

CUTS Centre for  
International Trade,  
Economics & Environment  
**Research Report**

# The WTO Agreement on Rules of Origin:

*Implications for South Asia*



# The WTO Agreement on Rules of Origin:

## *Implications for South Asia*

# **The WTO Agreement on Rules of Origin:**

## ***Implications for South Asia***

This paper was researched and written by K. N. Harilal, Associate Fellow, and P. L. Beena, Research Associate from Centre for Development Studies, Thiruvananthapuram, Kerala, India. Comments on the draft were received from Prof. Devesh Roy, University of Maryland, Maryland, USA; Prof. Jiandong Ju, The University of Oklahoma, Norman, OK; Dr. Paul Brenton, The World Bank, Washington DC; and Dr. Marcelo Olarreaga, The World Bank, Washington DC, which have been suitably incorporated.

*Published by:*

**कट्टूस  CUTS**

**CUTS Centre for International Trade, Economics & Environment**

D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India

Ph: 91.141.228 2821, Fax: 91.141.228 2485

Email: [citee@cuts-international.org](mailto:citee@cuts-international.org)

Website: [www.cuts-international.org](http://www.cuts-international.org)

*With the support of:*



**International Development Research Centre, Canada**

Under the Project on South Asian Civil Society Network on International Trade Issues (SACSNITI)

*Cover Photo:*

**Courtesy – Business Standard**

Printed by:

**Jaipur Printers P. Ltd.**

Jaipur 302 001, India

**ISBN 81-8257-038-7**

© CUTS, 2004

*Any reproduction in full or part must indicate the title of the paper, name of the publishers as the copyright owner, and a copy of such publication may please be sent to the publisher.*

---

# 0422, Suggested Contribution: Rs.100/US\$25

# Contents

<b>Preface .....</b>	<b>i</b>
 <i>CHAPTER 1</i>	
<b>Introduction .....</b>	<b>9</b>
 <i>CHAPTER 2</i>	
<b>Economics and Politics of Rules of Origin .....</b>	<b>11</b>
Internationalisation of Production and 'Nationality' of Origin .....	11
Discriminatory Regimes and Rules of Origin .....	12
Economic Effects of Rules of Origin .....	13
Non-preferential Rules of Origin .....	16
Domestic Origin vs. Foreign Origin .....	17
'Privatisation' of Trade Policy .....	18
 <i>CHAPTER 3</i>	
<b>The WTO Agreement on Rules of Origin .....</b>	<b>19</b>
Review of the Harmonisation Work Programme .....	20
Product Specific Rules of Origin .....	22
 <i>CHAPTER 4</i>	
<b>Harmonisation Work Programme: A Critique .....</b>	<b>24</b>
 <i>CHAPTER 5</i>	
<b>Conclusion &amp; Recommendations .....</b>	<b>34</b>
 <b>Endnotes .....</b>	<b>37</b>
 <b>References .....</b>	<b>38</b>

## **List of Tables**

Table 1: Review of Notifications on Rules of Origin .....	11
Table 2: Members Notifying Non-existence of Rules of Origin .....	12
Table 3: Conflicts over Defining Substantial Transformation: An Illustration .....	23
Table 4: Selected Origin Disputes in Textiles and Clothing .....	28
Table 5: South Asia in World Trade of Yarn and Textile Products .....	30
Table 6: South Asia in World Trade of Clothing Products .....	31
Table 7: Product Specific Rules: Distribution of Outstanding Issues .....	33

## Preface

The importance of rules of origin (RoO) has grown significantly over the years. The recent and rapid proliferation of preferential trading agreements and the increasing number of countries using RoO to discriminate in the treatment of goods at importation has focused considerable attention on this issue. RoO can be divided into two categories: non-preferential and preferential.

Non-preferential RoO defines the origin of goods mainly for statistical purposes and for the application of trade measures such as tariffs, quotas, anti-dumping, countervailing duties etc. Preferential RoO, which is often more stringent, is defined by members of a preferential trade area to ensure that only goods which originate from one of the member countries benefit from a preferential access at importation.

In WTO, however, the mandate is only towards harmonisation of the non-preferential RoO. At the time of inception of WTO in 1995, it was agreed by the members that there was a requirement for harmonised non-preferential RoO aimed at devising rules that are predictable, objective and understandable. Following that a Technical Committee on RoO was established to undertake this work and it operates under the auspices of the World Customs Organisation in conjunction with the WTO Committee on RoO. Signatories to the WTO will need to comply with the rules.

Harmonised RoO mean coherent rules concerning origin determination, which are expected to be set out by co-operative efforts among WTO member countries for non-preferential commercial policy instruments. When the rules are completed they will become an integral part of the WTO's Agreement on RoO.

After 1995, during the negotiations a distinct pattern can be observed in the positions taken by the developed and developing countries on RoO. While developed countries are in favour of stringent RoO, the developing countries and LDCs prefer the softer rules. Even if very few of the beneficiary countries can meet the rules, developed countries have always strongly defended the need for strict rules of origin. As a result, the RoO in trade agreements involving countries with differing levels of development are generally complex and more restrictive than needed to ensure substantial transformation.

As stipulated in the Agreement on RoO, the harmonised rules should be strictly applied equally for non-preferential purposes. Under the agreement, WTO Members are obliged not to use RoO as instruments to pursue trade policy objectives and create restrictive, distorting or disruptive effects on international trade.

Contrary to this obligation of WTO members, it is more and more evident that RoO are increasingly being used by the developed countries to regulate the trade flow. By varying the degree of transformation required, countries are able to use the RoO to control the degree of preference granted. In fact, RoO are being used as a tool for commercial policy and to control market access - often by product or by industry.

Given this background the paper tries to critically examine the WTO proposal on the harmonised rules of origin. The study has looked at its implications on South Asian countries, especially India. Further, in view of the contentious nature of the RoO pertaining to textiles, and the big stakes involved for South Asia, the study places special emphasis on textiles and clothing.

As mentioned in the previous paragraph, the primary objective of the WTO's Agreement on RoO and proposed harmonisation on non-preferential rules, is to ensure that the rules are employed without/ or with least trade distorting effects. But, the study indicates that it is unlikely to achieve the desired outcome from the harmonisation work programme. Even if the proposed harmonisation work is successfully completed, it is expected to leave considerable scope for misuse of RoO for protectionist purposes. In such a scenario, the objective of RoO, which is simply to ensure that a commodity has been really produced or substantially transformed in a particular country, will be defeated.

**Jaipur, India**

**Bipul Chatterjee**  
**Director**

## Chapter 1

# Introduction

*It is the growing internationalisation of production and consequent involvement of more than one country in the production of most commodities that made the origin of commodities a contested terrain*

The history of “rules of origin”, i.e. the criteria for determining the national source of origin of products, must be as old as the practice of discriminatory commercial policy by nation states<sup>1</sup>. As modern nation states got consolidated and as they began to employ discriminatory commercial policy tools there arose the need to identify the country of origin of commodities. Rules of origin have become an essential part of any trade policy regime, for commercial policy tools, and more often than not to discriminate among countries. Administration of quotas, preferential tariffs, anti-dumping actions, countervailing duties, government procurement etc., require clearly defined rules of origin.

The rules of origin are also important for application of labeling and marketing requirements as well as for collection of trade statistics. The process of determining origin might have been relatively easy and dispute free until recently because production of individual commodities rarely involved more than one country. It is the growing internationalisation of production and consequent involvement of more than one country in the production of most commodities that made the origin of commodities a contested terrain.

Even though rules of origin are supposed to be used as devices to support implementation of trade policy instruments, their misuse, which has become quite rampant in recent times, transforms them into trade policy instruments *per se*<sup>2</sup>. It is a widely acknowledged fact that as the General Agreement on Tariffs and Trade (GATT) rounds succeeded in reducing the height of the tariff walls and the incidence of other overt barriers, the contracting parties, especially the industrialised ones, tended to resort to less transparent, covert measures of protection.

*The long-term goal of the ARO is to harmonise non-preferential rules of origin so that the same criteria are applied by the WTO members, whatever the purpose for which they are applied*

It is such misuse of the rules of origin that necessitated the WTO Agreement on Rules of Origin [as agreed upon during the Uruguay Round (UR) negotiations of the GATT and hereafter referred as Agreement on Rules of Origin (ARO)]. It requires WTO members to ensure that their rules of origin are transparent; that they do not have restricting, distorting, or disruptive effects on international trade; that they are administered in a consistent, uniform, impartial and reasonable manner and that they are based on positive standards. The long-term goal of the ARO is to harmonise non-preferential rules of origin so that the same criteria are applied by the WTO members, whatever the purpose for which they are applied.

The distinction that the ARO makes between preferential and non-preferential rules of origin is to be emphasised here because the former is excluded from the harmonisation work programme of the ARO. The preferential rules of origin are those applied in the context of preferential trading arrangements (PTAs) such as customs unions, free trade areas or even non-reciprocal arrangements like the Generalised System of Preferences

(GSP). Whereas the non-preferential rules of origin are those used in non-preferential commercial policy instruments such as most favoured nation tariffs, anti-dumping and countervailing duties, safeguard measures, origin marking requirements, and any discriminatory quantitative restrictions or tariff quotas. The non-preferential rules also include those used for government procurement and trade statistics.

Defined in a general sense, this study is intended to be a broad critique of the WTO proposals on the common rules of origin. The critique, however, is undertaken mainly from the point of view of implications of the new rules for South Asian countries, especially India. The introduction of the harmonised rules of origin would essentially mean a two-way movement, away from the *status quo*. First, the exporting member countries would encounter a shift in the rules of origin of the importing countries towards the new harmonised rules of the WTO. Needless to say that this will have implications for market access and export competition. Second, for any member country it would mean replacement of the domestic rules of origin with the common rules of the WTO with all its attendant implications for import policy administration.

This study makes an attempt to analyse the implications of both the above dimensions of change being introduced by the common rules of origin from the point of view of South Asian countries. If the points of conflict in the harmonisation programme were to be taken as an indication, the rules of origin pertaining to textiles would be a major area of disagreement between the developing and the developed countries. In view of the contentious nature of the rules of origin pertaining to textiles, and the big stakes involved for South Asia, the study would place special emphasis on textiles and garments.

Other than the introduction, this study is organised in five chapters. In Chapter-II, the economics and politics of rules of origin is discussed. In Chapter-III, the structure of the ARO and review of the progress of the Harmonisation Work Programme (HWP) are examined. Chapter-IV is devoted to a critique of the HWP, mainly from the point of view of the South Asian countries. In Chapter-V, important observations and arguments are put together.

***The rules of origin pertaining to textiles would be a major area of disagreement between the developing and the developed countries***

## Chapter 2

# Economics and Politics of Rules of Origin

The rules of origin have never been so controversial as they have become in recent times. Their rise to prominence can be attributed to three important reasons. First, on account of growing internationalisation of production origin, determination is becoming increasingly difficult and dispute prone. The second reason is the increasing incidence of discriminatory trade policy tools and the consequent need to determine the country of origin so that they can be effectively targeted. The third reason is the growing tendency to make use of the rules of origin as protectionist tools *per se*, instead of using them as devices supporting more overt trade distorting policy tools.

*Internationalisation of production is making determination of 'nationality' of products increasingly difficult. If a product was produced almost entirely in one country, as in the case of many primary commodities, the nationality of origin would be quite obvious*

### Internationalisation of Production and 'Nationality' of Origin

Internationalisation of production is making determination of 'nationality' of products increasingly difficult. If a product was produced almost entirely in one country, as in the case of many primary commodities, the nationality of origin would be quite obvious. This perhaps was the case of most products traded internationally until a few decades ago. This is also the message emanating from Tables 1 and 2, which show that even now there are large number of countries without well-defined non-preferential rules of origin. The fact that a large number of countries did not have non-preferential rules, and that even those countries which had them, were having under-evolved rules, suggests that they were not widely used in trade policy praxis<sup>3</sup>. The fact that origin disputes were rare in the past also strengthens the above argument.

**Table 1: Review of Notifications on Rules of Origin  
(As on November 15, 2002)**

Item	Number of Members
Members that have notified Non-preferential Rules of Origin	42
Members that have notified that they do not have Non-preferential Rules of Origin	41
Members that have not notified Non-preferential Rules of Origin	46
All Members	129
Members that have notified preferential Rules of Origin	84
Members that have notified that they do not have preferential Rules of Origin	4
Members that have not notified preferential Rules of Origin	42
All Members	130

*Source: WTO (2002): Eighth Annual Review of the Implementation and Operation of the Agreement on Rules of Origin, 3 December, G/RO/55.*

But, as a result of the process of internationalisation of production, few products are now produced exclusively in one country. The involvement of multinational companies also tends to complicate the question of origin. When ‘nationality’ of products is less obvious, there arises the need for the rules of origin determination. It is possible, depending on the purpose, to devise different methods to determine origin. In fact, currently, a variety of methods and their combinations are in vogue among countries of the world.

***According to the Kyoto convention, the country of origin of a product is the country where last “substantial transformation” takes place***

The first attempt to evolve a common approach for setting rules of origin was the Kyoto Customs Convention, which laid down some common principles in 1977 (Stephenson & James, 1995: 83-84). According to the Kyoto convention, the country of origin of a product is the country where last “substantial transformation” takes place. The last substantial transformation is defined as the one that gives the commodity its essential character. Indeed, such broad principles of substantial transformation are amendable to a variety of interpretations.

In order to impart clarity and practical significance to the principle of substantial transformation, the Kyoto convention prescribed different methods for its determination such as:

- change in tariff heading (CTH) as a result of domestic processing of imported goods in the originating country;
- prescribed minimum percentage of value addition in the originating country; and
- occurrence of specified processing operations in the originating country.

Each of these methods is known to have specific advantages as well as limitations (Palmetter, 1993, Stephenson & James, 1995).

The CTH method, which is considered to be least cumbersome, is too dependent on the system of trade classification used, none of which are developed with a view to capture the issue of transformation. The value addition method suffers from lack of predictability besides the obvious bias against countries with lower wage rates. The method of specified operations is not amenable for making general principles and tends to vary from industry to industry.

***The methods outlined by the Kyoto convention, however, were not binding on the members of the Customs Cooperation Council (CCC), which administers the convention***

Further, all the methods require periodic revision for adapting the origin granting framework to changes in technology. The methods outlined by the Kyoto convention, however, were not binding on the members of the Customs Cooperation Council (CCC), which administers the convention<sup>4</sup>.

### **Discriminatory Regimes and Rules of Origin**

The history of discriminatory policies in the post GATT period, perhaps, is as old as 1947, when the General Agreement was signed. The General Agreement provided for the Most Favoured Nation (MFN) treatment among its contracting parties. Obviously, contracting parties had to evolve some mechanism for identifying products originating from MFN and non-MFN sources.

However, it was the Rome treaty and the formation of the European Economic Community in 1957 that paved the way for the emergence of preferential trading arrangements (PTAs), which had tended to proliferate

*Functioning of PTAs requires rules of origin to determine whether a consignment of goods is eligible for preferential treatment or not. Therefore, proliferation of PTAs has necessarily been accompanied by proliferation of rules of origin*

*All contingent forms of protection require well-defined rules of origin as a complementary mechanism for determining country of origin of products so that they are well targeted*

in the recent past. The PTAs, by definition, are discriminatory in nature. They offer preferential treatment to a group of designated partners; i.e., for members in the case of customs unions and free trade areas (FTAs), and for eligible beneficiaries in the case of non-reciprocal arrangements such as the GSP.

In any case, functioning of PTAs requires rules of origin to determine whether a consignment of goods is eligible for preferential treatment or not (Hirsch 2002). Therefore, proliferation of PTAs has necessarily been accompanied by proliferation of rules of origin (Stephenson & James, 1995).

The rules of origin are particularly important in the context of FTAs, which are vulnerable to the problem of trade deflection (James, 1997). In FTAs, unlike in customs unions, member countries are not required to keep common external tariff. The existence of inter-country differences in external tariffs in a free trade area would obviously induce trade deflection, which is nothing but redirection of imports from third countries through the partner country with the lowest tariff, with a view to exploit the tariff differential between member countries.

In fact, all imports to the FTA would tend to enter through the member country with lower external tariff regardless of where they are finally consumed. Such trade deflection, if left unchecked, might also ultimately force member countries with higher external tariffs to lower their tariff levels, and convert the FTA effectively into a customs union with the common external tariff becoming that of the lowest tariff member of the FTA. Therefore, FTAs practice stringent rules of origin to prevent trade deflection.

### **Economic Effects of Rules of Origin**

The third reason for the growing interest in the rules of origin is the widespread tendency to make use of them as protectionist tools *per se*. As noted earlier, nation-states, as they are being deprived of the conventional tools of protection, are increasingly resorting to the contingent forms of protection. Almost all contingent forms of protection require well-defined rules of origin as a complementary mechanism for determining country of origin of products so that they are well targeted.

**Table 2: Members Notifying Non-existence of Rules of Origin**

<b>Members that have notified that they do not have Non-preferential Rules of Origin</b>	<b>Members that have notified that they do not have preferential Rules of Origin</b>
Bolivia, Brazil, Brunei, Darussalam, Burundi, Chad, Chile, Costa Rica, Cyprus, Dominica, Dominican Rep., El Salvador, Fiji, Guatemala, Haiti, Honduras, Iceland, India, Indonesia, Jamaica, Kenya, Macao, China, Malaysia, Maldives, Malta, Mauritius, Mongolia, Namibia, Nicaragua, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Philippines, Singapore, Surinam, Thailand, Trinidad & Tobago, Uganda (G/RO/N/12), United Arab Emirates (G/RO/N/17), Uruguay (G/RO/N/12).	Burundi, Chinese Taipei, Hong Kong, Macao, China.

*Source: WTO (2002): Eighth Annual Review of the Implementation and Operation of the Agreement on Rules of Origin, 3 December, G/RO/55.*

For instance, the rules of origin are required to target measures such as countervailing duties, and anti-dumping actions against countries or firms, which are found to be engaged such unfair trade practices. The Rules of origin are also required for preventing circumvention of anti-dumping and countervailing actions through product shifting and other perceived abuses (Klieinfeld & Gaylor, 1994)<sup>5</sup>.

***The commercial policy literature has tended to approach the rules of origin as trade-neutral tools, employed to support other policy tools with more direct effects on the trade flows***

However, preferential as well as non-preferential rules of origin are supposed to be used as neutral tools, causing no direct or indirect trade distorting effect on their own. But, as more recent developments indicate, they are being widely used as trade barriers, designed specifically to protect domestic producers (James, 1997:119, Vermulst & Waer, 1990). It is to the economics of the use of rules of origin as trade policy tools *per se* that we turn now.

The literature on the economic effects of rules of origin is in its early stages of development. This conspicuous lag in the development of the literature can be attributed to the assumption of trade-neutrality of the rules of origin. The commercial policy literature has tended to approach the rules of origin as trade-neutral tools, employed to support other policy tools with more direct effects on the trade flows. Naturally, the literature focussed on the effects of trade policy tools like tariffs and quotas, which affected trade flows rather directly.

Further, the studies on preferential rules dominate the available literature on rules of origin. An overriding theme of this literature has been the question of consistency with the underlying policy goals of the PTA. In terms of welfare objectives, the PTAs should ideally seek maximisation of net trade creating effects. The efficacy of the rules of origin, therefore, is judged in terms of the above goal of trade creation.

As stated earlier, the rules of origin are required to ensure that the benefits of preferential tariffs are confined to the members of the PTA and the non-members are excluded. In FTAs they are also supposed to check trade deflection (James, 1997:118-9). Both these goals are best served by making the rules of origin more stringent. But, there are some obvious tradeoffs.

***The rules of origin are required to ensure that the benefits of preferential tariffs are confined to the members of the PTA and the non-members are excluded***

Generally speaking, the stricter the Rules of Origin, the lower would be the possibility of net trade creation. The FTAs are supposed to generate trade-creating effects because they generate the tendency to shift imports from inefficient home sources to efficient member sources. The higher the compliance cost of rules of origin, the lower will be the incidence of such trade creating impulses. In fact, because of the high compliance cost, efficient producers within the FTA might even choose not to claim the privilege of preferential tariffs. In any case, higher compliance costs would limit the FTAs' ability to reach potential levels of trade creation.

Strict regimes of rules of origin might also add to the trade diversion effects of the FTA. Trade diversion occurs when preferential tariffs induce shifts in imports from efficient external suppliers to relatively inefficient member sources. A strict regime of rules of origin, with stringent local content requirements, might force the final goods producers within the PTA to source their inputs from higher cost internal sources, thus adding to the trade diversion effects of the PTA.

This policy of protecting the regional intermediate goods producers might raise the cost of production of producers of final goods, forcing them also to petition for protection. Therefore, according to (Hoekman, 1993) such regimes of rules of origin, especially in the form of local content requirements, could lead to cascading of protection along the production chain. Consumers, needless to say, would be at the receiving end of such protectionist policies.

***The success of a PTA, in terms of net-trade creation and welfare, would depend a great deal on its rules of origin***

Incidentally, if the origin conferring system were cumulative, it would help reduce the negative effects of the rules of origin (Hoekman, 1993). If the origin system were cumulative, local content or value added required for originating status would be calculated at the level of the PTA, and not at the level of individual member countries. In other words, it would make the origin system more liberal. In short, the success of a PTA, in terms of net-trade creation and welfare, would depend a great deal on its rules of origin<sup>6</sup>.

In the case of non-reciprocal PTAs such as the Generalised System of Preferences (GSP), which is meant to promote exports from developing country beneficiaries, the higher the compliance cost of rules of origin, the lower would be the use of the tariff margin by the beneficiaries. Many studies on GSP schemes have pointed out the restrictive role played by the rules of origin (Brenton & Manchin, 2002, Inama, 1995).

Similar criticisms have been leveled against the European Union special preferential arrangements with the African countries (Brenton & Manchin, 2002). Recently, a World Bank study (Mattoo *et al*, 2002) has highlighted the extremely restrictive role of the rules of origin in the much-publicised Africa initiative of the United States [The Africa Growth and Opportunity Act, (AGOA)]. In many such affirmative preferential arrangements, the poor countries, which are meant to be helped, find it extremely difficult to meet the origin requirements. The AGOA, for instance, insists that the apparel be assembled in eligible African countries and that yarn and fabric be made either in the United States or in African countries. In addition, a number of customs requirements need to be satisfied to claim the US concession.

***The complementarities between final and intermediate goods are particularly important for a discussion on the effects of rules of origin***

In view of the recent developments in the literature, it is important that we add a caveat here. The traditional analyses of customs unions based on trade creation and diversion are known to suffer from some important limitations, including the failure to take into account the interaction effects between final and intermediate goods markets. The complementarities between final and intermediate goods are particularly important for a discussion on the effects of rules of origin. The overall impact of the rules of origin would depend quite a lot on the interaction between the final and intermediate goods market (Krishna & Krueger, 1995; Ju & Krishna, 1998).

To summarise, it is now widely recognised that the rules of origin, more often than not, violate the trade neutrality assumption. This is obvious from what we have seen in the case of PTAs. It is possible to keep the preference margin unchanged and still manipulate the trade flows by changing the rules of origin. Further, there could be situations, wherein the cost of compliance of the rules of origin exceeds the preference margin, offsetting the tariff margin and also thereby making the policy of preferential treatment absolutely meaningless.

There could also be situations when preferential rules have detrimental effects on non-members. It is widely acknowledged that the trade diversion effects caused by preferential tariffs adversely affect non-members. The rules of origin, especially in the form of local content requirements, as we have already seen, can add to such woes of non-members. The local content requirements might force downstream producers in the FTA to source their inputs from higher cost regional producers of intermediates.

*The local content requirements might force downstream producers in the FTA to source their inputs from higher cost regional producers of intermediates*

Thus, for non-member producers of intermediates the rules of origin of the FTA might act as a stiff non-tariff barrier (NTB), the tariff equivalent of which could very well be higher than the common external tariff of the FTA. Therefore, as Hoeckman (1993) has pointed out, for non-members the upper bound of the tariff equivalent of a Rule of Origin could very well be higher than the MFN tariff of the FTA. The rule that the upper bound of a rule of origin is the MFN tariff applies only for intra-trade flows.

Further, the tendency to use the Rules of Origin as NTBs against non-member suppliers of intermediates is reported to be becoming fairly widespread (James, 1997:119). This tendency is reinforced by the global liberalisation process under the auspices of the WTO, which had reduced the MFN barriers, and hence the margin of preferences of the FTAs, old as well as new.

The European Union (EU), for instance, is known to have been designing very tough origin regulations for certain strategic industries to ward off competition from non-member producers (Vermulst & Waer, 1990). The very same criticism is applicable to the North American Free Trade Agreement (NAFTA) as well, the origin system of which is notoriously protectionist, especially in the case of textiles and clothing. The NAFTA rules of origin in the area of textiles and clothing grant unjustifiably high protection to the upstream producers, severely restricting market access for external suppliers.

### **Non-preferential Rules of Origin**

*Non-preferential rules of origin tend to add to the trade distorting effect of the principal trade policy tool used, such as quantitative restrictions under the Multi-Fibre Agreement*

Even though this discussion on the economic effects of rules of origin was so far on the preferential rules of origin, many insights drawn from the same are applicable to the non-preferential rules as well. In PTAs, most often the rules of origin were seen as a factor offsetting the effect of preference margin, particularly when viewed from the point of view of members/beneficiaries. In the case of producers from outside the PTA, the rules of origin would generally add to the height of the barrier to the PTA market.

Same is the case of non-preferential rules of origin; they tend to add to the trade distorting effect of the principal trade policy tool used, such as quantitative restrictions under the Multi-Fibre Agreement (MFA). The rules of origin can be used to increase the restrictiveness of the MFA quotas. Take, for instance, the hypothetical case of an African country importing fabrics from India and making printed fabrics to be exported to the United States. If the rules of origin in USA do not recognise making of printed fabrics from fabrics as substantial transformation, which, in any case, it does not, the African country would not be granted the origin status and would be denied the opportunity to use its MFA quota. In fact, given such Rules of Origin, export of printed yarn from the African country might be accounted against India's MFA quota. Therefore, such rules of origin can prove to be trade distorting, in more ways than one.

The rules of origin designed to support measures like anti-dumping duties, or countervailing duties, serve the objective of targeting the designated sources of supply. Obviously, identification of the country of origin of a product against which an anti-dumping or a countervailing duty is to be imposed would depend on Rules of Origin. Interestingly, as rules of origin vary, the country of origin of the product, and the country of incidence of such duties might also vary. In other words, even while retaining the anti-dumping duty or countervailing duty regime without change, the rules of origin can be manipulated to distort trade. What is significant to be underlined here is the possibility of converting the rules of origin into trade policy tools *per se*.

*Identification of the country of origin of a product against which an anti-dumping or a countervailing duty is to be imposed would depend on Rules of Origin*

### **Domestic Origin vs. Foreign Origin**

Another issue related to our discussion on non-preferential rules of origin is the criteria applied to determine whether a good is of domestic origin or not. Can the same set of rules used to determine the foreign country of origin of a product be applied to determine whether a product is of domestic origin or not? The criteria, in fact, differs in many countries.

However, the ARO insists that the rules of origin that the WTO members apply to imports and exports should not be more stringent than the rules of origin they apply to determine whether a good is domestic or not (Article 1, ARO). In other words, the Rules of Origin to determine whether or not a good is of domestic origin should be either as stringent or more, than the rules of origin applied to exports and imports. In any case, Rules of Origin applied to determine whether a product is of domestic origin or not would have far reaching implications for commercial policy. They could be effectively used to protect selected domestic sectors/industries (Vermulst, 1997:467-70)<sup>7</sup>. In view of its importance, the argument is illustrated in some detail.

*The issue involved is quite similar to that of domestic content requirements practiced by developing countries, which specify requirements on the share of domestic content in production*

Suppose that the US Government is keen to protect domestic producers of upstream textile products such as yarn and fabrics, the Government can frame the rules of origin to determine the “domestic status” in such a way that textile and clothing producers in the US use yarn or fabrics produced in the US. Textiles and clothing products produced in the US using imported yarn or fabrics could be denied domestic status by way of rigid Rules of Origin with stringent domestic content requirements. So much so that in order to ensure the ‘domestic status’ and thereby avoid stiff tariff and other border measures, the US producers of textile and clothing products would source their yarn or fabric inputs from US manufacturers rather than from lower cost external sources.

As for theoretical insights, the issue involved is quite similar to that of domestic content requirements practiced by developing countries, which specify requirements on the share of domestic content in production. Failure to meet these requirements results in a penalty tariff on inputs for domestic producers or a penalty tariff on the import of the final goods if the same are imported. Content protection policies have been previously analysed in the literature (Corden, 1971; Krishna & Kruger, 1995).

Even though the effects of content protection are context specific, one of the most probable outcomes is an increase in the level of protection granted to the domestic input producing industry. However, while content protection causes substitution towards domestic inputs, it also raises the cost and

hence the price of the final goods. Therefore, the content protection schemes might not be very attractive from the point of view of the domestic final good industry<sup>8</sup>.

*The rules of origin are potential trade policy weapons in pursuing the goal of protecting the producers of intermediate goods*

The established trend, earlier in the world of commercial policy, especially in developed countries, was to give more protection to final goods by way of escalation of trade barriers across processing chains. The escalation of tariffs across processing chains, and the consequent high level of effective protection granted to the final goods producers by the developed countries continues to be a major source of worry for developing country exporters.

However, in some sectors like textiles and clothing, the developed countries are now keen to protect the upstream activities. The rules of origin are potential trade policy weapons in pursuing the goal of protecting the producers of intermediate goods. Generally, a country, which wants to protect the intermediate goods producing industry, would prefer stringent rules of origin for the final goods, tracing its origin to the country of production of the intermediate goods. Whereas, a country, which does not produce the intermediate good, whose final goods industry is dependent on imports, is likely to favour more liberal rules of origin for the final goods, and unlikely to support provisions tracing the origin of the final goods to the intermediate goods producing country.

### **‘Privatisation’ of Trade Policy**

*Individual industries, and concerned industrial lobbies play a very important role in determining the level of protection granted in the case of most of the new, contingent forms of protection, including rules of origin*

Another important feature of protectionism based on rules of origin is the so-called ‘privatisation’ of trade policy. Individual industries and concerned industrial lobbies play a very important role in determining the level of protection granted in the case of most of the new, contingent forms of protection, including rules of origin. In these cases, whether protection is finally granted or not, and the level of protection, would depend largely on the persuasive skills and strengths of the industrial lobbies.

The cumbersome administrative process involved, and the scope of involvement by the import competing interests, makes the system less predictable as well as less transparent when compared to the overt methods of protection (Palmetter, 1993; Hoekman, 1993). Contextually, US textile lobbies are known to have played an important role in framing highly restrictive US and NAFTA rules of origin in the area of textiles and clothing (Hoekman, 1993).

## Chapter 3

# The WTO Agreement on Rules of Origin

The WTO Agreement on Rules of Origin was adopted at Marrakesh as part of the final results of the Uruguay Round of Multilateral Trade Negotiations (MTN). As can be seen from Chart 1, the ARO is divided into four parts, containing nine articles, and two annexes.

*The WTO Agreement on Rules of Origin was adopted at Marrakesh as part of the final results of the Uruguay Round of Multilateral Trade Negotiations (MTN)*

Part I (Article 1) presents definitions and coverage, which excludes the preferential rules of origin from the scope of the Harmonisation Work Programme (HWP). Part II deals with disciplines to govern the application of rules of origin during the transition period (Article 2) and disciplines after the transition period (Article 3). Part III, which contains Articles 4 to 8, presents the proposed procedural arrangements on notification, review, consultation and dispute settlement.

Article 4, which deals specifically with the institutional structure, deserves special mention. It provides for the establishment of the Committee on Rules of Origin (CRO) and the Technical Committee on Rules of Origin (TCRO). The CRO, composed of representatives from each of the members, is supposed to be the key organisational arm of the ARO in implementing its objectives. The TCRO, established under the auspices of the WCO, is supposed to help the CRO by providing it with technical inputs.

Part IV (Article 9) is devoted exclusively to the HWP. Annex I of the ARO is on TCRO and provides details on the technical work, which is not mentioned in Part III of the Agreement. Annex II is a common declaration with regard to preferential rules of origin to which the mainstream articles of the ARO do not apply.

*The ARO (Article 9) maintains that the country to be determined as the origin of particular goods should be either the country where the goods have been wholly obtained, or, the country where last substantial transformation of non-originating materials has been carried out*

As a broad principle, the ARO (Article 9) maintains that the country to be determined as the origin of particular goods should be either the country where the goods have been wholly obtained, or, when more than one country is involved, the country where last substantial transformation of non-originating materials has been carried out. This is perfect in agreement with the recommendations of the Kyoto Convention.

An important initial task to be undertaken by the TCRO is to develop a harmonised definition of the goods that are to be considered as wholly obtained in one country. In such cases, as we have seen earlier, the 'nationality' of origin will be fairly obvious. However, to support the harmonised definition of goods wholly obtained in one country, the TCRO is also entrusted to evolve a harmonised definition of minimal operations or processes that do not themselves confer origin to goods.

Chart 1: Structure of ARO	
<b>Part I:</b>	<b>Definitions and Coverage</b> Article 1 – Rules of Origin
<b>Part II:</b>	<b>Disciplines to Govern the Application of Rules of Origin</b> Article 2 - Disciplines during the Transition Period Article 3 - Disciplines after the Transition Period
<b>Part III:</b>	<b>Procedural Arrangements on Notification, Review, Consultations and Dispute Settlement</b> Article 4 - Institutions Article 5 - Procedures for Introduction of New RO Article 6 - Review Article 7 - Consultation Article 8 - Dispute Settlement
<b>Part IV:</b>	<b>Harmonisation of Rules of Origin</b> Article 9 - Objectives & Principles
<b>Annex I:</b>	Technical Committee on Rules of Origin (TCRO)
<b>Annex II:</b>	Common Declaration on Preferential Rules of Origin

When more than one country is involved in the production of goods the consideration of substantial transformation is prescribed to be evoked. The general principle prescribed for determining substantial transformation is that of Change in Tariff Heading (CTH) in the Harmonised System (HS) nomenclature. The TCRO is entrusted with the job of suggesting minimum change within the nomenclature that meets the criterion of substantial transformation on a product-by-product basis.

*The TCRO is entrusted to suggest supplementary criteria in the case of products where the exclusive use of HS nomenclature does not allow for the expression of substantial transformation*

However, as we have already indicated, the HS nomenclature is not developed on the basis of the criterion of substantial transformation. As such, the CTH method may not be the appropriate rule in the case of all products to judge whether there has been substantial transformation. Therefore, the TCRO is entrusted to suggest supplementary criteria in the case of products where the exclusive use of HS nomenclature does not allow for the expression of substantial transformation. The supplementary methods suggested are the *ad valorem* criterion and the method of prescribing manufacturing or processing operations<sup>9</sup>.

The TCRO is expected to complete the above tasks in a phased manner, taking into account the chapters and sections of the HS nomenclature and submit the results to the CRO on a quarterly basis. It is up to the CRO to consider the interpretations of the TCRO before endorsing them. After completing the technical work outlined above, the CRO would consider the question of overall coherence of the draft rules of origin formulated at the level of individual products. Finally, the authority to adopt the harmonisation work programme and to make it an integral part of the ARO is that of the Ministerial Conference.

### Review of the Harmonisation Work Programme

Harmonisation of the rules of origin is one of the most ambitious, and perhaps the most technically oriented task that the WTO has undertaken since its inception in 1995. The CRO and the TCRO, the two committees entrusted with the job, in fact, have made commendable progress in fulfilling

*In spite of several years of intense negotiations and the massive amount of work that had gone in, the task of harmonisation remains far from complete. The HWP was supposed to be over in July 1998*

their respective responsibilities. However, in spite of several years of intense negotiations and the massive amount of work that had gone in, the task of harmonisation remains far from complete. The HWP was supposed to be over in July 1998, after three years of its launching in July 1995.

The deadline was extended several times by the General Council, but the extended deadlines were passed without the completion of the HWP. The General Council, at its meeting in December 2002, extended the deadline for the completion of negotiations on the 94 core policy issues until July 2003. The General Council also agreed that the CRO, following the resolution on the core policy issues, should complete its remaining technical work by the end of 2003 (WTO, 2003:G/L/593/Add.1).

An important achievement of the HWP, so far, has been the Integrated Negotiating Text, which lays down the overall architecture of the harmonised non-preferential rules of origin. The Integrated Negotiating Text, which was subjected to several rounds of revision, dealt with goods that are to be considered as being wholly obtained in one country, with minimal operations, and substantial transformation through change in tariff classification and/or supplementary criteria. This Text contains, besides the general rules, two appendices; first one on harmonised rules pertaining to wholly obtained goods, and the second one deals with product specific rules of origin.

Except for two important outstanding issues, there is broad consensus among members regarding harmonised definitions of the goods, which are to be considered wholly obtained in one country. Appendix 1(WTO 2002:G/RO/45/Rev.2) presents an exhaustive list of goods that are to be considered as being wholly obtained in one country, such as:

- (a) Live animals born and raised in that country;
- (b) Animals obtained by hunting, trapping, fishing, gathering or capturing in that country;
- (c) Products obtained from live animals in that country;
- (d) Plants and plant products harvested, picked or gathered in that country;
- (e) Minerals and other naturally occurring substances extracted or taken from that country;
- (f) Scrap and waste derived from manufacturing or processing operations or from consumption in that country and fit only for disposal or for the recovery of raw materials;
- (g) Articles collected in that country which can no longer perform their original purpose there, nor are capable of being restored or repaired and which are fit only for disposal or for the recovery of parts of raw materials;
- (h) Parts or raw materials recovered in that country from articles which can no longer perform their original purpose, nor are capable of being restored or repaired; and
- (i) Goods obtained or produced in that country solely from products referred to in (a) through (h) above.

*An important achievement of the HWP, so far, has been the Integrated Negotiating Text, which lays down the overall architecture of the harmonised non-preferential rules of origin*

When we add the definition of minimal operation and process (Rule 2), to the above list of wholly obtained goods, we get a fairly comprehensive harmonised definition of wholly obtained goods. Minimal operations and process are defined as follows:

“Operations or processes undertaken, by themselves, or in combination with each other, for the purposes listed below, are considered to be minimal and shall not be taken into account in determining whether a goods merchandise has been wholly obtained in one country: (1) ensuring preservation of goods in good condition for the purposes of transport and storage; (2) facilitating shipment or transportation; and (3) packaging or presenting goods for sale” (WTO, 2002:G/RO/45/Rev. 2).

*There is agreement among members that the origin of fish and other products taken from the territorial sea (not exceeding 12 nautical miles) of a country should be the coastal state*

However, there is no consensus on the issue of origin of recovered parts from collected articles (which can no longer perform their original purpose – e.g. discarded computers). The two options are to confer origin either to the country where the articles are collected, or to the country where the parts are extracted. But, the above rules were not acceptable to some members because recovery of parts from collected articles might also release radioactive, hazardous and toxic waste, the disposal of which could emerge as a major environmental problem. Another problem that eludes consensus is the question of origin of fish and other products taken from the Exclusive Economic Zone (EEZ).

There is agreement among members that the origin of fish and other products taken from the territorial sea (not exceeding 12 nautical miles) of a country should be the coastal state. It is also being agreed upon that the origin of fish and other products taken from the high seas should be the country whose flag the vessel that carries out these operations is entitled to fly.

However, disagreement persists in the case of fish and other products taken from the exclusive economic zone (WTO, 2002:G/RO/52). While countries like India maintain that the origin of fish and other products taken from the EEZ should be the coastal state, the USA, the EEC, Japan, Canada, and some other countries insist that the origin should go to the country whose flag the vessel flies (WTO, 2002:G/RO/52). The interest of the latter group of countries is to have an international fishing area as large as possible with origin of the products determined by the flag of the ship, whereas the former group want to keep full control over the resources of their waters (Nell, 1999).

### **Product Specific Rules of Origin**

*Most of the road-blocs to the HWP are to be seen in the attempt to evolve product specific rules of origin, which put forward specific criteria for substantial transformation*

Most of the road-blocs to the HWP are to be seen in the attempt to evolve product specific rules of origin, which put forward specific criteria for substantial transformation. In June 1999, when TCRO submitted the final results of its technical work in this regard, there were 486 outstanding product specific issues to be considered by CRO. It could resolve many of them after that.

However, since the rest of the outstanding issues were difficult to be dealt with at the committee level, the CRO had referred them to the General Council for discussion and decision. Out of 94 core policy issues referred to the General Council, 92 were related to the product specific rules. Among the two other issues referred to the General Council, one was the question of origin of fish and other products taken from the EEZ. The other was the implication of the implementation of the Harmonised Rules of Origin for other WTO agreements. The ARO would have implications for almost all other WTO agreements. Over the past several years the CRO had held intensive discussions on the issue and decided to submit the same to the General Council along with the Chairman’s proposals.

Regarding the outstanding product specific issues, it is difficult to make a generalisation on the nature of disputes and the position taken by the members. Indeed, what will or will not qualify for substantial transformation is the central question of conflict in almost every case. But a perusal of the positions taken by members across product groups brings out lack of consistency in their approach to the question of substantial transformation. Information presented in Table 3 will help us illustrate the conflicting positions taken by countries.

***India, which opposes harsh norms in the area of textiles and textile articles, is all for stricter norms for tropical products***

For instance, the US, which insists on stringent norms in the area of textiles and textile articles, is rather reluctant to accept such a rigid approach in the case of many tropical products. India's position in the cases cited above is exactly the opposite of those of the US. India, which opposes harsh norms in the area of textiles and textile articles, is all for stricter norms for tropical products. Such inconsistency in approach by which countries refuse to follow general norms and broad principles in a consistent manner is widely noted among the WTO members. There is no dearth of examples for illustrating such inconsistencies in the position of members.

***Negotiating positions of countries across product sectors are determined by the corresponding national trading interests rather than by any common principle to be adopted in a uniform manner***

The reasons behind such inconsistencies in the position of countries are not far to seek. The most important among them is the influence of trading interests. Negotiating positions of countries across product sectors are determined by the corresponding national trading interests rather than by any common principle to be adopted in a uniform manner.

The question as to whether the outstanding issues would be solved and whether HWP would be concluded before the latest deadline set for the purpose (end of 2003) defy easy answers. The remaining outstanding issues represent hard fought and long held positions of member countries involving big stakes. As such they are unlikely to be resolved at the level of TCRO or CRO. An early resolution of the outstanding issues might, therefore, require involvement of the General Council or even the Ministerial Conference. In any case, a comprehensive evaluation of the outcome of the HWP will have to wait until the outstanding issues are resolved and the HWP completed.

**Table 3: Conflicts over Defining Substantial Transformation: An Illustration**

Process	India	USA
Green Coffee is processed through roasting into roasted coffee	It is not substantial transformation	It is substantial transformation
Cocoa beans transformed into cocoa paste by roasting, winnowing, alkalinisation and grinding	It is not substantial transformation	It is substantial transformation
Fruits or vegetables are processed through extraction into juices	It is not substantial transformation	It is substantial transformation
Crushing/grinding of spices	It is not substantial transformation	It is substantial transformation
Making dyed or printed yarn from yarn	It is substantial transformation	It is not substantial transformation
Making dyed or printed fabrics from fabrics	It is substantial transformation	It is not substantial transformation

*Source: WTO (2002): Report by the Chairman of the Committee on Rules of Origin to the General Council, G/RO/52, 15 July.*

## *Chapter 4*

# **Harmonisation Work Programme: A Critique**

Obviously, it is now premature to attempt a comprehensive critique of the unfinished HWP. Such a study should probably wait till the Ministerial Conference finally adopts the harmonised rules of origin. However, the progress made so far, as outlined in the previous section, prompts a critical analysis of the HWP, which is undertaken here primarily from the point of view of the South Asian countries.

*It is important that the ARO succeeds in its fundamental goal of establishing a multilateral regime for rules of origin, lest the anarchy that is likely to break out in the sphere of Rules of Origin endanger the process of trade liberalisation*

In Chapter-II, factors that tend to make the hitherto inconsequential rules of origin a contested terrain have been identified. None of the factors identified, viz., internationalisation of production, increasing incidence of discriminatory trade policy tools that require well defined rules to determine nationality of origin of commodities, and the growing tendency to make use of rules of origin as protectionist tools *per se* are likely to decline in importance in the foreseeable future.

On the contrary, each of them are likely to grow in importance over time, making the rules of origin sites of growing trade policy conflicts among nations. The ARO, therefore, has come none too early. It is important that the ARO succeeds in its fundamental goal of establishing a multilateral regime for rules of origin, lest the anarchy that is likely to break out in the sphere of Rules of Origin endanger the process of trade liberalisation. It is advisable, therefore, that a critique of the ARO addresses the question as to whether such a regime would be established and also whether the tendency to use rules of origin as discriminatory policy tools *per se* would be checked.

A related and perhaps equally important question would be that of the nature of the multilateral regime on rules of origin that is in the making. It is one thing to establish an international regime and quite another to ensure that it is non-discriminatory in nature. The latter question is particularly important when seen from the point of view of developing countries, such as those in South Asia, which lack political and economic clout to influence the outcome of international trade negotiations.

*In spite of the multilateral regime visualised by the ARO, the rules of origin are likely to be misused widely for protectionist purposes*

According to some opinions, the ARO and the HWP are likely to fall short of expectations with respect to both the objectives outlined above. In spite of the multilateral regime visualised by the ARO, the rules of origin are likely to be misused widely for protectionist purposes. Further, the regime that is in the making is likely to be biased against the interests of the developing countries, including those of South Asia.

The central limitation of the ARO and the HWP we wish to highlight here is their inability in addressing the most important issue that they were supposed to address, viz., the tendency to use rules of origin as discriminatory

trade policy tools *per se*. First take the case of discrimination among foreign suppliers. The most important source of such discrimination in today's world, undoubtedly, are the preferential trading arrangements (PTAs).

But, as argued, the preferential rules of origin are not in the purview of the HWP. Annex II of the ARO, which presents the common declaration with regard to preferential rules of origin, can hardly compensate for the exclusion of the preferential rules from the HWP. The misuse of rules of origin, as a protectionist tool, is quite rampant among the PTAs. In fact, as we have argued at length earlier, it was the proliferation of PTAs that had led to the proliferation of rules of origin.

It is quite common for individual countries to join several PTAs, representing a hierarchy of privileges and preferences. All these, it is widely argued, contribute to the uncertainties and risks of traders. It is no exaggeration to say that originating status would vary not only according to the destination of exports but also depending on the preferential regime that the exporters choose to avail.

The excuse for the exclusion of preferential rules of origin could be that they affect only the members/beneficiaries of the PTA. But, as explained in Chapter II, rules of origin of PTAs could act as stiff non-tariff barriers against non-members. The PTAs can employ rules of origin, as many of them do, to scale up barriers to imports from non-members. This, it needs to be underlined, is against the spirit of Article XXIV of GATT, which permits establishment of PTAs.

The purpose of such preferential agreements, as Article XXIV makes clear, "should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other members". As such, if the declared objective of the WTO of eliminating trade distorting effects of rules of origin is to be achieved, it should be addressing the question of preferential rules, if not now, in the near future. The developing countries should perhaps insist first on documenting all preferential rules of origin and then on periodic negotiations for making them less stringent.

Coming more specifically to the impact on South-Asian countries, the exclusion of preferential rules from the harmonisation programme would not be very advantageous in improving their market access to the PTAs among developed countries. The PTAs, such as EEC, EFTA and NAFTA, will continue to misuse rules of origin to protect domestic production as they do now. The phasing out of overt trade barriers might also lead to more extensive use of rules of origin as trade policy tools in such PTAs.

*The exclusion of preferential rules from the HWP would enable the South Asian countries also to make preferential rules of their choice in the PTAs that they establish*

But, the exclusion of preferential rules from the HWP would enable the South Asian countries also to make preferential rules of their choice in the PTAs that they establish. This is particularly important because the PTAs involving South Asian countries are of relatively new origin. Since new PTAs are likely to be characterised by relatively high inter-country differences in tariffs, they are likely to be more vulnerable to trade diversion (Panchmukhi & Das, 2001). However, it is advisable that the PTAs among the developing countries also desist the temptation to revise the rules of origin periodically to make them more stringent.

*Internationalisation of production and accompanying technological changes would require periodic revision of the rules of origin, especially in product groups where technologies and production processes change fast*

Another reason for our pessimistic note on the proposed international regime on rules of origin is the inbuilt need for periodic revision of rules of origin and the scope that it entails for 'privatisation' of trade policy making. This criticism is applicable to both preferential and non-preferential rules of origin. Internationalisation of production and accompanying technological changes would require periodic revision of the rules of origin, especially in product groups where technologies and production processes change fast. Such periodic revision will be all the more important in the case of products, rules of origin of which are defined in terms of specific processes.

The process of technological change also presupposes periodic revision of the tariff nomenclature. The harmonised rules of origin are supposed to be based on the Harmonised System (HS) of trade classification. The HS is subject to periodic revision so that it is sensitive to changes in technology and structural transformation of trade. The changes in the HS nomenclature, therefore, will be another reason for undertaking periodic revision of the rules of origin.

Interestingly, therefore, the HWP and the conflicts that it entails are likely to be a permanent feature of the WTO in the future. The need for periodic revision and the consequent uncertainty regarding the rules of origin might strengthen the tendency of 'privatisation' of trade policy. It would also add to the burden of negotiators from developing countries, including South Asian nations. As Satapathy pointed out, the HWP has turned out to be a costly affair, as it has also been long drawn out, not only for the world body but also for the member countries (Satapathy 1998a). Even though Article 6 of the ARO provides for the introduction of amendments to the harmonised rules, procedures for the same are yet to be evolved. In view of the threat of misuse and 'privatisation', it is important that detailed procedures for moving the amendments are clearly laid out.

It is contextual here to mention the increasing incidence of violation of transition disciplines spelt out in Article 2 of the ARO. Given the long drawn out nature of the negotiations it is difficult to predict as to when the harmonised rules would get implemented. Till then, the transition disciplines assume special importance. In the transition period members are not expected to introduce new rules of origin, or changes in the existing regimes, which are likely to be used as instruments to pursue trade objectives, directly or indirectly.

*The need for periodic revision and the consequent uncertainty regarding the rules of origin might strengthen the tendency of 'privatisation' of trade policy*

However, instances of violation of such interim disciplines are increasing. An instance worth special mention here has been the changes introduced by the United States of America to its rules of origin for textile and apparel products, which entered into force on 1 July 1996. The US action, highly protectionist as it has been, had given rise to demand for consultation from the part of many members, including India and the EEC (WTO 2002:G/RO/D/4).

Incidentally, the issue, taken later to the dispute settlement body by India, was settled in favour of the US (Pratap, 2003). Further delay of the HWP is likely to lead to such rules of origin based protectionist moves from member states. There is, therefore, a clear case for negotiating an understanding to keep *status quo* (a "stand still" understanding) in the case of rules of origin till the HWP is completed.

Regarding the second proposition, there are many reasons why we fear that the new multinational regime would be biased against the interests of developing countries. We have already mentioned two of them, viz., exclusion of preferential rules of origin, and the threat of periodic revision of rules of origin that leaves scope for the so called 'privatisation' of trade policy making.

***The new regime denies special and differential treatment to the developing countries. Individual developing countries will not have the right to make deviations from the common rules to suit their stage of development***

Both these factors, given the size and strength of PTAs among developed countries, and the bargaining power of industrial lobbies from the west, are likely to have adverse implications for developing countries. Coming to more substantial reasons, since the non-preferential rules of origin under the HWP are supposed to be common to all WTO members, the scope of discrimination would appear to be limited. But, as we shall try to illustrate, the proposed regime of common rules of origin is no guarantee for equal treatment.

Before explaining how the common rules can be discriminatory, it is important to note that the new regime denies special and differential treatment to the developing countries. Individual developing countries will not have the right to make deviations from the common rules to suit their stage of development. Interestingly, this is in contrast to most other agreements of WTO, which are known to factor-in the question of development into their framework. In our opinion, developing countries have a case for demanding the right to deviate from common rules of origin, wherever such concessions are justifiable in terms of special and differential treatment.

Coming back to the question of discrimination, it should be emphasised that while harmonised rules are common for individual product groups across countries, they differ significantly between product groups. In some product groups, the common rules are very simple, while in some others, very stringent. This difference across product groups arises out of varying perceptions regarding what will or will not qualify for substantial transformation.

There are no universal rules or commonly accepted criteria for determining substantial transformation. The criteria proposed by the TCRO and the CRO vary significantly across products. As such, general discussions on common criteria for substantial transformation could not throw much light on the question of regional impact. In fact, a clear idea on the regional impact would require product specific studies to be undertaken with respect to all important commodity groups of the region. Considering the overwhelming significance of textiles and clothing to the region, the present study is focused on this sector.

***A clear idea on the regional impact would require product specific studies to be undertaken with respect to all important commodity groups of the region***

An illustration in terms of textiles and clothing is particularly important in the context of the WTO Agreement on Textiles and Clothing. The ten-year period over which the MFA quotas are supposed to be phased out is ending on December 31, 2004. The consequent rehabilitation of the textiles and clothing sector to the GATT fold from January 1, 2005, when all bilateral quotas vanish, is expected to usher in a new era of free trade and expanding markets. The South Asian countries are also expected to make significant gains from the MFA phase out (Wijayasiri, 2003).

But, the initial euphoria is fading as we move closer to January 1, 2005. It is now clear that in the post-integration phase the developed countries would be resorting to the tariffs in a big way to protect their textiles and

*The US move, supported by many other developed countries, is to influence the HWP so that the home spun and highly protectionist rules of origin are imposed on the community of nations*

*Free trade owes many of its virtues to specialisation. But, an important feature of the US proposals on rules of origin in textiles and clothing is their anti-specialisation bias*

clothing producers (Bagchi, 1998). It is also becoming obvious that the developed countries would be resorting to a variety of covert protectionist tools, such as anti-dumping and countervailing duties (Bagchi, 1998; Wijayasiri, 2003) to ward off competition from the third world. What is more significant in our context is the likelihood of rules of origin emerging as a highly potent protectionist weapon. Indications of the same are already seen in NAFTA as well as in Section 334 of the Uruguay Round Agreements Act, 1996 of the United States. The US move, supported by many other developed countries, is to influence the HWP so that the home spun and highly protectionist rules of origin are imposed on the community of nations.

Free trade owes many of its virtues to specialisation. But, an important feature of the US proposals on rules of origin in textiles and clothing, which we highlight here, is their anti-specialisation bias. Over centuries, textiles and clothing industries had evolved quite an intricate pattern of international specialisation. There are countries and regions, which specialise in one or many combinations of activities such as spinning, weaving, bleaching, texturing, dyeing, printing, coating, impregnating, embroidery, making of made-up articles, assembly of garments, etc. There are countries, which do not produce any yarn or fabric, but maintain a strong presence in the industry and trade by virtue of their comparative advantage and specialisation in other activities.

But, if developed country proposals are accepted, many such activities/avenues of specialisation will not, by themselves, meet the criteria of substantial transformation/origin status. The situation would be so bad that the origin of yarn and fabrics, regardless of dyeing, printing and so many other processing operations done elsewhere, would be traced back to the country of spinning or weaving.

**Table 4: Selected Origin Disputes in Textiles and Clothing**

Process	India	US
Dyeing or printing of yarn	Permanent dyeing or printing alone can be considered as substantial transformation	A yarn of one country that is dyed and/or printed in another country should not be considered as originating in the latter country
Dyeing or printing of fabrics	Permanent dyeing or printing alone can be considered as substantial transformation	Neither dyeing nor printing alone nor dyeing and printing together result in substantial transformation
Coating fabrics with rubber or plastics	Coating of rubber or plastics can be considered as substantial transformation	Coating of fabrics with rubber or plastics cannot be considered as origin conferring
Making embroidered flat products from fabric	Substantial transformation if the value of non-originating materials does not exceed 50 percent of the ex-work price of the product	Country of origin shall be the same as the country of origin of fabric
Parts knitted or crocheted to shape are processed through assembling into apparel	Considers as substantial transformation	Does not consider as substantial transformation

*Source: WTO (2002) Report of the Chairman of the Committee on Rules of Origin to the General Council, G/RO/52, 15 July*

A brief account of some origin disputes presented in Table 4 would make the competing positions clear. Keeping in tune with the history of evolution of the industry, and its present international structure, India and other developing countries in general recognise each such activity/avenue of specialisation as substantial transformation requiring shift of origin. Whereas, the developed countries, led by the US, refuse to recognise many key processes/avenues of specialisation as substantial to cause shift in origin. For them, origin of textiles and clothing products should be traced back, as far as possible, to the country of origin of yarn or fabric.

***If US proposals of non-preferential rules were accepted it would give a discriminatory advantage to the domestic producers vis-à-vis foreign sources of yarn and fabrics***

If US proposals of non-preferential rules were accepted it would give a discriminatory advantage to the domestic producers vis-à-vis foreign sources of yarn and fabrics. Take, for instance, the case of US manufacturers of printed fabrics. If they import fabrics for printing from India they could be denied domestic status. Their products could be treated as of foreign origin and they would be made liable to pay customs duty. As such, regardless of the price advantage of the Indian source, the US firms might source their inputs from within the country.

The implications of such a regime would be highly trade distorting if the MFA survives in the present form or in new forms. The export of textile articles from other developing countries, which source yarn or fabrics from India or Pakistan, would be counted against the bilateral quotas of India and Pakistan! The new rules might also make administration of trade more cumbersome and costly.

A related problem is that of targeting trade policy tools such as anti-dumping and countervailing duties. Suppose anti-dumping action is to be taken against country 'A' exporting printed fabrics and made-up articles using fabrics imported from country 'B'. According to the US proposals, the anti-dumping and countervailing duties would be charged on the country of origin which would be 'B' not 'A'. Further, in the case of many products of textiles and clothing it will be difficult to trace the country of origin of yarn or fabrics used in their making. In fact, the country of origin of a product produced by a given firm might go on changing according to the changes in the source of inputs. Accordingly, the manufacturer will also be forced to change the marking of origin.

***The impact of common rules would vary significantly across South Asian countries. Upstream protection in developed countries would tend to affect India and Pakistan more than other countries in the region***

Last, but not the least, is the bias against specialisation: countries specialising in processing operations such as dyeing, printing, etc. will be denied originating status. In the process it would also make protection of intellectual property rights related to the processing activities [e.g. Intellectual Property Rights (IPRs) on designs] difficult. Such countries, which are denied originating status, might also fail to attract investment.

Admittedly, the impact of common rules would vary significantly across South Asian countries. Upstream protection in developed countries would tend to affect India and Pakistan more than other countries in the region. That big stakes are involved for both India and Pakistan is clear from data presented in Table 5 & 6 (see also Spinanger & Verma, 2003). Relative shares of countries in world exports show that India and Pakistan are leading exporters of yarn and textile products.

Further, yarn and textile products are leading items in the export baskets of India and Pakistan. Smaller countries in the region, however, do not export much yarn or fabrics. But, the fact that they specialise in downstream

**Table 5: South Asia in World Trade of Yarn and Textile Products**

<b>Product Code</b>	<b>Country</b>	<b>Share of the Product in the Country's Total Exports (%)</b>	<b>Share of the Country in the Total World Exports of the Commodity (%)</b>
(1)	(2)	(3)	(4)
Textile Yarn (651)	India	4.41	4.91
	Pakistan	13.23	3.54
	Sri Lanka	NI	NI
	Bangladesh	NI	NI
Cotton Fabrics, Woven(652)	India	2.78	4.93
	Pakistan	14.09	6.01
	Sri Lanka	NI	NI
	Bangladesh	NI	NI
Woven Man-made Fibre Fabric (653)	India	1.09	1.32
	Pakistan	5.8	1.69
	Sri Lanka	NI	NI
	Bangladesh	NI	NI
Knitted, ETC. Fabric (655)	India	NI	NI
	Pakistan	0.93	0.61
	Sri Lanka	NI	NI
	Bangladesh	NI	NI
Spec Textile Fabrics, Products (657)	India	0.25	0.44
	Pakistan	NI	NI
	Sri Lanka	NI	NI
	Bangladesh	NI	NI
Textile Articles NES (658)	India	2.41	5.55
	Pakistan	13.68	7.55
	Sri Lanka	NI	NI
	Bangladesh	2.96	0.87

*Notes: NI stands for not included. NI for Column 3 means that the product concerned is not among the top 10 export products (at SITC 3-digit level) of the country concerned. NI for column 4 means that the country is not among the top 10 exporters of the commodity.*

*Source: UNCTAD, Hand of Statistics, 2001*

products is no consolation for countries like Bangladesh or Sri Lanka. Some of the processes in which they specialise might not be origin conferring. Therefore, if US proposals are accepted, they will also be under pressure to make many adjustments to cope up with the new rules.

Obviously, in textiles and clothing, India prefers more liberal rules of origin than those proposed by the developed countries. But, there are many product groups in which India and other South Asian countries prefer stricter rules of origin.

There are many product groups in which India and other South Asian countries prefer stricter rules of origin than those proposed by developed

**Table 6: South Asia in World Trade of Clothing Products**

<b>Product Code</b>	<b>Country</b>	<b>Share of the Product in the Country's Total Exports (%)</b>	<b>Share of the Country in Total World Exports of the Commodity (%)</b>
(1)	(2)	(3)	(4)
Men's Outerwear Non-knit (842)	India	NI	NI
	Pakistan	4.09	1.09
	Sri Lanka	7.52	1.1
	Bangladesh	23.61	3.37
Women's Outerwear Non-knit (843)	India	5.33	4.45
	Pakistan	NI	NI
	Sri Lanka	17.85	1.96
	Bangladesh	13.04	1.4
Undergarments Non-knit (844)	India	2.39	6.04
	Pakistan	NI	NI
	Sri Lanka	5.26	1.75
	Bangladesh	18.97	6.17
Outergarments Knit Non-elastic (845)	India	NI	NI
	Pakistan	2.98	0.62
	Sri Lanka	7.22	0.82
	Bangladesh	10.14	1.12
Undergarments Knitted (846)	India	2.57	3.03
	Pakistan	5.65	1.6
	Sri Lanka	9.4	1.46
	Bangladesh	8.96	1.36
Headgear, Non-textile Clothing (848)	India	1.2	3.76
	Pakistan	4.9	3.67
	Sri Lanka	2.12	0.87
	Bangladesh	NI	NI

*Notes: NI stands for not included. NI for Column 3 means that the product concerned is not among top the 10 export products (at SITC 3-digit level) of the country concerned. NI for column 4 means that the country is not among top 10 the exporters of the commodity.*

*Source: UNCTAD, Hand of Statistics, 2001*

*In the case of most tropical products and their derivatives, India prefers to have rules which trace the origin to the country in which the plant grew*

countries. For instance, as we have illustrated in Table 3, (Page 15) India, which opposes harsh norms in the area of textiles and textile articles, is all for stricter norms for tropical products. In the case of most tropical products and their derivatives, India prefers to have rules which trace the origin to the country in which the plant grew. Whereas, for developed countries, even such minor processing activities such as crushing or grinding of spices is origin conferring!

Even though tropical products are produced mostly in developing countries, they end up specialising mainly in the lower stages of the processing/value chain. This pattern of specialisation is explained mainly in terms of escalation

of tariff and other barriers across processing chains in developed country markets. Interestingly, the liberal rules of origin proposed by the developed countries in the area of tropical products would tend to reinforce the above legacy of specialisation.

***Developing countries argue that the country where the plant grew, which determines the essential attributes of the tropical products and their derivatives, should be recognised, has implications for possible geographical indications for such products***

Therefore, developing countries have sound reasons for demanding stricter rules of origin for tropical products. Further, their argument that the country where the plant grew, which determines the essential attributes of the tropical products and their derivatives, should be recognised, has implications for possible geographical indications for such products. This assumes special significance in the context of the demand that the additional protection conferred for geographical indications for wines and spirits be extended to other products, particularly those of interest to the developing countries. Interestingly, the EEC has been stubborn in the negotiations that the origin of wine, whether produced from grapes or grape must, shall be the country in which the grapes grew (WTO, 2002: G/RO/52).

It is clear that commercial policy objectives of countries, and therefore, their preferences regarding rules of origin would vary across product groups. Therefore, for studies on the implications of the new regime there are no short cuts other than detailed product specific studies of alternative proposals of rules of origin. Nevertheless, a perusal of positions taken by countries in the harmonisation negotiations prompts us to reiterate the observations made in Chapter II.

Mostly, countries, when they want to protect intermediate goods producing industry, prefer stringent rules of origin for the final goods, tracing the origin to the country of production of the intermediate goods. Whereas, if the final goods industry is dependent on import of intermediates, particularly when import competing production of intermediates is absent, they favour more liberal rules of origin for the final goods, and do not support provisions tracing the origin of final goods to the intermediate goods producing country. But, obviously, common rules would mean that all countries couldn't have rules of origin of their choice. The choice among alternative proposals, especially in the absence of theoretically informed norms, will depend much on the balance of political and economic power of contending parties.

***Common rules would mean that all countries couldn't have rules of origin of their choice. The choice among alternative proposals, especially in the absence of theoretically informed norms, will depend much on the balance of political and economic power of contending parties***

The question, therefore, boils down to the ability of individual nations, or their groups, such as that of developing countries, to influence the process of rule setting. Interestingly, the picture emerging from our analysis of outstanding issues is not very encouraging for the developing nations.

Regarding the harmonised definition of wholly obtained goods, it is important that we mention the issue of control of maritime resources, which is of overwhelming significance to South Asia. Among countries in South Asia, India, Pakistan, Sri Lanka, and Bangladesh possess long coastlines. As such, it is in their interest to keep full control over the resources of their waters. India's position in this regard that the origin of fish and other products taken from the exclusive economic zone should be the coastal state, represents an interest, on which the countries of the region can hardly compromise.

**Table 7: Product Specific Rules: Distribution of Outstanding Issues**

HS Chapters	Description	No. of Outstanding Issues
1-24	Live Animals, Animal Products, Vegetable Products, Animal or Vegetable Fats, Oils, Prepared Food Stuffs, Beverages, etc.	45 (49)
25-27	Mineral Products	2 (2)
28-40	Chemicals and Plastics	3 (3)
41-43	Raw Hides, Skins, Leather, Travel Goods, etc.	2 (2)
50-63	Textiles and Textile Articles	24 (26)
64-67	Footwear, Headgear, Umbrellas, etc.	4 (4)
72-74	Iron and Steel, Copper and Articles thereof	2 (2)
84, 85, 90	Machinery and Electrical Appliances, Optical Instruments, etc.	9 (10)
91	Clocks and Watches and Parts thereof	1 (1)
All Chapters		92 (100)

*Source: WTO (2002) Report by the Chairman of the Committee on Rules of Origin to the General Council, G/RO/52, 15 July*

Interestingly, most of the outstanding product specific issues, as shown in Table 7, are of export interest to developing countries, including those of the South Asian region. Agricultural products (45) and textiles and textile articles (24) together account for 69 out of the 92 product specific issues transferred to the General Council by the CRO. Even other areas, listed as disputed, are also of export interest to developing countries. It cannot be dismissed as an instance of sheer coincidence that the lion's share of the outstanding issues belongs to the traditional areas of western protectionism.

***It cannot be dismissed as an instance of sheer coincidence that the lion's share of the outstanding issues belongs to the traditional areas of western protectionism***

It may also be underlined that agriculture, textiles and textile articles, which account for 75 percent of the outstanding issues were outside the GATT disciplines until recently. As a result of the Marrakesh agreement, both agriculture and textiles are being brought back to the purview of free trade disciplines. As such, developed countries are required to phase out overt trade barriers in those areas of world trade. There is also a widely held fear that the developed countries would be trying to compensate for the loss of such overt measures by resorting to the contingent forms of protection. Even though it is too early to say whether such bunching of outstanding disputes signifies a reemergence of old agricultural and textile protectionism, such fears cannot be completely ruled out.

## Chapter 5

# Conclusion & Recommendations

*The central objective of the ARO and also the HWP is to ensure that the rules of origin are employed without/ or with least trade distorting effects. However, it would be too optimistic to expect such an outcome from the HWP*

From neutral trade policy devices employed to identify country of origin of commodities, the rules of origin are emerging as protectionist tools. Ironically, it is the success of the ideology of free trade, and the gradual elimination of overt trade barriers, such as tariffs, that made such covert trade barriers, including Rules of Origin, so popular among policy makers. Nation-states, as they are increasingly denied conventional trade policy tools, are reasserting themselves by evolving new and less visible weapons of intervention. The misuse of rules of origin as protectionist tools is widely reported from PTAs among developed countries, such as the EEC and the NAFTA. More recently, non-preferential rules of origin are also being used for protectionist purposes. It was such protectionist adaptation of the rules of origin that prompted the WTO to launch the HWP to evolve common rules of origin for all countries.

The central objective of the ARO and also the HWP is to ensure that the rules of origin are employed without/ or with least trade distorting effects. But, as our study shows, it would be too optimistic to expect such an outcome from the HWP. On the contrary, even if it is successfully completed, the HWP is likely to leave considerable scope for misuse of rules of origin for protectionist purpose. The reasons are as follows:

First, none of the factors identified, viz., internationalisation of production, increasing incidence of discriminatory trade policy tools, and the growing tendency to make use of rules of origin as protectionist tools *per se*, that tend to make rules of origin a contested terrain, are likely to decline in importance in the foreseeable future. Second, the preferential rules of origin, which are more important protectionist sites than the non-preferential rules, are excluded from the HWP. Third, the need for periodic revision of harmonised rules of origin, especially in the absence of well defined procedures for introduction of amendments, leaves scope for 'privatisation' of trade policy making even at the international level.

*The new multilateral regime, even if it succeeds in establishing a semblance of order in the arena of rules of origin, is likely to have unequal effects on members. This is so because they differ significantly across product groups*

Further, the new multilateral regime, even if it succeeds in establishing a semblance of order in the arena of rules of origin, is likely to have unequal effects on members. This is so because even though the harmonised rules are common rules, they differ significantly across product groups. There is no generally accepted norm for deciding what will or will not qualify for substantial transformation. The rigour and stiffness of the test of last substantial transformation, which is also the test for originating status, vary significantly from one product group to another. What rules will be finally adopted for each product in the HWP would depend on hard bargaining as well as on the balance of power between interested parties.

Therefore, the moot question is whether the adopted harmonised rules match the trading interests of the developing nations. An answer to the question presupposes detailed product specific analysis of alternative

proposals of rules of origin. The picture emerging from our analysis of outstanding disputes is not very encouraging for the developing countries. The outstanding disputes belong mainly to the traditional areas of western protectionism against developing countries. The fear that the developed countries are trying to manipulate rules of origin to compensate for the loss of tariff and other conventional barriers, therefore, cannot be ruled out.

***The developed countries, perhaps as a part of their preparations for the MFA phase-out in 2005, are trying to impose highly protectionist rules of origin on the WTO membership***

A perusal of developed country proposals, particularly in the area of textiles and clothing, smacks of the protectionist intent. The developed countries, perhaps as a part of their preparations for the MFA phase-out in 2005, are trying to impose highly protectionist rules of origin on the WTO membership. The developed country proposals in textiles and clothing, if implemented, would be detrimental to the South Asian countries. They would deny the South Asian countries their share of the gains of liberalisation of trade in textiles and clothing.

Similarly, the developed country proposals in the area of tropical products would tend to pre-empt future attempts to establish geographical indications in such products. The message of textiles and clothing underlines the need for more in-depth studies on new proposals of rules of origin pertaining to other important areas of trade as well. It also calls for continuous engagement with the issues of rules of origin on the part of South Asian countries.

### ***Recommendations***

- Developing countries should insist on strengthening interim disciplines by demanding a standstill agreement, which would prohibit all changes in the rules of origin by WTO members till the implementation of the harmonised rules.
- Developing countries should try to establish special and differential treatment in the area of rules of origin and demand the right to deviate from harmonised rules, wherever such deviations are required to meet their special development needs.
- Developing countries should demand the extending of harmonisation work programme to the preferential rules of origin. Preferential rules of origin, and their periodic revision, should be subjected to multilateral discipline. New and upcoming PTAs among developing countries, however, should be given special and differential treatment with respect to their rules of origin.
- Developing countries should demand that detailed procedures are laid down for introducing amendments to the harmonised rules of origin so that the threat of 'privatisation' of trade policy making is effectively checked.
- Developing countries, especially those with long coastlines, should not compromise on their position that the origin of fish and other products taken from the exclusive economic zone should be the coastal state. The position of the developed countries such as the USA, the EEC, Japan and Canada that the origin should go to the country whose flag is flying on the vessel would have unacceptable implications that go far beyond the realm of commerce.
- Developing countries should demand for much more liberal rules of origin in the area of textile and clothing products than those proposed by developed countries, which insist on tracing the origin of textile and clothing products to the country of origin of yarn or fabrics. The developed country proposals in textiles and clothing products, if implemented,

would have far-reaching adverse implications for world trade in textile products in general and for South Asian nations in particular.

- Developing countries, especially producers of tropical products, should insist on more stringent rules of origin for such products than what is being proposed by the developed nations. Rules of Origin rules that reorganise the countries, which cultivate such products, are important for possible future geographical indications.
- Developing countries should initiate detailed product specific studies on alternative proposals of rules of origin and assess their short and long term impact.
- Developing countries should make the process of rules of origin negotiations more transparent by involving national legislatures, media, and all other stakeholders.

## Endnotes

1. Article 1 of the ARO defines rules of origin as those laws, regulations and administrative determinations of general application, applied to determine the country of origin of goods, except those related to granting of tariff preferences.
2. For instance, the high cost of compliance with the rules of origin of an importing country (administrative and technical costs involved, and the need to keep the proof of origin) by itself can act as a trade deterrent. Similar is the case of uncertainties associated with the determination of origin status that add to the risk of exporters as well as importers. A more direct use of rules of origin as a protectionist tool emanates from the imposition of stringent local content requirements. The local content requirements invariably increase the consumption of factors of production originating in the territories of contracting parties. A regime of stringent rules of origin can also be used to attract investments into the markets of the contracting parties (Hirsch, 2002).
3. That many countries did not have formal, well-defined rules of origin does not mean that they did not have any mechanism to identify the nationality of origin of commodities. Since nationality of origin of most products traded was fairly obvious and uncontentious, they probably did not require well-defined rules of origin.
4. The Customs Cooperation Council is now renamed as the World Customs Organisation.
5. The exporters of finished products subjected to an anti-dumping order may just shift the components or materials to another country for manufacturing the finished product and circumventing the dumping order. This is what is alleged to have happened in the case of the US anti-dumping order against colour television receivers from Korea (Palmeter, 1990:32).
6. The above conceptualisation of the rules of origin can also be used to rank alternative origin systems, according to their impact on the net trade creation effects of the PTA. For instance, according to Stephenson and James (1995), an origin system based on the CTH rule would result in higher net trade creation than those based on process rule or value-added rule. There are, however, few studies, which take up the above question at the empirical level.
7. Vermulst (1997:467) speaks about the difference in rules of origin employed to determine the domestic status in the context of anti-dumping duties and government procurement. Also see footnotes to Articles 1 and 2 of the ARO.
8. Further, since the demand for inputs is a derived demand, the adverse impact on the final goods industry would get ultimately transferred to the input producing industry as well.
9. If the ad valorem criterion is prescribed, the method for calculating this percentage shall also be indicated. And if the criterion of manufacturing or processing operation is prescribed, the operation that confers origin on the product concerned shall be precisely specified.

## References

Bagchi, Sanjoy (1998), Will there be Free Trade in Textiles?, *Economic and Political Weekly*, Vol. XXX III, No. 27

Brenton, Paul & Miriam Manchin (2002), Making EU Trade Agreements Work: The Role of Rules of Origin, Centre for European Policy Studies, Working Document No.183, Brussels, Belgium

Corden, W. M (1971), *The Theory of Protection*, Clarendon Press, Oxford, UK

Dhar Biswajit & K. Murali (2002), Note on Harmonisation of Non-preferential Rules of Origin, Unpublished Mimeo, Centre for WTO Studies, Indian Institute of Foreign Trade, New Delhi, India

Hirsch, Moshe (2002), International Trade Law, Political Economy and Rules of Origin, *Journal of World Trade*, Vol. 36 (2), Pg. 171-188

Hockman, Bernard (1993), Rules of Origin for Goods and Services: Conceptual and Economic Considerations, *Journal of World Trade*, Vol. 27, No. 4

Inama, Stefano (1995), A Comparative Analysis of the Generalised System of Preferences and Non-preferential Rules of Origin in the Light of the Uruguay Round Agreement, *Journal of World Trade*, Vol. 29, No. 1

James, William E. (1997), APEC and Preferential Rules of Origin: Stumbling Blocks for Liberalisation of Trade, *Journal of World Trade*, Vol. 31, No. 3

Ju, Jiandong & Krishna Kala (1998), Firm Behaviour and Market Access in a Free Trade Area with Rules of Origin, National Bureau of Economic Research Working Paper No. 6857

Kleinfield, George & Diane Gaylor (1994), Circumvention of Anti-dumping and Countervailing Duty Orders through Minor Alterations in Merchandise, *Journal of World Trade*, Vol. 28, No. 1

Krishna, Kala & A. Krueger (1995), Implementing Free Trade Areas: Rules of Origin and Hidden Protection, National Bureau of Economic Research Working Paper No. 4983

Mattoo, Aaditya, Devesh Roy & A. Subrahmanian (2002), The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined, World Bank Policy Research Working Paper No. 2908

Moore, Lynden (1995), The Competitive Position of Asian Producers of Textiles and Clothing in the US Market, *The World Economy*, Vol. 18, No. 4

Nell, Philippe G. (1994), Rules of Origin: Problems and Solutions to the Swiss Non-participation in the European Economic Area, *Journal of World Trade*, Vol. 28, No. 6

Nell, Philippe G. (1999), WTO Negotiations on the Harmonised Rules of Origin: A First Critical Approach, *Journal of World Trade*, Vol. 33, No.3.

Niaoye, Ma & Shey Han-da (1996), China and the United States: Rules of Origin and Trade Statistics Discrepancies, *Journal of World Trade*, Vol. 30, No. 2

Palmetter, David N. (1990), The US Rules of Origin Proposal to GATT: Monotheism or Polytheism, *Journal of World Trade*, Vol. 24, No. 2

Palmetter, David N. (1993), Pacific Regional Trade Liberalisation and Rules of Origin, *Journal of World Trade*, No. 5

Panchmuki, V. R. & Upendra R. Das (2001), Conceptual and Policy Issues in Rules of Origin: Implications for SAPTA and SAFTA, *South Asia Economic Journal*, 2:2

Pratap, Ravindra (2003), WTO and Rules of Origin: Issues for India, *Economic and Political Weekly*, August 16-22

Satapathy C. (1998a), Rules of Origin: A Necessary Evil?, *Economic and Political Weekly*, August 29

Satapathy, C. (1998b), Rules of Origin: New Weapon against Free Trade in Textiles? *Economic and Political Weekly*, September 15-12

Simpson, John P. (1994), North American Free Trade Agreement—Rules of Origin, *Journal of World Trade*, Vol. 28, No.1

Spinanger, Dean & Samar Verma (2003), The Coming Death of the ATC and China's WTO Accession: Will Push Come to Shove for Indian T&C Exports, in L. Alan Winters & Pradeep S. Mehta (eds.) *Bridging the Differences: Analysis of the Five Issues of the WTO Agenda*, Consumer Unity & Trust Society, Jaipur, India

Stephenson, Sherry M. & James E. William (1995), Rules of Origin and Asia-Pacific Economic Co-operation, *Journal of World Trade*, Vol. 29, No. 2

Vermulst, Edwin A. (1997), Rules of Origin as Commercial Policy Instruments? – Revisited, in Vermulst *et al* (eds.) *Rules of Origin in International Trade: A Comparative Study*, The University of Michigan Press, Michigan, USA

Vermulst, Edwin & Paul Waer (1990), European Community Rules of Origin as Commercial Policy Instruments, *Journal of World Trade*, Vol. 24, No. 3

Wijayasiri, Janaka (2003), Textiles and Clothing: Possible Scenarios After 2004, Annual Conference of South Asian Civil Society Network on International Trade (SACSNITI) Project of Consumer Unity & Trust Society, July 2003, Kathmandu, Nepal

WTO (1998), Proposal by India, G/RO/W/30, 7 May

WTO (2002), Eighth Annual Review of the Implementation and Operation of the ARO, G/RO/55, 3 December

WTO (2002), Integrated Negotiating Text for the HWP, G/RO/45/Rev.2, 25 June

WTO (2002), United States – Rules of Origin for Textiles and Apparel Products: Request for Consultations by India, G/RO/D/4, 22 January

WTO (2002), Report of the Chairman of the Committee on Rules of Origin to the General Council, G/RO/52, 15 July

WTO (2003), Report of the CRO to Council for Trade in Goods, G/L/593/Add.1, 10 July



## CUTS' PUBLICATIONS TRADE, ECONOMICS AND ENVIRONMENT

---

### **STUDIES**

#### **1. Policy Shift in Indian Economy**

A survey on the public perceptions of the New Economic Policy in the states of Maharashtra, Rajasthan, Tamil Nadu and West Bengal in India conducted during June/July 1995 and recommendations to the government which were discussed at the above mentioned India-Nepal Training Seminar. (100pp, #9512, Rs.100/US\$25)

#### **2. Policy Shift in Nepal Economy**

A survey on the public perceptions of New Economic Policy in Nepal conducted during June/July 1995 and recommendations to the government which were discussed at the above mentioned India-Nepal Training Seminar. (80pp, #9513, Rs.30/US\$15)

#### **3. Environmental Conditions in International Trade**

A study on the impact on India's exports in the area of Textiles and Garments including Carpets, Leather and Leather Goods, Agricultural and Food Products including Tea and Packaging, for the Central Pollution Control Board, Ministry of Environment & Forests, Government of India. (39pp, #9508, Rs.200/US\$50)

#### **4. Costs on Consumers due to Non-Co-operation Among SAARC Countries**

A study by noted scholars on the costs on consumers of the countries in South Asia due to economic non-co-operation among them. (#9605, Rs.50/US\$25)

#### **5. Tariff Escalation—A Tax on Sustainability**

The study finds that the existence of escalating tariff structure, particularly in developed countries, results in "third-best" allocation of resources. It also harms both environment and development, and crucially the balance of trade. (Rs.100/US\$25, ISBN 81-87222-00-X)

#### **6. Trade, Labour, Global Competition and the Social Clause**

The social clause issue has remained one of the most heated areas of international debate for a number of years. The study says that the quality of that debate has not met its volume and the real issues underlying the issue have rarely been analysed as a whole. It attempts to string the various debates together. (Rs.100/US\$25) ISBN 81-87222-01-8

#### **7. TRIPs, Biotechnology and Global Competition**

The study shows, with some evidence, that the provisions in the TRIPs agreement concerning biotechnology are of great concern to the developing world. According to the new GATT agreement, all bio-

technology products may be patented. Nearly 80 percent of all biotechnology patents are currently held by large multinationals.

(Rs.100/US\$25, ISBN 81-87222-02-6)

#### **8. Eradicating Child Labour While Saving the Child**

In the scenario of a growing interest in banning child labour this research report argues that trade restricting measures have every potential of eliminating the child itself. The report provides logical arguments and a case study for those groups who are against the use of trade bans for the solution of this social malaise. It also makes certain recommendations for the *effective* solution of the problem.

(Rs.100/US\$25, ISBN 81-87222-23-9)

#### **9. Non-trade Concerns in the WTO Agreement on Agriculture**

This research report written by Dr. Biswajit Dhar and Dr. Sachin Chaturvedi of the Research and Information System for the Non-aligned and Other Developing Countries, New Delhi, provides a detailed analysis of non-trade concerns, covering the various dimensions indicated by the Agreement on Agriculture of the World Trade Organisation.

(Rs.50/US\$10, ISBN 81-87222-30-1)

#### **10. Liberalisation and Poverty: Is There a Virtuous Circle?**

This is the report of a project: "Conditions Necessary for the Liberalisation of Trade and Investment to Reduce Poverty", which was carried out by the Consumer Unity & Trust Society in association with the Indira Gandhi Institute for Development Research, Mumbai; the Sustainable Development Policy Institute, Islamabad, Pakistan; and the Centre for Policy Dialogue, Dhaka, Bangladesh, with the support of the Department for International Development, Government of the UK. (Rs.100/US\$25, ISBN 81-87222-29-8)

#### **11. The Functioning of Patent Monopoly Rights in Developing Economies: In Whose Interest?**

Advocates of strong international protection for patents argue that developing countries would gain from increased flows of trade, investment and technology transfer. The paper questions this view by examining both the functioning of patents in developing economies in the past and current structural trends in the world economy in these areas. The historical research revealed no positive links between a strong patent regime and FDI and technology transfer. Current trends are largely limited to exchanges amongst the industrialised countries and to some extent, the newly

industrialising countries. While increased North/South trade flows are expected, negative consequences are possible. (Rs. 100/US\$25, ISBN 81-87222-36-0)

## 12. Negotiating the TRIPs Agreement:

**India's Experience and Some Domestic Policy Issues**  
This report shows particularities about the subject that distinguished the TRIPs (Trade Related Aspects of Intellectual Property Rights) negotiations from other agreements that make up the Uruguay Round results. It also analyses the way in which the TRIPs Agreement was actually negotiated and handled.

The author finds that many of the lessons that can be drawn from India's experience with the TRIPs negotiations are the same as those that can be drawn from the negotiations more generally and true for many other countries. It goes beyond a narrow analysis of events relating strictly to the negotiations during the Uruguay Round and looks at the negotiating context in which these negotiations took place.

The research findings draw lessons from what actually happened and suggest how policy processes can be reformed and reorganised to address the negotiating requirements in dealing with such issues in the future. (Rs. 100/US\$25, ISBN 81-87222-50-6)

## 13. Multilateral Environmental Agreements, Trade and Development: Issues and Policy Options Concerning Compliance and Enforcement

The latest report of CUTS on Multilateral Environmental Agreement, Trade and Development, examines the role of provisions for technology and financial transfer as well as capacity building as an alternative to trade measures for improving compliance and enforcement. It acquires specific significance in the light of the fact that the WTO members for the first time, in the trade body's history, agreed to negotiate on environmental issues at the Fourth Ministerial Conference of the WTO at Doha.

This study also examines pros and cons of Carrots and Sticks approaches, and analyses incorporation of these approaches in three major MEAs, the Montreal Protocol, The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the Basel Convention, to find out which approach has been more successful in ensuring enforcement and compliance.

A must read for different stakeholders involved in this process, as this study would provide useful inputs towards trade and environment negotiations.

(Rs. 100/US\$25, ISBN 81-87222-58-1)

## 14. Market Access Implications of SPS and TBT: Bangladesh Perspective

As both tariffs and other traditional trade barriers are being progressively lowered, there are growing concerns about the fact that new technical non-tariff barriers are taking their place, such as sanitary and phytosanitary measures (SPS) and technical regulations and standards.

The poor countries have been denied market access on quite a number of occasions when they failed to comply with a developed country's SPS or TBT requirements or both. The seriousness of this denial of market access is often not realised unless their impact on exports, income and employment is quantified.

In this paper, the author focuses on the findings of a 1998 case study into the European Commission's ban of fishery products from Bangladesh into the EU, imposed in July 1997.

This research report intends to increase awareness in the North about the ground-level situation in poor and developing countries. At the same time, it makes some useful suggestions on how the concerns of LDCs can be addressed best within the multilateral framework. The suggestions are equally applicable to the developing countries.

(Rs. 100/US\$10, ISBN 81-87222-69-7)

## 15. Voluntary Self-regulation versus Mandatory Legislative Schemes for Implementing Labour Standards

Since the early 1990s, globally there has been a proliferation of corporate codes of conduct and an increased emphasis on corporate responsibility. The idea is that companies voluntarily adopt codes of conduct to fulfil their social obligations and although these companies are responsible only for a fraction of the total labour force, they set the standards that can potentially lead to an overall improvement in the working conditions of labour.

These voluntary approaches are seen as a way forward in a situation where state institutions are weakened with the rise to dominance of the policies of neo-liberalism, and failure of the state-based and international regulatory initiatives.

Given this background, this paper examines how the failure of 1980s codes, regulated by international bodies, resulted in the proliferation of corporate codes of conduct and an increased emphasis on corporate social responsibility.

This paper further tries to explore whether voluntary codes of conduct can ensure workers' rights in a developing country like India.

(Rs. 100/US\$25, ISBN 81-87222-76-X)

## 16. Child Labour in South Asia: Are Trade Sanctions the Answer?

South Asian Countries have the highest rates of child labour practices in the world. As a result of the advocacy by powerful political lobbying groups supported by Europe and the US, the trade sanction approach to encounter the issue of child labour has gained influence, since the nineties.

These sanctions were exercised to alleviate the problem of child labour by US policy-makers and also by some countries in the EU. But, the question arises – have the trade sanctions imposed by these countries in any way helped eliminate this problem? This research

report of CUTS Centre for International Trade, Economics & Environment tries to address this question.

It has explored the impact of these trade sanctions and finds that these sanctions resulted in the contradiction of the basic objective, i.e., elimination of child labour. By banning the import of those goods in the production process of which child labour was used wholly or partly, the developed countries have aggravated the sufferings of child labour and their families.

Besides highlighting the causes of child labour, the report makes some very useful recommendations on how the issue of child labour can be addressed best at the domestic as well as international level.

(Rs.100/US\$25, ISBN 81-87222-82-4)

## **17. TRIPs and Public Health: Ways Forward for South Asia**

Trade Related Aspects of Intellectual Property Rights — or TRIPs — has always been one of the most contentious issues in the WTO. Several studies have been conducted on the political economy of TRIPS *vis-à-vis* WTO, the outcome of which are crucial to the policymakers of the developing economies more than those in the rich countries. Increasing realisation of the poor countries' suffering at the hands of the patent holders is yet another cause of worry in the developing and poor countries.

This research document tries to find an answer to one specific question: what genuine choices do policymakers in South Asian developing nations now have, more so after the linkage between the trade regime and pharmaceuticals? Starting with a brief overview of the key features of the corporate model of pharmaceuticals, the paper provides some insight into the challenges faced by the governments in South Asian countries. The aim is to anchor the present discussion of public health and the impact of TRIPs in the socio-cultural environment of this region.

(Rs.100/US\$25, ISBN 81-87222-83-2)

## **18. Bridging the Differences: Analyses of Five Issues of the WTO Agenda**

This book is a product of the project, EU-India Network on Trade and Development (EINTAD), launched about a year back at Brussels. CUTS and University of Sussex are the lead partners in this project, implemented with financial support from the European Commission (EC). The CUTS-Sussex University study has been jointly edited by Prof. L. Alan Winters of the University of Sussex and Pradeep S. Mehta, Secretary-General of CUTS, India.

The five issues discussed in the book are Investment, Competition Policy, Anti-dumping, Textiles & Clothing, and Movement of Natural Persons. Each of these papers has been co-authored by eminent researchers from Europe and India.

(Rs.350/US\$50, ISBN 81-87222-92-1)

## **19. Dealing with Protectionist Standard Setting:**

### ***Effectiveness of WTO Agreements on TBT and SPS***

Sanitary and Phytosanitary Safeguards (SPS) and Technical Barriers to Trade (TBT) Agreements — enshrined in the WTO — are meant to keep undesirable trade practices at bay. These Agreements try to ensure adherence to standards, certification and testing procedures, apart from technical protection to the people, by countries while trading in the international arena.

This research report is a sincere attempt to fathom the relevance of SPS and TBT Agreements, their necessity in the present global economic scenario and, of course, the development of case law related to the Agreements, along with a brief description of the impact of this case law on developing countries.

(Rs.100/US\$25, ISBN 81-87222-68-9)

## **20. Competitiveness of Service Sectors in South Asia: Role and Implications of GATS**

This research report attempts to emphasise on the relevance of GATS for developing economies, particularly in South Asia. It also examines the potential gains from trade liberalisation in services, with a specific focus on hospital services, and raises legitimate concerns about increases in exports affecting adversely the domestic availability of such services. It highlights how the ongoing GATS negotiations can be used to generate a stronger liberalising momentum in the health sector. (Rs.100/US\$25, ISBN 81-8257-000-X)

## **21. Demystifying Agriculture Market Access Formula: A Developing Country Perspective After Cancun Setback**

At the Cancún meeting, a draft ministerial text on agriculture emerged, known as the Derbez Text. It was not surprising that at Cancún the WTO members failed to accept a ministerial text on agriculture. The Derbez Text had made the framework very complex, which the paper, "Demystifying Agriculture Market Access Formula" tries to demystify.

(#0417, Rs. 100/US\$25, ISBN 81-8257-033-6)

## **22. Trade-Labour Debate: The State of Affairs**

The purpose of the study is not to rehearse the never-ending story on the pros and cons of the trade-labour linkage. It not only seeks to assess the current and possible future direction of the debate from the developing countries' perspective. It is hoped that this approach will provide developing countries with concrete policy suggestions in terms of the way forward.

(#0410, Rs. 100/US\$25, ISBN 81-8257-025-5)

## **23. Liberalising Trade in Environmental Goods and Services: In Search of 'Win-Win-Win' Outcomes**

Trade in environmental goods and services has assumed a centre-stage position. The excellent analysis of this issue involved in environmental trade

concludes with soundly reasoned policy recommendations which show the direction that future negotiations must take if the originally envisaged ‘win-win-win’ situation is to be achieved.  
(#0402, Rs. 100/US\$25, ISBN 81-8257-019-0)

#### **24. FDI in South Asia: Do Incentives Work? A Survey of the Literature**

Over the last two decades or so,<sup>5</sup> along with trade barriers, countries around the world have progressively dismantled restrictions on foreign direct investment (FDI). Apart from the main objective of increasing investment through inflow of foreign capital, the positive externalities of FDI to the host country are the other important reason for countries competing against each other for foreign direct investment.

The present paper has looked at the understudied issues of FDI policies in South Asia, particularly from the point of view of the effectiveness of performance requirements imposed by host countries and the costs of accompanying incentives. The survey of theoretical literature on performance requirements indicates that a case can be made for imposing such requirements in South Asia, particularly from the welfare point of view. As regards the costs of incentives, which a country offers to foreign firms, so far, only a few studies have tried to quantify them. These incentives are normally given as *quid pro quo* with performance requirements. But, in the bargain, it has been found, these incentives tend to be particularly costly over a period of time.

(#0403, Rs. 100/US\$25, ISBN 81-8257-037-9)

#### **25. Protectionism and Trade Remedial Measures**

Many have argued that there is no economic rationale behind the use of trade remedial measures and therefore, they should be scrapped. In the WTO acquis, three types of trade remedial measures are recognised. These are anti-dumping, countervailing and safeguard measures.

This paper examines how protectionism has influenced the use of trade remedial measures. It examines the trends of imposition of trade remedial measures. This trend clearly shows that countries have found anti-dumping measures a safe haven for extending protection to domestic industries. In order to highlight the protectionist nature of anti-dumping measures, the paper looks at the manner in which the countries have interpreted the WTO agreement on anti-dumping. The paper also makes a comparison between anti-dumping measures and safeguard measures. It demonstrates that countries have preferred using anti-dumping measures over safeguard measures because the former can be easily used for extending protection to domestic industry for a longer time.

(#0403, Rs. 100/US\$25, ISBN 81-8257-039-5)

#### **DISCUSSION PAPERS**

##### **1. Existing Inequities in Trade - A Challenge to GATT**

A much appreciated paper written by Pradeep S Mehta and presented at the GATT Symposium on Trade, Environment & Sustainable Development, Geneva, 10-11 June, 1994 which highlights the inconsistencies in the contentious debates around trade and environment.

(10pp, #9406, Rs 30/US\$5)

##### **2. Ratchetting Market Access**

Bipul Chatterjee and Raghav Narsalay analyse the impact of the GATT Agreements on developing countries. The analyses takes stock of what has happened at the WTO until now, and flags issues for comments. (#9810, Rs.100/US\$25)

##### **3. Domestically Prohibited Goods, Trade in Toxic Waste and Technology Transfer: Issues and Developments**

This study by CUTS Centre for International Trade, Economics & Environment attempts to highlight concerns about the industrialised countries exporting domestically prohibited goods (DPGs) and technologies to the developing countries that are not capable of disposing off these substances safely, and protecting their people from health and environmental hazards. (ISBN 81-87222-40-9)

#### **EVENT REPORTS**

##### **1. Challenges in Implementing a Competition Policy and Law: An Agenda for Action**

This report is an outcome of the symposium held in Geneva on “Competition Policy and Consumer Interest in the Global Economy” on 12-13 October, 2001. The one-and-a-half-day event was organised by CUTS and supported by the International Development Research Centre (IDRC), Canada. The symposium was addressed by international experts and practitioners representing different stakeholder groups viz. consumer organisations, NGOs, media, academia, etc. and the audience comprised of participants from all over the world, including representatives of Geneva trade missions, UNCTAD, WTO, EC, etc. This publication will assist people in understanding the domestic as well as international challenges in respect of competition law and policy.

(48pp, #0202, Rs.100/US\$25)

##### **2. Analyses of the Interaction between Trade and Competition Policy**

This not only provides information about the views of different countries on various issues being discussed at the working group on competition, but also informs them about the views of experts on competition concerns being discussed on the WTO platform and

the possible direction these discussions would take place in near future. It also contains an analyses on the country's presentations by CUTS.  
(Rs.100/US\$25, ISBN 81-87222-33-6)

## **MONOGRAPHS**

### **1. Role and the Impact of Advertising in Promoting Sustainable Consumption in India**

Economic liberalisation in India witnessed the arrival of marketing and advertisement gimmicks, which had not existed before. This monograph traces the the impact of advertising on consumption in India since 1991. (25pp, #9803, Rs.50/US\$10)

### **2. Social Clause as an Element of the WTO Process**

The central question is whether poor labour standards result in comparative advantage for a country or not. The document analyses the political economy of the debate on trade and labour standards.  
(14pp, #9804, Rs.50/US\$10)

### **3. Is Trade Liberalisation Sustainable Over Time?**

Economic policy is not an easy area for either the laity or social activist to comprehend. To understand the process of reforms, Dr. Kalyan Raipuria, Adviser, Ministry of Commerce, Government of India, wrote a reader-friendly guide by using question-answer format.  
(29pp, #9805, Rs. 50/US\$10)

### **4. Impact of the Economic Reforms in India on the Poor**

The question is whether benefits of the reforms are reaching the poor or not. This study aims to draw attention to this factor by taking into account inter-state investment pattern, employment and income generation, the social and human development indicators, the state of specific poverty alleviation programmes as well as the impact on the poor in selected occupations where they are concentrated. (15pp, #9806, Rs. 50/US\$10)

### **5. Regulation: Why and How**

From consumer's viewpoint, markets and regulators are complementary instruments. The role of the latter is to compensate in some way the failings of the former. The goal of this monograph is to provide a general picture of the why's of regulation in a market economy.  
(34pp, #9814, Rs.50/US\$10)

### **6. Snapshots from the Sustainability Route—A Sample Profile from India**

Consumption is an indicator of both economic development and also social habits. The disparity in consumption pattern has always been explained in the context of the rural urban divide in India. The monograph analyses the consumption patter of India from the point of view of the global trend towards sustainable consumption. (16pp, #9903, Rs.50/US\$10)

### **7. Consumer Protection in the Global Economy**

This monograph outlines the goals of a consumer protection policy and also speaks about the interaction between consumer protection laws and competition laws. It also highlights the new dimensions about delivering consumer redress in a globalising world economy, which raises jurisdictional issues and the sheer size of the market. (38pp, #0101, Rs.50/US\$10).

### **8. Globalisation and India – Myths and Realities**

This monograph is an attempt to examine the myths and realities so as to address some common fallacies about globalisation and raise peoples' awareness on the potential benefits globalisation has to offer.  
(40pp, #0105, Rs.50/US\$10)

### **9. ABC of the WTO**

This monograph is about the World Trade Organisation (WTO) which has become the tool for globalisation. This monograph is an attempt to inform the layperson about the WTO in a simple question-answer format. It is the first in our series of monographs covering WTO-related issues and their implications for India. Its aim is to create an informed society through better public knowledge, and thus enhance transparency and accountability in the system of economic governance.  
(36pp, #0213, Rs.50/US\$10)

### **10. ABC of FDI**

FDI — a term heard by many but understood by few. In the present times of liberalisation and integration of world economy, the phenomenon of Foreign Direct Investment or FDI is rapidly becoming a favourite jargon, though without much knowledge about it. That is why CUTS decided to come out with a handy, yet easy-to-afford monograph, dwelling upon the how's and why's of FDI. This monograph is third in the series of "Globalisation and India – Myths and Realities", launched by CUTS in September 2001. "How is FDI defined?" "What does it constitute?" "Does it increase jobs, exports and economic growth?" Or, "Does it drive out domestic investment or enhance it?" are only some of the topics addressed to in a lay man's language in this monograph. (48pp, #0306, Rs.50/US\$10)

### **11. WTO Agreement on Agriculture: Frequently Asked Questions**

As a befitting reply to the overwhelming response to our earlier three monographs, we decided to come out with a monograph on *WTO Agreement on Agriculture* in a simple Q&A format. This is the fourth one in our series of monographs on *Globalisation and India – Myths and Realities*, started in September 2001.

This monograph of CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE) is meant to inform people on the basics of the WTO Agreement on Agriculture and its likely impact on India.  
(48pp, #0314, Rs.50/US\$10)

## **12. Globalisation, Economic Liberalisation and the Indian Informal Sector – A Roadmap for Advocacy**

India had embarked upon the path of economic liberalisation in the early nineties in a major way. The process of economic liberalisation and the pursuit of market-driven economic policies are having a significant impact to the economic landscape of the country. The striking characteristic of this process has been a constant shift in the role of the state in economic activities. The role of the state is undergoing a paradigm shift from being a producer to a regulator and a facilitator. A constant removal of restrictions on economic activities and fostering private participation is becoming the order of the day.

Keeping these issues in mind, CUTS with the support of Oxfam GB in India, had undertaken a project on globalisation and the Indian Informal sector. The selected sectors were non-timber forest products, handloom and handicraft. The rationale was based on the premise that globalisation and economic liberalisation can result in potential gains, even for the poor, but there is the need for safety measures as well. This is mainly because unhindered globalisation can lead to lopsided growth, where some sectors may prosper, leaving the vulnerable ones lagging behind. (ISBN 81-8257-017-4)

## **13. ABC of TRIPs**

This booklet intends to explain in a simple language, the Trade-Related Intellectual Property Rights Agreement (TRIPs), which came along with the WTO in 1995. TRIPs deals with patents, copyrights, trademarks, GIs, etc. and continues to be one of the most controversial issues in the international trading system. The agreement makes the protection of IPRs a fundamental part of the WTO. This monograph gives a brief history of the agreement and addresses important issues such as life patenting, traditional knowledge and transfer of technology among others. (38pp, Rs. 50/US\$10, #0407) ISBN 81-8257-026-3

## **14. Trade Policy Making in India – *The reality below the water line***

This paper discusses and concludes the issues, in broad terms, that India struggles with trade policy making, essentially because domestic and international thinking on development and economic growth is seriously out of alignment, and that there are few immediate prospects of this changing, for a variety of entirely domestic political reasons.

(#0415, Rs. 100/US\$10, ISBN 81-8257-031-X)

## **15. ABC of GATS**

The aim of the GATS agreement is to gradually remove barriers to trade in services and open up services to international competition. This monograph is an attempt to educate the reader with the basic issues

concerning trade in services, as under GATS. The aim of this monograph is to explain in simple language the structure and implications of the GATS agreement, especially for developing countries.

(#0416, Rs. 50/US\$10, ISBN 81-8257-032-8)

## **16. WTO Agreement on Textiles and Clothing – *Frequently Asked Questions***

This monograph attempts to address some of the basic questions and concerns relating to the textiles and clothing. The aim is to equip the reader to understand the fundamentals of and underlying issues pertaining to trade in textiles and clothing.

(#0419, Rs. 50/US\$10, ISBN 81-8257-035-2)

## **GUIDES**

### **1. Unpacking the GATT**

This book provides an easy guide to the main aspects of the Uruguay Round agreements in a way that is understandable for non-trade experts, and also contains enough detail to make it a working document for academics and activists. (US\$5, Rs.60)

### **2. Consumer Agenda and the WTO — An Indian Viewpoint**

Analyses of strategic and WTO-related issues under two broad heads, international agenda and domestic agenda. (#9907)

## **NEWSLETTER**

### **Economiquity**

A quarterly newsletter of the CUTS Centre for International Trade, Economics & Environment for private circulation among interested persons/networks. Contributions are welcome: Rs.100/US\$20 p.a.

## **BRIEFING PAPERS**

Our Briefing Papers inform the layperson and raise issues for further debate. These have been written by several persons, with comments from others. Re-publication, circulation etc. are encouraged for wider education. Contributions towards postage (Rs.20/US\$5) are welcome.

## **1995**

1. GATT, Patent Laws and Implications for India
2. Social Clause in the GATT - A Boon or Bane for India
3. Greening Consumer Choice? - Environmental Labelling and the Consumer
4. Trade & Environment: the Inequitable Connection
5. Anti-Dumping Measures under GATT and Indian Law
6. Rational Drug Policy in South Asia - The Way Ahead
7. No Patents on Life Forms!
8. Legislative Reforms in a Liberalising Economy

## 1996

1. The Freezing Effect - Lack of Coherence in the New World Trade Order
2. Competition Policy in a Globalising and Liberalising World Economy
3. Curbing Inflation and Rising Prices - The Need for Price Monitoring
4. Globalising Liberalisation Without Regulations! - Or, How to Regulate Foreign Investment and TNCs
5. The Circle of Poison - Unholy Trade in Domestically Prohibited Goods
6. Swim Together or Sink – Costs of Economic Non-Co-operation in South Asia (revised in Sept. 1998)
7. Carrying the SAARC Flag-Moving towards Regional Economic Co-operation (Revised in Oct. 1998)
8. DPGs, Toxic Waste and Dirty Industries — Partners in Flight
9. WTO: Beyond Singapore - The Need for Equity and Coherence

## 1997

1. The Uruguay Round, and Going Beyond Singapore
2. Non-Tariff Barriers or Disguised Protectionism
3. Anti-Dumping Under the GATT - The Need for Vigilance by Exporters
4. Subsidies & Countervailing Measures
5. Textiles & Clothing - Who Gains, Who Loses and Why?
6. Trade in Agriculture — Quest for Equality
7. Trade in Services-Cul de Sac or the Road Ahead!
8. TRIPs and Pharmaceuticals: Implications for India
9. Movement of Natural Persons Under GATS: Problems and Prospects

## 1998

1. TRIPs, Biotechnology and Global Competition
2. Tariff Escalation — A Tax on Sustainability
3. Trade Liberalisation, Market Access and Non-tariff Barriers
4. Trade, Labour, Global Competition and the Social Clause
5. Trade Liberalisation and Food Security

## 1999

1. The Linkages: Will it Escalate?
2. Trade and Environment — An Agenda for Developing Countries
3. Dispute Settlement at WTO — From Politics to Legality?
4. TRIPs and Biodiversity
5. Eradicating Child Labour While Saving the Child — Who Will Pay the Costs?
6. Overdue Reforms in European Agriculture — Implications for Southern Consumers
7. Liberalisation and Poverty: Is There a Virtuous Circle for India?
8. The Non-trade Concerns in the WTO Agreement on Agriculture
9. Negotiating History of the Uruguay Round
10. Professional Services under the GATS — Implication for the Accountancy Sector in India

## 2000

1. Implementation of the WTO Agreements: Coping with the Problems
2. Trade and Environment: Seattle and Beyond
3. Seattle and the Smaller Countries
4. Dispute Settlement under the GATT/WTO: The Experience of Developing Nations
5. Competition Regime in India: What is Required?
6. Biosafety Protocol: Sweet 'N' Sour
7. Process and Production Methods (PPMs) – Implications for Developing Countries
8. Globalisation: Enhancing Competition or Creating Monopolies?
9. Trade, Competition & Multilateral Competition Policy
10. The Functioning of Patent Monopoly Rights in Developing Countries: In Whose Interest?

## 2001

1. Trade and Sustainable Development: An Outline of a Southern Agenda
2. Contours of a National Competition Policy: A Development Perspective
3. Human Rights and International Trade: Right Cause with Wrong Intentions
4. Framework for Fair Trade and Poverty Eradication
5. Implementation of the Uruguay Round Agreements: Need for a Frontloaded Agenda
6. Proactive Agenda for Trade and Poverty Reduction
7. *WTO Transparency and Accountability: The Need for Reforms*
8. EU's Environmental Agenda: Genuine Concern or Pitching for Protectionism?

## 2002

1. *Amicus Curiae* Brief: Should the WTO Remain Friendless?
2. Market Access: The Major Roadblocks
3. Foreign Direct Investment in India and South Africa: A Comparison of Performance and Policy
4. Regulating Corporate Behaviour
5. Negotiating the TRIPs Agreement: India's Experience and Some Domestic Policy Issues
6. Regulatory Reforms in the Converging Communications Sector
7. Market Access Implications of SPS and TBT: A Bangladesh Perspective
8. Multilateral Environmental Agreements, Trade and Development: Issues and Policy Options Concerning Compliance and Enforcement
9. Multilateral or Bilateral Investment Negotiations: Where can Developing Countries make Themselves Heard?

## 2003

1. How Mining Companies Influence the Environment
2. Labour Standards: Voluntary Self-regulation vs. Mandatory Legislative Schemes
3. Child Labour in South Asia: Are Trade Sanctions the Answer?

4. Competition Policy in South Asian Countries
5. India Must Stop Being Purely Defensive in WTO
6. IPRs, Access to Seed and Related Issues
7. TRIPs and Public Health: Ways Forward for South Asia

#### **2004**

1. Farm Agenda at the WTO: The ‘Key’ to Moving the Doha Round.
2. “TRIPs-Plus”: Enhancing Right Holders’ Protection, Eroding TRIPs’ Flexibilities
3. Global Partnership for Development - The Way Forward

*For more details visit our website at  
[www.cuts-international.org](http://www.cuts-international.org).*

## **ORDER FORM**

- **Price:** Please see Publication Lists attached  
Please add postage per copy @20% of the printed price
- **Orders from India** - please pay by a Crossed Cheque or Demand Draft
- **Foreign Orders** - please pay by a **Bank Draft** (if possible drawn on any Indian Bank)
- All payments should be made in favour of:

### **कट्स ✶ CUTS**

#### **Consumer Unity & Trust Society**

D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India

Ph: 91.141.228 2821, Fx: 91.141.228 2485

Email: [cuts@cuts-international.org](mailto:cuts@cuts-international.org), Website: [www.cuts-international.org](http://www.cuts-international.org)

----------  
Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Please send me ..... copy/copies of the following publication(s)

**ECONOMIQUITY** newsletter (on subscription)

**ReguLetter** newsletter (on subscription)

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

6. \_\_\_\_\_

Cost of books: \_\_\_\_\_ Postage: \_\_\_\_\_

Total amount enclosed: \_\_\_\_\_

## CUTS Centre for International Trade, Economics & Environment

### Mission

Pursuing economic equity and social justice within and across borders by persuading governments and empowering people

### Goals

Enable and empower representatives of the civil society, from developing countries in particular, to articulate and advocate on the relevant issues at the appropriate fora.

Create a questioning society through empowerment of civil society representatives thus ensuring transparency and accountability in the system.

Promote equity between and among the developed and developing countries through well-argued research and advocacy on the emerging and relevant issues.

### International Advisory Board

#### T. N. Srinivasan

Samuel C. Park, Jr. Professor of Economics  
Yale University, USA  
*Chairman of the Advisory Board*

#### Jagdish Bhagwati

Professor of Economics & Professor of Political Science  
Columbia University, New York, USA

#### Tariq Banuri

Senior Research Director  
Stockholm Environment Institute (SEI)  
Boston, USA

#### Debapriya Bhattacharya

Executive Director  
Centre for Policy Dialogue (CPD), Dhaka, Bangladesh

#### Phil Evans

Senior Policy Advisor  
Consumers' Association, London, UK

#### Janice Goodson Foerde

Chairperson, KULU-Women and Development  
Copenhagen, Denmark

#### Mark Halle

European Representative & Director  
International Institute for Sustainable Development  
Geneva, Switzerland

#### Trudi Hartzenberg

Director  
Trade Law Centre for Southern Africa (TRALAC)  
Stellenbosch, South Africa

#### Caroline LeQuesne-Lucas

Member of European Parliament  
Brussels, Belgium

#### Jasper A. Okelo

Professor of Economics  
University of Nairobi  
Nairobi, Kenya

#### Arjun Sengupta

Chairman  
Centre for Development and Human Rights  
New Delhi, India

#### Magda Shahin

Egypt's Ambassador to Greece  
Athens, Greece

#### Dianna Tussie

Senior Research Fellow  
Latin American School of Social Sciences (FLACSO)  
Buenos Aires, Argentina

#### Ann Weston

Vice-President and Research Coordinator  
The North-South Institute, Ottawa, Canada

#### L. Alan Winters

Research Director  
World Bank  
Washington DC, USA

#### Pradeep S. Mehta

Secretary General  
CUTS International

ISBN 81-8257-038-7

कट्स  CUTS

CUTS Centre for International Trade, Economics & Environment

D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India

Ph: 91.141.228 2821, Fax: 91.141.228 2485

Email: [citee@cuts-international.org](mailto:citee@cuts-international.org), Web Site: [www.cuts-international.org](http://www.cuts-international.org)