

Global protectionist trade effect of rules of origin

Assessment of input-output restrictions at HS6 level in 400 FTAs

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By Kniahin Dzmitry



Access to two global datasets:

https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=6666

Structure of the presentation

I. Introduction

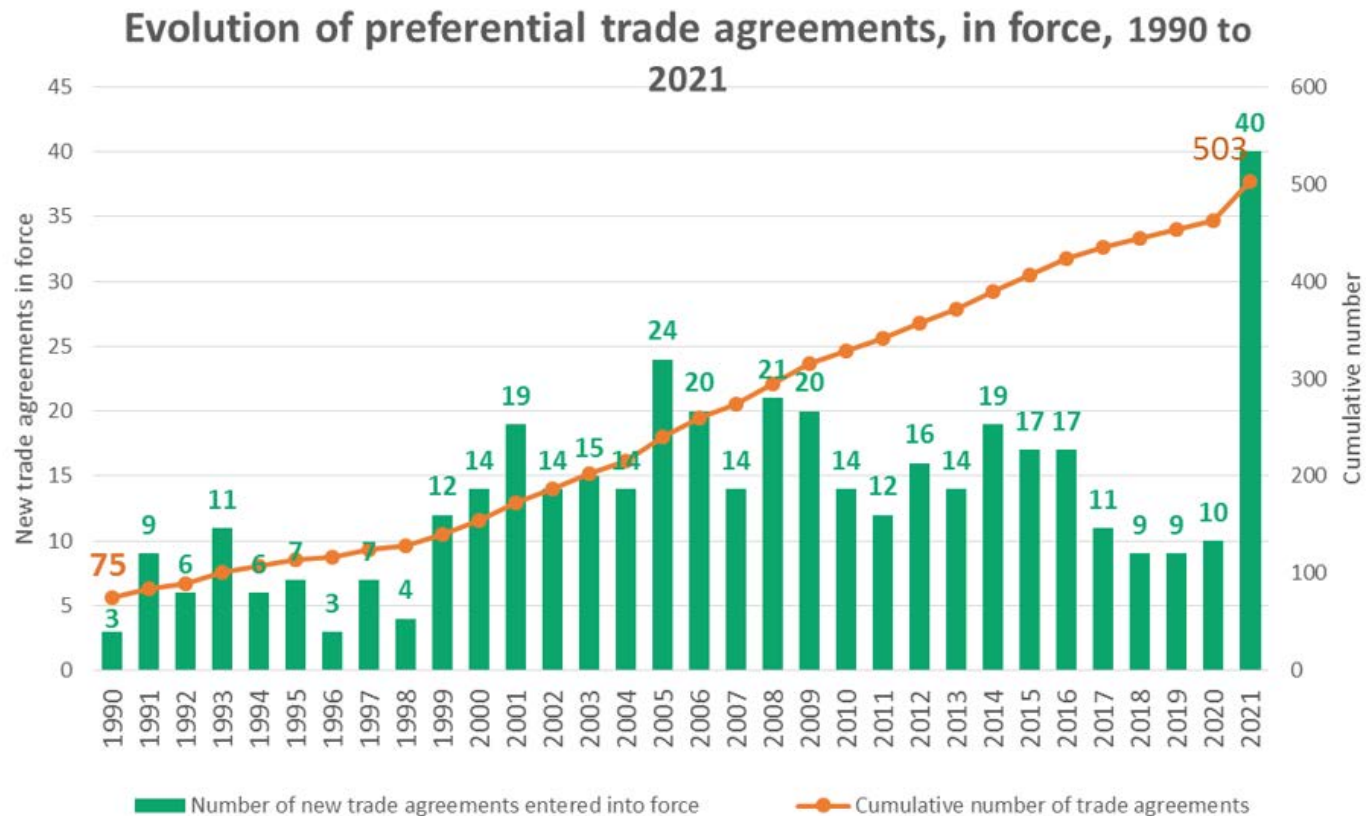
II. Database

III. Results

Preferential Trading Arrangements (PTAs)

- Negotiation of PTAs is a major trade policy development globally, with **521 PTAs** in force and hundreds in making.
- They provide duty-free treatment in PTA goods, resulting in trade creation and diversion effects.
- However, application of PTA on a trade flow is **not automatic**, it hinges on rules of origin (ROO) compliance.
- This makes ROO a non-tariff barrier (Kniahin and Melo 2022) leading to a low utilization of preferences by traders (continuing to pay MFN tariff instead of zero tariff), hence under-performance of PTA impact.

Rapid rise of PTAs globally



Note: trade agreements include both regional trade agreements and preferential trade arrangements

Source: ITC trade agreements database (findrulesoforigin.org)

Last updated: March 2021

Rules of origin (ROO)

- ROO in general define nationality of the product for various trade policy treatments (PTA, antidumping, sanctions, TRQs, etc.)
- In the case of PTAs, ROO determine whether the product has acquired enough value added in PTA country to qualify for duty-free treatment in PTA area. They serve to prevent *trade deflection* and *industrial development*.
- ROO are product-specific and take three alternative forms:
 - percentage rule (%) on local or regional value-added content (RVC);
 - specific process (SP)
 - HS shift, or change in tariff classification (CTC)
- For raw products (such as agriculture), ROO is often wholly obtained (WO)

Rules of Origin Facilitator (ROF) database

- To respond to the needs of transparency in product-specific ROO, ITC, WCO and WTO jointly launched ROF initiative in 2018. It consists of a business web tool and an underlying database.
- The processing and coding of ROO schedules in PTAs was led by ITC and currently covers **426 (or 82%) of all PTAs** in force.
- The data was mapped with MacMap database of tariffs at national tariff line level (8-digit)
- The information can be queried in web tool free of charge at findrulesoforigin.org
- Processing of US, EU and Japan PTAs was financially supported by GRIPS Japan.

Input-output (IO) information embedded in ROO

- 343 out of 490 processed PTAs (70%) rely on product-specific HS shift rules for some or all products, essentially imposing explicit *sourcing restrictions* at HS level.
- For example, in NAFTA, to produce ketchup (HS 2103.20) one cannot use foreign tomato paste (2002.90) because such transformation is not substantial. However, one can use all other inputs, such as foreign tomatoes (0702.00).
- Thus 2002.90 is a **restricted** input for output 2103.20, and 0702.00 is an **allowed** input. This is a granular information on IO for ketchup at HS6 level, revealed by NAFTA drafters.
- As part of ROF, we performed an exercise of such input HS extraction for all PTAs in the world (490 now available). This resulted in a IO relationship matrix.

Existing research and contribution

- Global IO matrix at HS6 level did not exist.
- A first exercise was performed in Conconi et al. (2018, *AER*) where authors extracted all input HS codes from NAFTA text.
- Using triple diff-in-diff regression, they found that restricted HS inputs (“treated”) suffered from a significant trade diversion (43%!) relative to unrestricted HS inputs. *In NAFTA sample, the result was influenced by textile sector in Mexico.*
- It is a secondary trade diversion effect of PTA – on inputs - driven by ROO. Authors alluded this protectionist effect to an import tax on foreign inputs.
- We constructed a dataset for all input HS restrictions in the world at HS6 level (343 PTAs). The econometric work to replicate the approach globally, not in only NAFTA, is *in progress*.

Revealed IO relationship: example

Mexico → US: USMCA (2020)
6205.20 - Cotton shirts

Rule of Origin (RoO)

ORIGINAL TEXT

For all other trade between the Parties, a change to subheading 6205.20 through 6205.30 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.10 through 53.11, Chapter 54 or heading 55.08 through 55.16, 58.01 through 58.02 or 60.01 through 60.06, provided that the good is both cut and sewn or other wise assembled in the territory of one or more of the Parties.

CRITERION (ITC)

CC + ECT and SP



Input HS on exceptions list

ALTERNATIVE CRITERION 1

CC + ECT and SP

EXCEPTION

5106, 5107, 5108, 5109, 5110, 5111, 5112, 5113, 5204, 5205, 5206, 5207, 5208, 5209, 5210, 5211, 5212, 5310, 5311, 54, 5508, 5509, 5510, 5511, 5512, 5513, 5514, 5515, 5516, 5801, 5802, 6001, 6002, 6003, 6004, 6005, 6006

Location:

<https://findrulesoforigin.org/en/home/detail?reporter=842&partner=484&product=62052020&id=872&status=True&rank=4>



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Dataset #1: Revealed IO at original HS

1	output_revisio	output	output_hs_description	input_revisio	input	input_hs_description	count_agreeme	agreements
179927	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5211	Woven fabrics of cotton, containing less than 8	7	FTA, Canada-Honduras; FTA, Colombia-Costa Rica;
179928	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5212	Other woven fabrics of cotton	7	FTA, Canada-Honduras; FTA, Colombia-Costa Rica;
179929	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5307	Yarn of jute or of other textile bast fibres of he	3	FTA, Colombia-Costa Rica; FTA, Korea-United State
179930	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5308	Yarn of other vegetable textile fibres; paper ya	3	FTA, Colombia-Costa Rica; FTA, Korea-United State
179931	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5310	Woven fabrics of jute or of other textile bast fi	4	FTA, Colombia-Costa Rica; FTA, Korea-United State
179932	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5311	Woven fabrics of other vegetable textile fibres	4	FTA, Colombia-Costa Rica; FTA, Korea-United State
179933	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	54	Man-made filaments	1	US-Mexico-Canada Agreement (USMCA)
179934	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5401	Sewing thread of man-made filaments, whethe	3	FTA, Colombia-Israel; FTA, Korea-Central America;
179935	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5402	Synthetic filament yarn (other than sewing thre	4	FTA, Colombia-Israel; FTA, Korea-Central America;
179936	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540219	High-tenacity filament yarn of nylon or other p	1	FTA, Colombia-Costa Rica
179937	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540220	High tenacity filament yarn of polyesters (excl.	1	FTA, Colombia-Costa Rica
179938	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540231	Texturd yarn nes,of nylon/oth polyamides fi,</	1	FTA, Colombia-Costa Rica
179939	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540232	Texturd yarn nes,of nylon/oth polyamides fi,>5	1	FTA, Colombia-Costa Rica
179940	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540233	Textured filament yarn of polyester (excl. that	1	FTA, Colombia-Costa Rica
179941	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540234	Textured synthetic filament yarn of polypropyle	1	FTA, Colombia-Costa Rica
179942	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540239	Textured synthetic filament yarn (excl. sewing t	1	FTA, Colombia-Costa Rica
179943	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540245	Filament yarn of nylon or other polyamides, incl	1	FTA, Colombia-Costa Rica
179944	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540246	Filament yarn of polyester, incl. monofilament	1	FTA, Colombia-Costa Rica
179945	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540247	Filament yarn of polyester, incl. monofilament	1	FTA, Colombia-Costa Rica
179946	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540248	Filament yarn of polypropylene, incl. monofilar	1	FTA, Colombia-Costa Rica
179947	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540249	Synthetic filament yarn, incl. synthetic monofil	1	FTA, Colombia-Costa Rica
179948	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540251	Filament yarn of nylon or other polyamides, incl	1	FTA, Colombia-Costa Rica
179949	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540252	Filament yarn of polyester, incl. monofilament	1	FTA, Colombia-Costa Rica
179950	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540259	Synthetic filament yarn, incl. synthetic monofil	1	FTA, Colombia-Costa Rica
179951	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540261	"Multiple ""folded"" or cabled filament yarn of	1	FTA, Colombia-Costa Rica
179952	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540262	"Multiple ""folded"" or cabled filament yarn of	1	FTA, Colombia-Costa Rica
179953	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	540269	"Multiple ""folded"" or cabled synthetic filame	1	FTA, Colombia-Costa Rica
179954	HS Rev.2012	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2012	5402	Artificial filament yarn (other than sewing thre	4	FTA, Korea-Central America;

Download file (XLSX):

<https://www.gtap.agecon.purdue.edu/resources/download/11495.xlsx>

Dataset #1: different revision: HS 2002

	A	B	C	D	E	F	G	H
1	output_revisi	output	output_hs_description	input_revisi	input	input_hs_description	count_agreeme	agreements
179752	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5211	Woven fabrics of cotton, containing less than 8	12	FTA, Australia-United States; FTA, Bahrain-United St
179753	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5212	Other woven fabrics of cotton	12	FTA, Australia-United States; FTA, Bahrain-United St
179754	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5306	Flax yarn	1	FTA, Peru-Singapore
179755	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5307	Yarn of jute or of other textile bast fibres of he	11	FTA, Australia-United States; FTA, Bahrain-United St
179756	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5308	Yarn of other vegetable textile fibres; paper ya	11	FTA, Australia-United States; FTA, Bahrain-United St
179757	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5309	Woven fabrics of flax	1	FTA, Peru-Singapore
179758	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5310	Woven fabrics of jute or of other textile bast fi	12	FTA, Australia-United States; FTA, Bahrain-United St
179759	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5311	Woven fabrics of other vegetable textile fibres	12	FTA, Australia-United States; FTA, Bahrain-United St
179760	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	54	Man-made filaments	9	FTA, Australia-United States; FTA, Bahrain-United St
179761	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5401	Sewing thread of man-made filaments, whethe	2	FTA, Colombia-United States; FTA, Peru-United Stat
179762	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	5402	Synthetic filament yarn (other than sewing thre	2	FTA, Colombia-United States; FTA, Peru-United Stat
179763	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540210	High tenacity filament yarn of nylon or other p	1	FTA, Peru-Singapore
179764	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540220	High tenacity filament yarn of polyesters (excl.	1	FTA, Peru-Singapore
179765	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540231	Texturd yarn nes,of nylon/oth polyamides fi,</	1	FTA, Peru-Singapore
179766	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540232	Texturd yarn nes,of nylon/oth polyamides fi,>5	1	FTA, Peru-Singapore
179767	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540233	Textured filament yarn of polyester (excl. that	1	FTA, Peru-Singapore
179768	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540239	Textured synthetic filament yarn (excl. sewing t	1	FTA, Peru-Singapore
179769	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540241	Filament yarn of nylon or other polyamides, inc	1	FTA, Peru-Singapore
179770	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540242	Filament yarn of polyester, incl. monofilament	1	FTA, Peru-Singapore
179771	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540243	Filament yarn of polyester, incl. monofilament	1	FTA, Peru-Singapore
179772	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540251	Filament yarn of nylon or other polyamides, inc	1	FTA, Peru-Singapore
179773	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540252	Filament yarn of polyester, incl. monofilament	1	FTA, Peru-Singapore
179774	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540259	Synthetic filament yarn, incl. synthetic monofil	1	FTA, Peru-Singapore
179775	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540261	"Multiple ""folded"" or cabled filament yarn of	1	FTA, Peru-Singapore
179776	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540262	"Multiple ""folded"" or cabled filament yarn of	1	FTA, Peru-Singapore
179777	HS Rev.2002	620520	Men's or boys' shirts of cotton (excl. knitted or cr	HS Rev.2002	540269	"Multiple ""folded"" or cabled synthetic filame	1	FTA, Peru-Singapore

Download file (XLSX):

<https://www.gtap.agecon.purdue.edu/resources/download/11495.xlsx>

Variables in Revealed IO relationships table

Variable	Definition
output_revision	HS revision of output HS code (1992, 1996, 2002, 2007, 2012 or 2017)
output_hs	output HS code (at 2-, 4-, 6- or 8+ -digit level as recorded in the schedule of rules of origin)
output_hs_description	output HS code description (official)
input_revision	HS revision of input HS code (1992, 1996, 2002, 2007, 2012 or 2017)
input_hs	input HS code (at 2-, 4-, 6- or 8+ -digit level as recorded in the schedule of rules of origin)
input_hs_description	input HS code description (official)
count_agreements	numeric count of agreements that explicitly reference this input HS code in restrictions/allowances list of the schedule of rules of origin.
agreements	textual list of agreements, separated by semi-colon, that explicitly reference this input HS code in restrictions/allowances list of the schedule of rules of origin.

Dataset #2: PTA IO restrictions matrix at HS6

1	agreement	verification_link	revision	output_hs6	input_hs6	restriction_flag
133480	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510539	no
133481	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510540	no
133482	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510610	yes
133483	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510620	yes
133484	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510710	yes
133485	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510720	yes
133486	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510810	yes
133487	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510820	yes
133488	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510910	yes
133489	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	510990	yes
133490	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511000	yes
133491	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511111	yes
133492	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511119	yes
133493	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511120	yes
133494	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511130	yes
133495	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511190	yes
133496	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511211	yes
133497	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511219	yes
133498	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511220	yes
133499	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511230	yes
133500	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511290	yes
133501	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	511300	yes
133502	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520100	no
133503	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520210	no
133504	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520291	no
133505	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520299	no
133506	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520300	no
133507	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520411	yes
133508	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520419	yes
133509	US-Mexico-Canada Agreement (USMCA)	https://findrulesoforigin.org/en/home/agreement-detail?fta=872	HS Rev.2017	620520	520420	yes

Download file (CSV):

<https://www.gtap.agecon.purdue.edu/resources/download/11515.xlsx>



US-Mexico-Canada Agreement (USMCA)

AGREEMENT BETWEEN THE UNITED STATES OF AMERICA, THE UNITED MEXICAN STATES, AND CANADA

IN FORCE
01.07.2020

TYPE
Free trade agreement

SCOPE
Plurilateral, Country-Country

Information

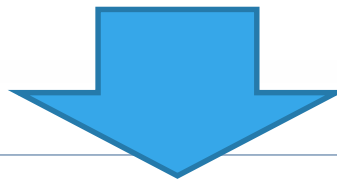
Participating countries

Name	Status ^①	Date ^①	
 Canada	● In force	01.07.2020	
 Mexico	● In force	01.07.2020	
 United States of America	● In force	01.07.2020	

Legal documents

-  Certificate of origin
-  Product-specific rules of origin
-  Chapter on rules of origin
-  Chapter on origin procedures
-  Customs administration
-  Full text of agreement

Search inside full text of agreement



Title

Annex: AGREEMENT BETWEEN THE UNITED STATES OF AMERICA, THE UNITED

CHAPTER 1: INITIAL PROVISIONS AND GENERAL DEFINITIONS

CHAPTER 2: NATIONAL TREATMENT AND MARKET ACCESS FOR GOODS

ANNEX 2-A: EXCEPTIONS TO ARTICLE 2.3 (NATIONAL TREATMENT) AND ARTICLE 2.11

ANNEX 2-B: TARIFF COMMITMENTS

ANNEX 2-C: PROVISIONS BETWEEN MEXICO AND THE UNITED STATES ON AUTOMOTIVE

CHAPTER 3: AGRICULTURE

ANNEX 3-B: AGRICULTURAL TRADE BETWEEN MEXICO AND THE UNITED STATES

ANNEX 3-C: DISTILLED SPIRITS, WINE, BEER, AND OTHER ALCOHOL BEVERAGES

No article title

Article 1.1: Establishment of a Free Trade Area

Article 1.2: Relation to Other Agreements

Article 1.3: Persons Exercising Delegated Governmental Authority

Article 1.4: General Definitions

Article 1.2: Relation to Other Agreements

Each Party affirms its existing rights and obligations with respect to each other under the WTO Agreement and other agreements to which it and another Party are party.



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imports



Variables in PTAs IO restrictions matrix

Variable	Definition
agreement	name of agreement treated by HS restrictions
verification_link	hyperlink to the agreement page with legal texts in Rules of Origin Facilitator (ROF)
revision	HS revision of output and input HS6 codes (in all cases 2017 for harmonization)
output_hs6	output HS6 code
input_hs6	input HS6 code
restriction_flag	indicator whether the input HS6 code is under restriction for third-country sourcing

HS shift rules: IO limitations

- Negotiators are not formally obliged to draft, or *reveal*, disaggregated HS inputs, hence often they are captured at a too aggregated level (HS2 or HS4).
- Copy-pasting behavior prominent across ROO (Gourdon et al. 2021), which means how much attention do drafters really pay when defining HS inputs?
- Some HS inputs are not major, but are rather politically sensitive. For example, sugar (Chapter 17) prominently figures in food ROO of EU PTAs
- Because of these two factors **not easy** to infer IO coefficients from incidence of input HS codes across PTAs

HS shift rules: interpretation of restrictions

- Many ROO are of an *alternative* form, e.g. CTC or RVC 40% (e.g. ASEAN). In this case, restriction might be optional.
- Many ROO are of a *combined* form, e.g. CTC and RVC 75% (e.g. USMCA). In this case, HS input restriction might not be *binding*.
- NAFTA was an early pioneer PTA in 1990s. Since then many overlapping PTAs (e.g. USMCA and CPTPP). Possible a mix of input restrictions across 2 or more PTAs, which results in noise.

Subsequent data work

- The dataset can be further refined through filtering *ad-hoc* methods
 - Keyword matching approach
 - E.g. “orange juice” would be made of “oranges”, not any fruit (08). But “orange” is also a color.
 - Manual work with industry expert for a specific sector.

Conclusion

- ROO result in trade diversion effect in intermediate inputs trade due *to sourcing restrictions*.
- More than 300 PTAs are affected by such restriction rules.
- This work constitutes the first global IO relationship at HS6 level (without coefficients), including mapping restrictions imposed by ROO in each PTA.
- The IO HS6 table can be used as the basis for fine-grain modeling at HS6 level.
- The IO restrictions table for PTAs will be used to assess trade diversion effects in inputs caused by ROO in multiple regions and across multiple sectors.

Thank You!



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