

Effects of Product-Specific Rules of Origin on Trade in Free Trade Agreements:
Evidence from the Cases of Japan and the U.S. *

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Abstract

This paper investigated the impact of product-specific rules of origin (ROOs) in free trade agreements (FTAs) on both exports and imports for 17 Japanese FTAs and 12 U.S. FTAs. Specifically, the effects of FTAs on trade were first estimated by trading partners and products at the finely disaggregated level, using data from 170 countries in 1996–2019, and then the impact of ROOs was analyzed as a determinant of the effects of FTAs. Our descriptive analysis shows that while ROO patterns vary widely among Japanese FTAs, there are basically only two patterns for the U.S. FTAs, and that major ROO types differ between the two countries. Our econometric analysis demonstrates that change in chapters (CC) is more restrictive than change in tariff sub-headings (CTSH) in several cases of both exports and imports of the two countries. In the case of Japan's exports, compared with CTSH, CC is most restrictive, followed by change in tariff headings (CTH), and the selective combination of change in tariff classification (CTC) with regional value content (RVC) ("CTC or RVC") is less restrictive than the corresponding single type of CTC, while the impact depends significantly on the CTC rules. Our findings suggest that more restrictive types of ROOs reduce the positive effects of FTAs on trade.

Keywords: free trade agreement, rules of origin, Japan, the U.S.

JEL classification: F13, F14, F15

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