

TiVA for policy-making: an application to the rules of origin

Topic: Capturing Production Heterogeneity I

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It has been more than 10 years since the study of Trade in Value-Added (TiVA) took a form. Although the topic earned a wide attention among academic circles, the direct application to policy-making remains to be a rather uncultivated land to the date.

In this paper, one of the potential areas of policy application is investigated: the rules of origin. The rules of origin matter in various occasions; to determine the range of implementation of regional trade agreements such as FTAs and EPAs, or of General Preferential Tariff for developing economies. The rules of origin are also referred to in the exercise of anti-dumping measures, or in the construction of customs trade statistics. One of the standards for identifying the origin of a good is value-added ratios. That is, if a product contains value-added of domestic sources for more than a certain percentage ratio of the good's market value, then the good can be regarded as the Original Product of that country, or, in turn, the country is regarded as the Country of Origin of that good. Despite its extensive scope of application, the value-added standards are implemented in a rather volatile and discretionary manner in the actual trade negotiations. This owes much to the absence of universally accepted norms or referential points for the value-added thresholds in the application of the rule. Here, the TiVA approach might help. The international input-output table allows us to calculate the domestic (or foreign) value-added ratio of every product in a major commodity category, and hence is expected to provide a firm ground for setting up an objective standard for the rules of origin. In particular, the study addresses the application possibility of the TiVA concept to the issues of "Roll-up method vs Tracing method" and "Cumulative rules".