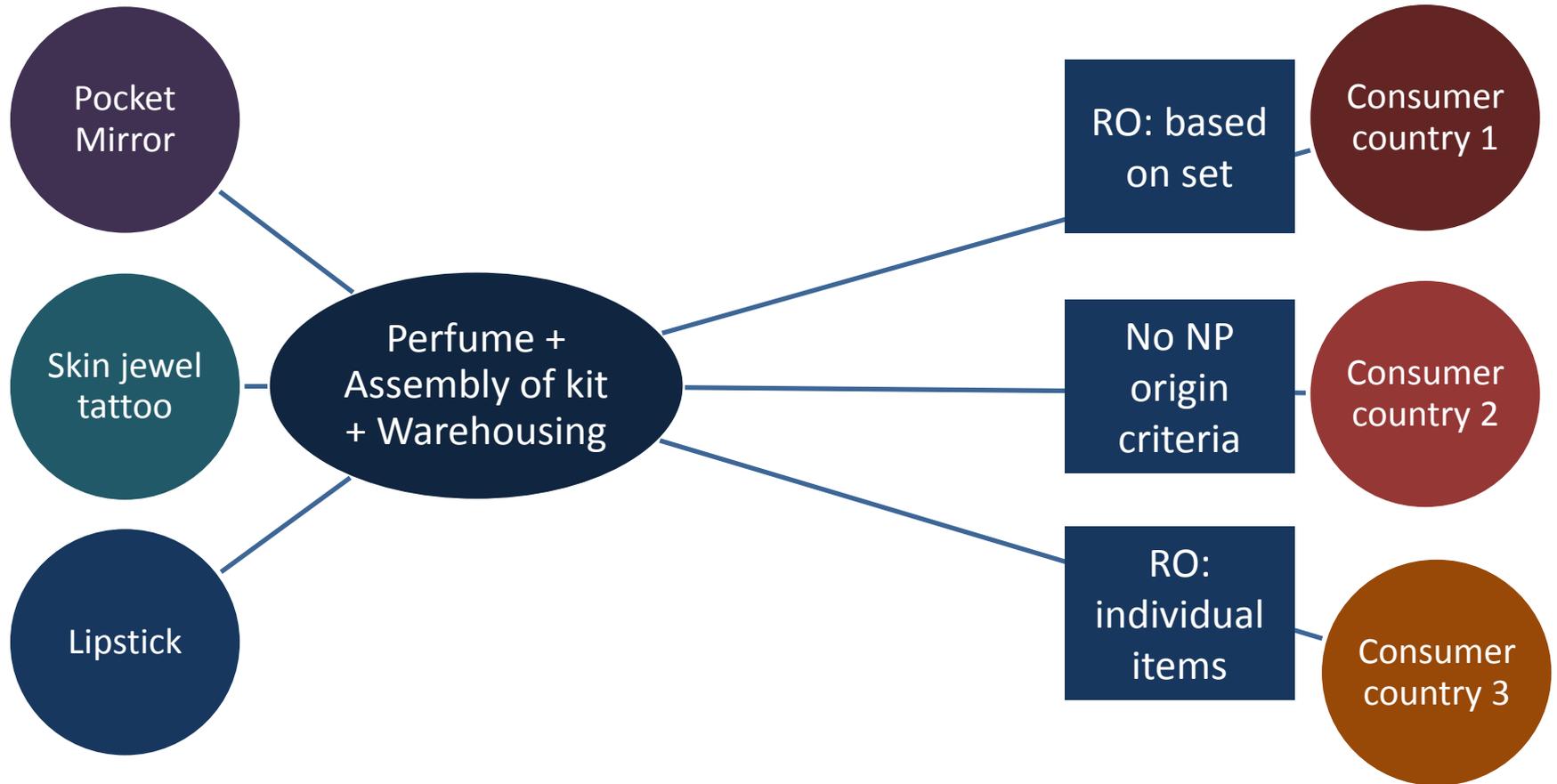
56

35



80% of world exports approx.

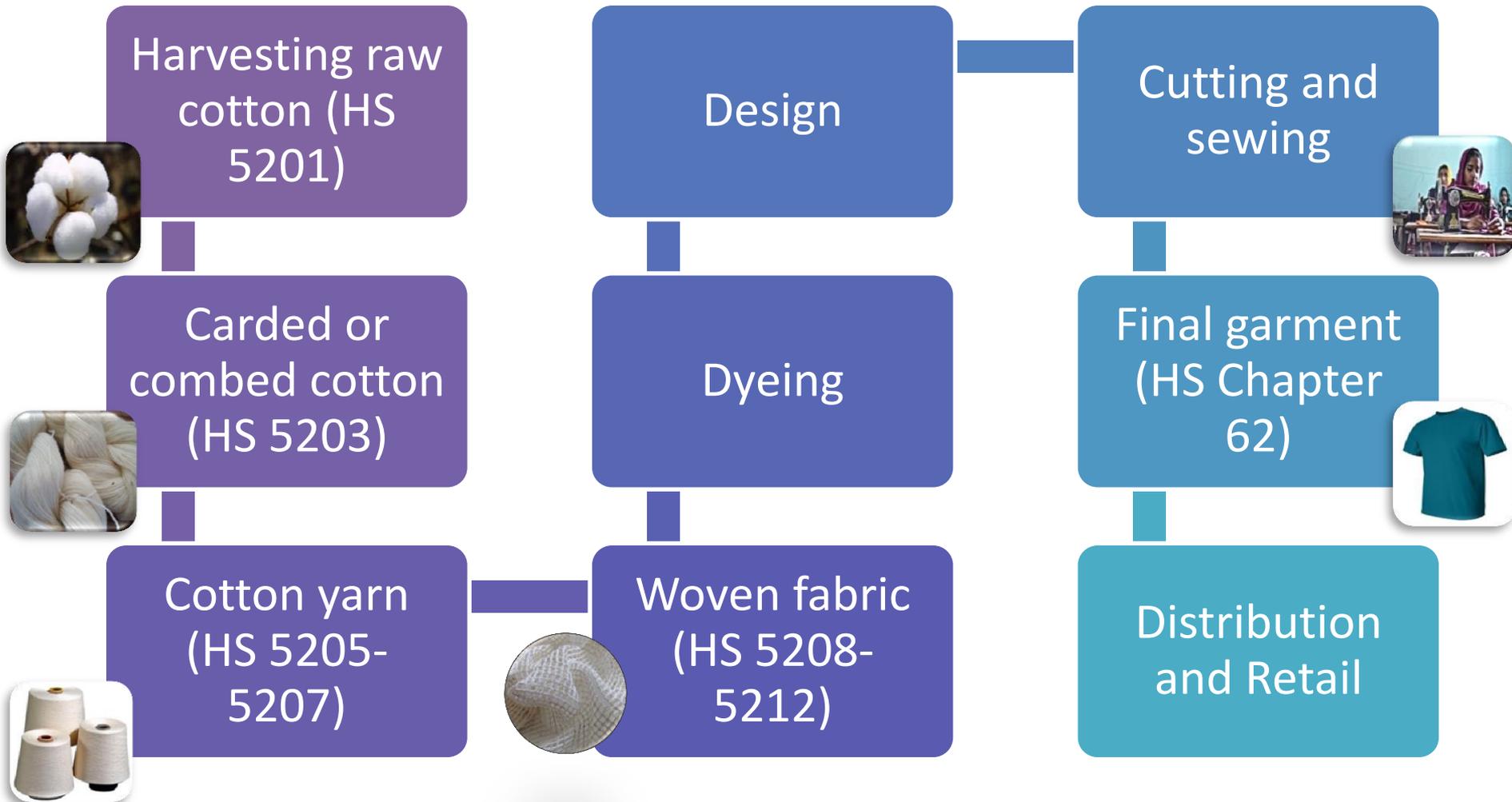
# Example labelling



Understand, track inputs and value, check exchange rate fluctuations, indicate origin in label, avoid penalties

May be very sensitive for those firms which use the “made in” as an important aspect of their branding

# Production chain for articles of apparel and clothing accessories of cotton, not knitted or crocheted (HS Chapter 62)



# Other complications

- Business uncertainty generated by a lack of understanding about the rules applicable may be made worse by other factors:
  - Tariff classification;
  - Presence of anti-dumping duties;
  - Existence of trade quotas;
  - Possible changes in the rules of origin;
  - Existence of preferential rules of origin
- What policy objectives are being attainment by the application of Non-Preferential rules of origin?

Thank you for your attention