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Abstract

Are the WTO's Rules of Origin Turning Archaic as a Result of Trade in Value-Added?

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The birth of international trade policy has brought about with it manifold ramifications. The nuances of international trade are based on the economic policy of Adam Smith's comparative advantage, modified several times by Ricardo, Heckscher and Ohlin and Krugman to better suit the needs of the times. Nations almost always prefer to manufacture what they excel at producing and import what may be produced at cheaper rates in other nations. However, this uncomplicated concept of comparative advantage does not seem to be so uncomplicated anymore! Manufacture of a certain product no longer involves merely one importing and one exporting nation. Various nations add value to trade by providing intermediate processes, services or inputs requisite for the final product; value chains spread across the globe. These inputs may be used directly in the manufacture of goods, or may on the other hand need to be processed before they may be used. At the same time, inputs used in the manufacturing of goods are not limited to goods but also extend to services that are provided in manufacturing the final product, for instance, warehousing, housekeeping, transport, etc. Nations have therefore come to be so interdependent that the mercantilist view of beggar-thy-neighbour has been considered to be completely redundant, especially when a nation's imports include value added from within its own nation. Moreover, nations have even begun to question the effectiveness of antidumping duties, since the same would be imposed on imports which the importing nation has itself added value to. Thus, albeit that value chains build upon the simple concept of comparative advantage, they have in turn compelled certain pressing questions to do with the manner in which trade policy is regulated, bringing about some imperative structural changes. When goods are manufactured with the aid of inputs provided by several nations, it no longer remains fair that the last country where the good has been assembled is considered the country of origin. Against this backdrop, in 2011 the then Director-General of the WTO Pascal Lamy mooted the concept that goods are now “made in the world”. This article delves to gain a deeper insight into the concept of “made in the world” and how the working of global value chains has permitted nations across the globe to add value to trade and may in turn pose some significant implications for international trade policy. For most, it would require bringing into line various policies to arrive at a congruent approach to trade in value-added goods. International trade regulation must provide a sound response to the dynamics of the concept of “made in the world”, *inter alia* through more thorough regulation and liberalization of the services, investment, customs and competition sectors, to name a few.

Keywords: comparative advantage, global value chains (GVCs), inputs, intermediates, made in the world, trade in value added, World Trade Organization