

**RULES OF ORIGIN AND ORIGIN PROCEDURES CHALLENGES
WHEN THAILAND JOINS CPTPP**

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ABSTRACT

The purpose of this study is to analyze challenges in ROO and Origin Procedures (OP) that would be encountered by Thai Customs when Thailand joins CPTPP, and to assess their readiness for the change. This study employs qualitative method by interviewing Officers in ROO Section, Thai Customs. The interview adopts the Organizational Change Questionnaire OCQ-C, P, R as instrument. The results show that challenges need to be resolved are namely: the possibility of circumvention practiced to gain preferential tariff treatment; and the need for sufficient knowledge in ROO and Origin Procedures. In addition, the study find that the ROO Section is ready for the change with full support and guidance from its superiors.

Keywords: *CPTPP, Organizational Change Questionnaire, Origin Procedures, readiness for change, Rules of Origin*

1. INTRODUCTION

1.1. RESEARCH BACKGROUND

Free trade agreement (FTA) has been utilized as important tool of trade policy. Trade agreements were remarkably blooming, from 31 regional trade agreements (RTA) in early 1990s to 302 RTAs in 2019 (WTO, 2020). Since 2010, ‘Asian noodle bowl’ phenomenon raised concern whether too many FTAs would add administrative burden to business and authorities due to excessive different tariff and Rules of Origin (ROO) and lack of support for domestic firms to use FTA (Kawai & Wignaraja, 2011).

The benefits of bilateral and multilateral trading system which had been earned by Thailand since 1990s reflected in Thai’s double-digit growth. The growth was mainly caused by higher export value from manufacturing sectors which linked to global markets, which encouraged Thailand to become more outward-oriented (Komolavanij et al., 2008). The positive trade balances has led Thailand to expand its bilateral and multilateral agreement to provide larger markets for exports, where preferential tariff treatment for imports were also important to reduce material and intermediate goods costs for local production (Cororaton, 2013).

Among Association of South East Asian Nations (ASEAN) members, Thailand has been actively expanding its FTAs and developing international economic relations to enhance its global markets (Komolavanij et al., 2008). Thailand has signed and entered into force fifteen Free Trade Agreements (FTAs). The FTAs are categorized into two groups, bilateral and multilateral. Bilateral FTAs were agreed between Thailand and another Party, while multilateral FTAs were agreed between Thailand and other Parties. Currently, Thailand has implemented eight bilateral FTAs and seven multilateral FTAs.¹ During FTAs establishment process, ROO and Operational Procedures were negotiated based on each Party’s laws and domestic regulations. Multilateral FTA’s process was more complicated and challenging than the bilateral’s since negotiations would involve several Parties with different interests. Once all Parties agreed with all ROO and Operational Procedures provisions, the discussion was concluded.

¹ Thailand bilateral FTAs are: Japan-Thailand Economic Partnership Agreement (JTEPA), Thai-Australia Free Trade Agreement (TAFTA), Thailand-New Zealand Comprehensive Economic Partnership (TNZCEP), Thai-Peru Free Trade Agreement, Thai-Chile Free Trade Agreement, Thai-Singapore Free Trade Agreement, Thai-China Free Trade Agreement, and Thai-India Free Trade Agreement; while its multilateral FTAs are: ASEAN Trade in Goods Agreement (ATIGA), ASEAN-China Free Trade Agreement (ACFTA), ASEAN-India Free Trade Agreement (AIFTA), ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), ASEAN Australia New Zealand Free Trade Agreement (AANZFTA), ASEAN-Korea Free Trade Agreement (AKFTA), and ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA).

As ASEAN member Thailand is benefiting from ASEAN Trade in Goods Agreement (ATIGA) preferential tariff treatment, which its ROO and Origin Procedures are discussed during the negotiations of ASEAN Plus FTA Agreements including ASEAN+1, ASEAN+3, and ASEAN+6. Wignaraja et al. (2011) argued that AFTA generated significantly larger welfare gains for Thailand, while also seen by Thai firms as the most important FTA for their business. In 2019, Thailand has a substantial trade surplus with other ASEAN countries by US\$17,880, resulting from US\$45,024 imports and US\$62,904 exports (Thailand Ministry of Commerce, 2019). This surplus is the highest compared to Thailand’s trade with other countries in the rest of the world (ROW). Comparison of Thailand’s trade balance with other ASEAN countries (ASN), Thailand’s potential new markets: Canada (CAN) and Mexico (MEX), and ROW are shown in Figure 1. ASEAN has been Thailand’s prominent trading partner, comprising around 30% and 40%-50% of Thailand’s export and import value with ROW, respectively.



Figure 1. Thailand’s Export and Import to Selected Partner Countries (trillion USD)
FY 2017-2018

Source: Author’s calculation based on the World Bank import and export data from wits.worldbank.org, accessed June 10, 2020.

In exercising its outward-oriented policies, Tantivasadarkan in Wignaraja et al. (2011) pointed out that Thailand’s utilization of FTA has two goals: to strengthen trade relations with the traditional market; and to have access to new potential markets. Consequently, since early 2019 Thailand has been preparing administrative requirements to apply for Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). CPTPP is FTA between eleven countries mostly located in Asia-Pacific Region, namely: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam, which represents 13.5 percent of global merchandise trade (Government of Canada,

2020). Currently, Thailand does not have any trade agreement with Canada and Mexico. Although Thailand's trading value with these countries are not as high as Thailand's average trade value with other ASEAN countries, these new markets could be the gateways to other promising markets (Wignaraja et al., 2011). Thailand has suspended its application to join CPTPP in March 2019 (Mahitivanichcha, 2019). However, a recent study by Joint Standing Committee on Commerce, Industry and Banking and University of the Thai Chamber of Commerce argues that joining CPTPP would be able to boost Thailand's international trade during post COVID-19 pandemic period, which led the Federation of Thai Industries (FTI) to voice their support for the accession (Apsitniran, 2020).

In general, every FTA has rules to determine goods' eligibility to claim preferential tariff, or Rules of Origin (ROO) and Origin Procedures, which could be similar or different among one to the others. Previous studies mostly focused on analyzing the impact of different ROO and Origin Procedures of different FTAs on business. In 2011, Kawai and Wignaraja's firm survey showed that 30% of firms in East Asia perceived that multiple ROOs procedures would led to the increase of business cost. Takahashi and Urata (2008) argued that complicated ROOs procedures had downplayed the benefit from FTAs utilization in Japan. Anson et al. (2003) argued that only 64% of Mexican firms utilized ROO required by NAFTA due to difficulties in documenting origin of the goods. Another study by Kim and Cho (2010) in Korea found that more restrictive ROO would negatively impact the utilization of Certificate of Origin (C/O). In addition, Manchin and Balaoing (2007) stated that proliferating PTAs in East Asia containing different ROOs would add both administrative costs and production costs for firms. Therefore, it can be inferred that when it is not carefully managed, multiple FTAs and their different ROOs can reduce benefits expected from joining FTAs.

The growing number of FTAs in Thailand had raised concern whether ROOs hindered the business (Wignaraja et al., 2011). Likewise, the differences between ROO and Origin Procedures in ATIGA and CPTPP would likely to become challenges for both firms and authorities. Wignaraja et al. (2011) showed that firms perceived multiple ROO rules and administrative procedures as additional cost of doing business. This costs are ranging from cost of staff to process customs documents, to costs for changing strategies to comply with ROOs. The authors argued that institutional support in dealing with FTAs was prominent to help firms adjust to new FTAs and to utilize it better. The support could be in the form of giving information, training, technical advice and other services (Wignaraja et al., 2011).

As institutional support is important to help the business overcome their difficulties in complying with ROO and Origin Procedures to gain preferential tariff treatment (Wignaraja et al., 2011), the organizational readiness to implement new FTA's ROO and Origin Procedures is also important to fulfill the expected support. Several studies highlighted the importance of organizational readiness for change to achieve successful implementation of new regulation. Weiner (2009) argued that in healthcare practices, organizational readiness for change would lead to successful application of complex changes, while Robbins (2004) showed that schools which were more ready to implement change in their schools service had achieved higher implementation scores compared to schools who had volunteered or less ready. Another study by Bullock (2013) measured readiness for change among public housing authority employees and argued that supervisors tend to believe more, that their organization demonstrated a readiness for change, compare to respondents that held non-supervisory position. In addition, Mangundjaya (2013) found that individual readiness for change was the most important variable to commitment to change. While in another study Mangundjaya (2015) argued that organizational trust and leadership had positive impact on commitment to change.

Previous researches mostly studied the impact of multiple ROO and Origin Procedures by conducting firm-level survey measuring their burden on business. This study fills gap in researches on FTAs by addressing challenges for adopting new ROO and Origin Procedures for Customs, as the authority that will determine the eligibility of preferential tariff for an imported good, and that will support the business in using new FTA. In addition, measuring an organizational readiness for change is important since organization would support private sectors in maximizing their utilization of new FTAs. More ready an organization is, the more they will successfully manage change.

This study presents characteristics of CPTPP ROO and Origin Procedures, and their differences with Thailand's current most implemented practices, ATIGA. The objectives of this study are: first, to identify challenges in ROO and Origin Procedures that need to be resolved by the ROO Section when Thailand joins CPTPP. The results will offer valuable insights not only for the policy makers in assessing Thai decision to join CPTPP, but also for other countries interested in utilizing new FTA especially CPTPP. Second, this study aims to measure the ROO Section's readiness for change in applying new CPTPP ROO and Origin Procedures practices. To assess the organizational readiness for change the study uses the Organizational Change Questionnaire-Climate of Change, Processes, and Readiness (OCQ-C,

P, R) as instrument to assess the ROO Section’s readiness to accept and conduct the change in ROO and Origin Procedures implementation.

1.2. CONCEPTUAL FRAMEWORK

In order for Customs authority to be capable of assisting private sector in dealing with change, Customs have to be ready for change. The change occurs when Thailand joins CPTPP and has to implement its ROO and Origin Procedures that have several differences from that of ATIGA’s. The differences would pose challenges for ROO Section, unit that are authorised to implement and regulate the FTA. Furthermore, based on theory of organizational readiness for change, we measure ROO Section’s readiness for change.

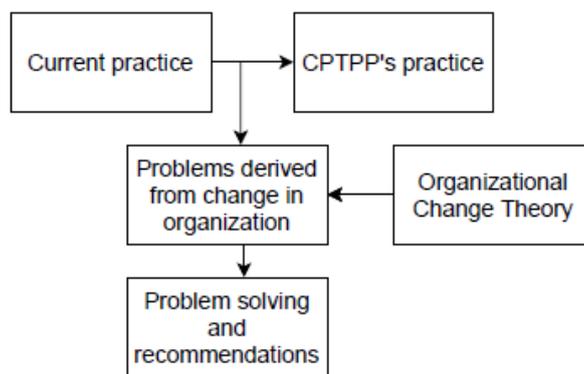


Figure 2. Conceptual Framework of the Study

Source: made by Author.

2. LITERATURE REVIEW

2.1. THEORETICAL FRAMEWORK

2.1.1. Organizational Change Theory

Change is an inevitable reality that must be faced by any organizations. Both private and public sectors organization need to have agility to be willing and able to change, namely, ready for change. Joining CPTPP would be a change for Thai Customs Department and its stakeholders. Differences between Thai’s currently most practiced ATIGA ROO and Origin Procedures with that of CPTPP’s require changes in knowledge/understanding, and procedural practices by Customs and its stakeholders. When organization is ready for change, more likely they gain effective result in implementation and could optimize their role in assisting private sector in implementing the change.

Holt et al. (2007) argued that readiness for change is influenced by change-specific efficacy, appropriateness of the change, leader support, and personal valence. Furthermore,

Howley (2012) emphasized the vital role of the leadership, where leaders are expected to be able identify the need for change, determine the best way to implement the change, provide assistance through the change, ensure appropriate resource allocation, and establish accepted common vision on the goals. Weiner (2009) described organization readiness for change as a multi-faceted construct comprises of the member of organization’s change commitment and change efficacy to implement organizational change (see Figure 3). He argued that the involvement of organization’s member is reflected in their shared decision to act in change implementation (change commitment), and in their shared beliefs in their collective capabilities to implement change (change efficacy) (Weiner, 2009). Change commitment and change efficacy are determined by change valence and implementation capability, where valence is the perceived personal gain (or loss) being expected from organizational change or ‘what’s in it for me’ mindset (Armenakis et al., 2007). Implementation capability is based on several determinants aspects as shown in Figure 3. These aspects are informational assessment on feasibility of a task (as consequences of a change), perception on availability of required resources (human, financial, material, informational) to match the task, and situational factors, for example, sufficient time to implement change or support from internal political environment (Weiner, 2009).

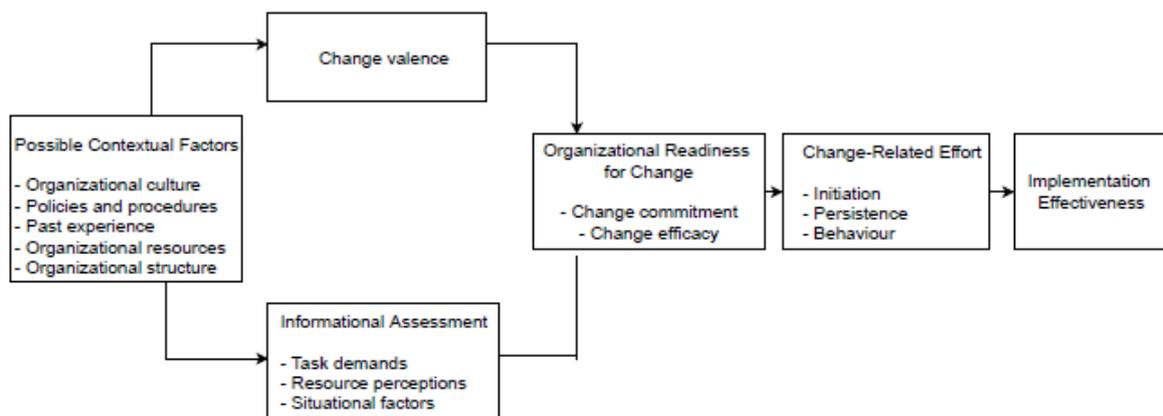


Figure 3. Determinants and Outcomes of Organizational Readiness for Change

Source: Weiner, B. J. (2009). A Theory of Organizational Readiness for Change. *Implementation Science* 2009, 4:67.

Bouckennooghe et al. (2009) developed an instrument to measure organizational readiness for change, namely, the Change Questionnaire-Climate of Change, Processes, and Readiness (OCQ-C, P, R). The instrument highlights ten variables affecting organizational change which are grouped into three areas: climate-of-change, process-of-change, and readiness-for-change. It is claimed to be scientifically proven as a valid and reliable tool to

assess dimensions of change (Bouckenooghe et al., 2009), and combines emphasis on organization member and organization itself, based on findings that individual perceptions of change can be aggregated at the work unit or organization level.

As shown in Figure 4, the instrument exhibits three broad areas, namely: climate-of-change/internal context that comprises of trust in leadership, politicking –the perceived level of political games within the organization, and cohesion that refers to cooperation and trust in other employee’s competence. The second areas reflects process-of-change that required participation (being involved and informed about decisions of change), support by supervisors, quality of change being communicated, and ‘tone of the top’ or top management’s attitude toward change. The last area covers readiness-for-change that covers emotional, cognitive, and intentional readiness for change. According to Bouckenooghe et al. (2009), emotional readiness is “the affective reactions toward change.” While cognitive readiness captures beliefs and thoughts member of organization hold about benefit of the change, and intentional readiness is willingness that member have to be involved in the change process. Following Bullock (2013) that employed the instrument to study readiness for change on employees in human service organizations, this study utilizes the OCQ-C, P, R as instrument for assessing the ROO Section of Thai Customs Department’s readiness for change.

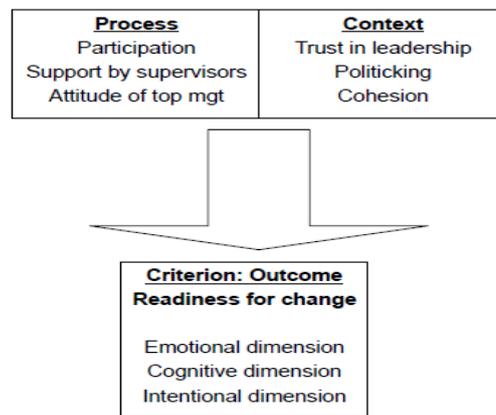


Figure 4. Dimensions in OCQ-C, P, R

Source: Bouckenooghe, D., Devos, G., & Van Den Broeck, H. (2009). Organizational Change Questionnaire-Climate of Change, Processes, and Readiness: Development of a New Instrument. *The Journal of Psychology*, 2009, 143(6), 559-599.

2.1.2. ROO and Origin Procedures in ATIGA and CPTPP

2.1.2.1. Rules of Origin (ROO)

Rules of Origin (ROO) is defined by WCO (2008) as “*origin criteria, containing of the specific provisions developed by domestic legislation or international agreements, which is implemented by a member of the agreement with the purpose of the origin of goods in consideration.*” Imports into a Party that do not comply with the ROO cannot benefit from preferential rates and may be subject to the applied Most-Favoured Nation (MFN) rate of duty. ROOs are stipulated in Chapter 3 of ATIGA and CPTPP with brief descriptions as follows.

ROO – Originating Goods

Originating goods are goods which qualifies as originating in accordance with FTA’s ROO. To confer originating goods in CPTPP: goods must be wholly obtained (WO) or produced entirely in one or more than one territory of the Parties; originating materials are produced entirely in one or more than one territory of the Parties; or non originating materials (NOM) produced entirely in one or more than one territory of the Parties meets all requirements defined in the Annex 3-D (Product Specific Rules of Origin/PSR).

In comparison with ATIGA, originating goods is conformed the origin requirements if a good is wholly obtained or produced in only one Party. As well, non-originating goods is obtained originating status if the goods obtain a Regional Value Content (RVC) at least forty per cent (40%), or if all NOM used in the production have undergone a change in tariff classification (CTC), or a goods satisfied the ROO in one Party is used as material for finished goods in another Party and the said finished goods is eligible for preferential tariff treatment. Additionally, some goods are originating if they meet the PSR requirement.

Wignaraja et al. (2011) argued that multiple ROOs imposed burden to firms’ costs of business. Their survey on 221 Thai firms reported that two-thirds of respondents perceived at least one positive impact of FTAs due to wider market access, and lower preferential tariffs to import intermediate goods and raw materials. However, 13.1% of the firms perceived at least one negative impact of FTAs due to increased competition from other imported products, and FTAs’ complex documentation to prove originating criterias.

ROO – Regional Value Content (RVC)

RVC is a provision of regional value content to determine whether a good is originating. It is determined by value of originating materials, non-originating materials (NOM), or non-originating materials specified under the product-specific-rule (PSR). There

are two methods to determine RVC under ATIGA: the Direct Method and Indirect Method, as follows.

(a) Direct Method

$$RVC = \frac{\text{ASEAN Material Cost} + \text{Direct Labour Cost} + \text{Direct Overhead Cost} + \text{Other Cost} + \text{Profit}}{\text{Cost}} \times 100\%$$

(b) Indirect Method

$$RVC = \frac{\text{FOB Price} - \text{Value of Non-Originating Materials, Parts or Goods}}{\text{FOB Price}} \times 100\%$$

Meanwhile, RVC under CPTPP, which varies from 30% to 50% is calculated under four methods: Focused Value Method, Build-down Method, Build-up Method, or Net Cost Method (for automotive goods).

(a) Focused Value Method: based on the value of specified NOM

$$RVC = \frac{\text{Value of the Good} - \text{FVNM}}{\text{Value of the Good}} \times 100$$

(c) Build-up Method: based on the value of originating materials

$$RVC = \frac{\text{Value of Originating Materials (VOM)}}{\text{Value of the Good}} \times 100$$

(b) Build-down Method: based on the value of NOM

$$RVC = \frac{\text{Value of the Good} - \text{VNM}}{\text{Value of the Good}} \times 100$$

(d) Net cost Method (for automotive goods only)

$$RVC = \frac{\text{Net Cost} - \text{VNM}}{\text{Net Cost}} \times 100$$

ROO – Accumulation

Accumulation is considering an originating material of other Party as an originating material of the Party in which production of a good takes place (Kawazoe, 2019). In ATIGA, RVC of the material used in another Party as materials for finished goods shall be no less than 40%. If it is less than 40%, the qualifying ASEAN value content to be partially cumulated is its' actual domestic content provided that it is equal to or more than 20% (ASEAN, 2009).

In CPTPP, the territory of all its Parties is considered as one area for origin determination. Full cumulation allows all CPTPP Parties to execute a production of non-

originating materials within CPTPP territories, and carry out the working process of assembling the finished product in other CPTPP Parties to obtain originating status. If goods/material can meet the origin requirements in one Parties or other Parties, then the goods/the material confers originating. As a result, bilateral cumulation and full cumulation are generally provided in CPTPP practice. In contrast, ATIGA allows only originating materials used in a production in one Party of ASEAN Member State to be taken into account for cumulation purpose in another Membe State.

According to Wignaraja et al. (2011) some of Thai firms perceived multiple ROOs as obstacle to using FTA preferences. This would include the differences in the calculation of RVC and accumulation to prove origin of a goods required by different FTAs (namely in ATIGA and CPTPP). In the other hand, giant firms did not see ROOs as obstacle, suggesting that they were more easily prove the origin of goods than smaller firms (Wignaraja et al., 2011). However, the survey resulted that firms might have started to see multiple ROOs as an obstacle when more FTAs are concluded by Thailand.

2.1.2.2. Origin Procedures

Origin procedures are procedures need to be fulfilled in order to gain preferential tariff treatment under the agreement.

Origin Procedures – Claims for Preferential Tariff and Basis of a C/O

In ATIGA, an importer may claim for preferential tariff treatment based on a certification of origin (C/O) completed by issuing authorities in exporting Member States/Parties in a prescribed format (Form D) set by ATIGA rule. Before the exportation, the issuing authorities in exporting Member State, based upon written application by an exporter, will verify the origin of the good. Only the certified exporter granted by the issuing authority is consented to issue a self-certification. A C/O original copy must be submitted to Customs authority at the importing Member State, while the duplicate copy is retained by the issuing authority, and the triplicate is kept by the exporter, therefore, multiple shipment usage of a C/O has not been available for claiming preferential tariff treatment.

In the other hand, in CPTPP a C/O can be completed by the exporter, producer, or importer, and need not follow a prescribed format, but still require to meet minimum data requirements indicated in Annex 3-B. Exporter and importer are allowed to complete a C/O on conditions that they have information to ensure that the goods are originating based on supporting documents made available by producer or exporter. In addition, CPTPP allows a

C/O to apply for not only a single shipment, but also to multiple shipments of identical goods within any period specified in C/O not exceeding twelve months.

Origin Procedures – Record Keeping Requirements

ATIGA requires exporter and/or producer, and issuing authority to keep all supporting records for C/O application at least three years from its date of issuance. While CPTPP requires importer, exporter, and producer to keep records to ascertain originating status for not less than five years.

Origin Procedures – Verification of Origin

A verification or retroactive check may be conducted by the importing Party to determine whether a good confers the ROO requirements in the agreement. In ATIGA, verification or retroactive check may be requested by importing Member State to the issuing authority of the exporting Member State, who shall conduct retroactive check on producer/exporter's cost statement. During the verification process, a preferential treatment may be suspended by the customs authority of importing Member State. The imported goods, not prohibited or restricted for importation, may be released if a suspicion of fraud is not found. Not only a retroactive check, but a verification visit to the premises of the exporting Member State can be conducted if the retroactively check is not satisfied. The importing Member State should express an intention of the verification visit and send a written notification to: the exporter/ the producer, the issuing authority, the customs authority, and the importer.

In CPTPP, the importing Party may request to conduct origin verification and verification visit by directly contacting and accepting information from the importer, the exporter, or the producer. Furthermore, a verification visit to the premises of the exporter or producer may conducted directly after giving a written request, by also informing and giving the officials of the Party where exporter of producer is located to accompany them during the visit (Australian Government, 2015).

Wignaraja et al. (2011) found that dealing with multiple ROOs would add significant costs to business. These costs are related to complying Origin Procedures, namely cost of staff to process Customs documents and costs to implement new strategies to comply with the ROOs. As a result, Wignaraja et al. (2011) further argued that firms need more support from related institution for FTA utilization. These supports are needed to assist firms to best utilise existing FTAs and to gain benefit from future FTAs. According to Wignaraja et al. (2011)

support services demanded are namely: *“providing more information of FTAs’ implication for business, upgrading technical standards and quality, more awareness training on FTAs under implementation, and enhanced consultations during FTA negotiations.”*

3. RESEARCH METHODS

In order to answer the research questions, we conduct qualitative study by using case study, which is adequate to perform in-depth analysis of individuals and processes (Creswell & Creswell, 2018). In-depth interviews by asking open-ended questions aim to achieve general understanding of informant’s experience or point of view (Berry, 1999). This study adopt Bouckenooghe (2009)’s OCQ-C, P, R which can be used at stages before and during implementation. Although it was meant as a quantitative survey instrument, we believe the instrument is suitable for our interview’s guidelines due to its validity, easiness to replicate, and ability to be implemented on pre-implementation stages.

Study was conducted on ROO section, Customs Tariff Division Thai Customs Department by performing face-to-face interviews and telephone interviews in April 2020 and June 2020. The informants are two Thai Customs officials at professional level, working for ROO section of Customs Tariff Division, Thai Customs Department. Informants have rich experience in ROO and Origin Procedures, namely as a member of the Working Group which prepares comprehensive matters related to Customs Tariff Division’s and Thai Customs’ readiness for joining CPTPP. The working group is responsible to study ROO and Origin Procedures (Chapter 3 CPTPP) and Textile and Apparel Goods (Chapter 4 CPTPP).

Based on the interview results, we identify challenges which would be faced on the change from ATIGA to CPTPP ROO and Origin Procedure, and assess the readiness of the individuals –as element forming the ROO Section and Thai Customs, for change process when Thailand joins CPTPP. Following Creswell et al. (2018) data analysis are conducted by data segmenting/organizing, data reading, and data coding. Next, as Informants could serve as different observers on the change phenomenon, we triangulate informants’ answers to gain confidence that we have accurate perspective on information available (Neuman, 2014), and draw conclusions based on the analysis.

4. ANALYSIS AND DISCUSSIONS

4.1. Analysis on Challenges on CPTPP's ROO and Origin Procedures

4.1.1. Rules of Origin (ROO)

Originating Criteria

According to Informant, compared to ATIGA, CPTPP's requirement for obtaining originating goods status is more flexible and has no minimal operation provision. In comparison, ATIGA regulates that originating status may be obtained when:

- a good is WO or produced in the exporting Member State (only one Party); or
- a non-WO or produced good has reached RVC not less than forty percent; or
- all NOM used in the production of the goods have undergone a change in tariff classification (CTC) at four-digit level of the Harmonized System (HS); or
- fulfilled the accumulation rule under Article 30.

In the other hand, CPTPP ruled that *"originating status may be obtained when a good is wholly obtained (WO) or produced entirely in the territory of one or more of the Parties"* (Australian Government, 2015). A good is originating when it is wholly obtained, produced entirely in the territory of one or more parties, or using NOM to produce a good satisfies PSR. CPTPP's definition of originating goods are more flexible than ATIGA. Thus, it would be advantageous for Party exporting goods to expand its market to other Parties' economies and achieve preferential tariff treatment of importing goods to reduce production cost. However, since CPTPP ROO is more flexible than ATIGA, the fact that CPTPP does not regulate the provision of minimal operations and processes, has raised the Informant's concern as follows:

"under CPTPP, goods might be too easy to obtain originating status. Due to that flexibility, the volume of imported goods granted CPTPP's preferential tariff treatment may increase, and my concern is that local producers, especially in agricultural industry, would be impacted and lose their competitiveness to the imported goods"

Therefore, although Thailand would benefit from CPTPP's relaxed originating goods criteria, Thai's government should assess its competing impact on local product having similar characteristics and use. Our finding supports Wignaraja et al. (2011) whose study found that concerns on increased competition from imported goods were raised by 22 firms (automotive, textile and garment firms) which represented about 13% of samples surveyed (Wignaraja et al., 2011). These firms perceived negative impact of FTAs due to lower tariff gained by their competing goods.

Regional Value Content (RVC)

The ATIGA's Direct and Indirect Method are practically similar to CPTPP's Build-up Method and Build-down Method. However, the Focus Value Method and Net Cost Method (for the Automotive Goods) will be totally "first-hand" for the future Certificate of Origin

(C/O) applicants in Thailand. Failure in comprehending these methods' calculation and usage would lead to rejection of preferential tariff treatment. The Informant argued that:

“if Thai entrepreneur cannot strictly implement and comply with the Generally Accepted Accounting Principle (GAAP), this may lead to inappropriate production cost and impact the RVC calculation declared in C/O that incorrect information may be resulted in failure to be granted the CPTPP preferential tariff treatment.”

These findings support Takahashi and Urata (2008) who found concerns of Japanese firms where the use of FTAs required more costs to obtain necessary information and documents to prepare C/O, which cannot be afforded by small firms.

Moreover, under the CPTPP RVC, where multiple methods are provided in its Product Specific Rules of Origin (PSR), person issuing the C/O could decide which method to use. The Informant viewed that both public and private sectors are less experienced with CPTPP methods, therefore, more guidance should be provided for calculating RVC methods especially the Focus Value Method and Net Cost Method. By comprehending all methods, producer/exporter/importer could decide accurately which method allows the good its originating status; since it is possible, that a good's RVC under one method could not reach the minimum requirement, while if the RVC is calculated under another method, it could surpass the requirement. It supports Takahashi and Urata (2008)'s finding that ROO procedure simplification and assistance for the use of FTAs were necessary to support utilization of multiple FTAs.

In addition, the Informant argued that Customs should support private sectors by communicating and guiding them, so that both parties would have the same and correct understanding on CPTPP's rules, which would be a key factor for CPTPP implementation. This result supports Wignaraja et al. (2011)'s finding that institutional supports, in terms of providing more information and training on FTAs, are highly demanded by firms.

Accumulation

For accumulation, ATIGA rules that RVC of the material which are used in another Member State as materials for finished goods shall be no less than forty percent; otherwise, partial cumulation would be applicable when domestic content of good in the Member State where working or processing of the good has taken place is at least 20%. When importing the goods, this good could not be granted for ATIGA's tariff preference, but if it is used to produce finish goods in the importing Party, it could be cumulated with other materials, then

the finished goods will be originating. This would encourage local producer to use raw material from ASEAN Member State and benefit from preferential tariff treatment.

In CPTPP, the territory of all CPTPP Parties is one area for origin determination. Full cumulation accepts all CPTPP Parties to execute a production of NOM within CPTPP territories, and carry out the working process of assembling the finished product in other CPTPP Parties to obtain originating status. In addition, any value added i.e. value of materials, labour and overhead incurred within a Party to CPTPP by suppliers of NOM used to produce final goods is included in RVC calculation's VOM method. Although the material does not itself become originating, but the costs of production in Parties to CPTPP can be "fully" accumulated and help final goods reach its RVC threshold. The Informant argued that there is a lack of guidance on how to calculate CPTPP's accumulation method, and concerned that:

“since full cumulation is applied, it will be difficult for origin verification, so ROO Section need to identify a clear origin verification to prevent circumvention, in order to protect leaked Thailand's income and protect local Thai producers.”

The difficulties in verifying full cumulation occur because verification of origin will be more complicated, since the costs of any production undertaken on NOM can be added to the costs of any originating materials – provided they have documentary evidence of these costs. CPTPP C/O is not examined by any government agency, which according to the Informant:

“it would be extremely challenging to ensure an accuracy of all information and origin status declared in the C/O, and evidences demonstrated the originating status and qualified for CPTPP preferential treatment as requested for at least five years, it would resulting in difficulties of conducting a retroactive check upon request by importing Party.”

4.1.2. Origin Procedures

Claims for Preferential Tariff Treatment and Basis for C/O Issuance

The issuance of a C/O under ATIGA is performed by the issuing authorities of the exporting Party. ATIGA C/O is required to follow a prescribed format and has to be produced in accordance with ATIGA Operational Certification Procedures (OCP). ATIGA Self-Certification enables certified exporter to declare in its invoice that its products have satisfied ATIGA ROO. In order to be accredited as certified exporter, manufacturers/exporters are being evaluated by relevant authorities.

According to Inama (2009), one of the trade policy objectives of requiring ROO in FTAs is to avoid trade deflection and tariff circumvention. He argued that in the absence of

ROO, importer/producer would employ the easiest way to transform the good and reexport it to the high import tariffs countries, which accordingly, tariff circumvention operation and trade deflection may occurred. Under CPTPP practice, pre-exportation examination and periodic review of the origin of the good may not be implemented. CPTPP allows producer, exporter, or importer to provide a C/O, in which has no prescribed format, in which the Informant argued that *“if producer, exporter, or importer incorrectly issued the C/O because of their insufficient knowledge, preferential tariff they applied may be denied.”* Moreover, the Informant viewed that the credibility of CPTPP C/O would be a concern, since unlike ATIGA C/O, CPTPP C/O has no validation prior to its issuance by the producer, exporter, or importer. If the producer, exporter, or importer is not a reputable trader, there would be higher risk for circumventions to occur which further resulting the country’s lost of income. This finding supports Inama (2009)’s argument that less stringent the ROO, the more FTA would attract trade from partners countries (trade creation). However, a less stringent ROO would also become incentive for tariff circumvention.

Verification of Origin and Record Keeping Requirements

CPTPP allows the importing Party to directly request and accept information from importer, exporter, or producer when they conduct verification and/or verification visit, without any obligation to be assisted by Party’s authority. This *“in-absentia* condition” where no issuing authorities in the exporting Party are required to be actively involved during verification process raised the Informant’s concern that *“...if producer, exporter, or importer cannot maintain all relevant documents of goods’ status, it is difficult to verify and prove the goods’ origin.”* The difficulties are increasing by full cumulation principle which needs more thorough documentations on origin.

To accommodate such complex verification, CPTPP requires importer, exporter, or producer to keep their records for five years, which is longer than ATIGA’s requirement. However, Wignaraja et al. (2011) found that firms tended to perceive FTAs’ requirement for documentation as negative impact of FTA. Therefore, this study supports Wignaraja et al. (2011)’s where there would be lower possibility of good to obtain tariff preferential due to difficulties in maintaining required origin documents.

4.2. Analysis on Organizational Readiness for Change

4.2.1. Climate-of-change: Trust in Leadership, Politicking, Cohesion

Officials perceived that their leader, the Director of ROO Section (Director), as trustworthy. Officers can openly communicate and discuss problems regarding CPTPP ROO and Origin Procedures practices. In addition, Director also closely works with both private sector and other government agencies (OGAs) to discuss the preparation on joining CPTPP. In regards to the cooperation and competence level of colleagues working in ROO Section, both Informants believed that their colleagues are well cooperated, competent, and trustworthy. The Informants emphasized that they have high responsibility and integrity towards their task performances without any politicking agenda. As argued by Mangundjaya (2015), organizational trust contributed positively to the commitment to change. Further, in the readiness-for-change section, we analyze whether this study supports the previous finding.

4.2.2. Process-of-change: Participation, Support by Supervisors, Quality of Change Communication

Towards joining CPTPP, a Working Group (WG) is established to study and analyze matters related to ROO. Both Informants are assigned in the WG, meaning that the information regarding the changes is non-exclusive and accessible for all officials working in ROO Section. Meanwhile, officers can always discuss the new procedures and potential problems with the Director and colleagues. The Supervisors provided guidelines on the implementation of CPTPP ROO and Origin Procedures, while the Director gave helpful suggestions and continuous support.

Regarding the quality of change communication, one Informant argued that he/she is aware of the differences in CPTPP ROO and Origin Procedures compared to other FTAs. However, since Thailand has not joined the FTA, the formal guidance for its practical application yet to be available. The officers are expecting to get guidance from their Supervisor or Director. Another Informant revealed ones expectation that *“sharing information and gaining the same understanding among ROO officers are highly required, ... since the ROO Director and officers should share the same information to other officers (in different unit).”* In overall, change process has been supported by the Director/Supervisor. The Director led intensive discussion internally and externally (with public/OGAs and private sectors) to get insights on problems and impact which may be encountered when joining CPTPP.

This positive results of officers' perception of change-process are different from Bullock (2013) where majority of respondents who held non-supervisory positions disagreed that their organization had a process that promoted organizational change. However, Bullock (2013) study revealed that relationship between employment status and their perceptions of the process of organizational change was not statistically significant; therefore, the perception of officers does not relate to their employment status. It justifies our findings where non-supervisory officers have a positive perception of the change process.

4.2.3. Readiness-for-Change: Emotional, Cognitive, Intentional

Readiness-for-change is a result of two other areas: climate-for-change, and process-of-change. In this area, the Informants are considered to be emotionally and intentionally ready for the change since they are deemed to be emotionally involved in the effort to make the change successfully happen. It was evidenced by their deep concerns about the Section's readiness and private sector's knowledge and ability to claim CPTPP preferential tariff treatment. They are willing to work under a WG intentionally to help the change process run smoothly. In addition, the readiness for change are resulted from officers' trust to their organization (climate-for-change variables). Hence, this findings support Mangundjaya (2015)'s argument that organizational trust contribute positively to commitment to change.

Moreover, they are cognitively ready for change as long as supported with sufficient knowledge and guidance from supervisor/Director. This shows that leadership from supervisors/Director are consistently perceived as in the climate-of-change variables. Moreover, leadership have positive impact on the officer's readiness for change. This result also supports Mangundjaya (2015) that argued leadership had positive and significant impact on organizational change.

4.3. Triangulation

We conducted triangulation by comparing interview results from both Informants. Their multiple perspectives should provide multiple measures of the same phenomena (Neuman, 2013) as well as an accurate picture regarding perceptions on challenges might be faced and organizational readiness for change due to Thailand accession to the CPTPP. From both Informants, we obtained similar perceptions or picture about challenges and readiness on Thailand joining CPTPP. Neuman (2013) argued that a similar picture offered by multiple measures would indicate an accurate picture.

5. CONCLUSIONS

This study suggests that the implementation of new FTA would inevitably come with challenges to overcome, which are not only faced by private sectors, but also by Customs. Therefore, organizational readiness is important to assure that new FTA can be successfully implemented. This study finds that CPTPP provides more flexible ROO and Origin Procedures compared to ATIGA. Although the flexibilities might benefit the producer, exporter, or importer, it should be assured, that the private sectors have sufficient knowledge and are capable of implementing CPTPP.

This study identified challenges that would be encountered when Thailand joins CPTPP. The first challenge is the possibilities of the producer, exporter, or importer conducting circumventions to gain CPTPP preferential tariff treatment. This would be possible due to CPTPP rules that is more flexible by allowing originating goods to be determined by full cumulation principle. This flexibility raised concerns that producer and exporter can fabricate datas on production and NOM costs to gain originating status of the final goods. In addition, Customs verification on imported goods' originating status is perceived to be more difficult since CPTPP allows for long production chain involved in the final finished goods. Another reason is that CPTPP allows producer/exporter/importer to issue C/O without any pre-exportation verification by the issuing authorities, where this absence of control in issuing C/O also raises concern on circumvention.

The second challenge is the need for sufficient knowledge on CPTPP ROO and Origin Procedures for both public and private sectors. A preferential tariff treatment will not be granted when a good cannot meet the criteria required under ROO. Since CPTPP employs different rules compare to ATIGA, producer/exporter/importer need to be supported by sufficient knowledge so they are able to be granted the preferential tariff under CPTPP. Before supporting the firms by providing accurate and applicable information on CPTPP, Customs and other related government agencies should have the same interpretation on CPTPP ROO and Origin Procedures.

Furthermore, our study uses the Change Questionnaire-Climate of Change, Processes, and Readiness (OCQ-C, P, R), and find that all the change dimensions result in positive perceptions, reflecting that the organization is ready for change when joins CPTPP. Informants perceive that the positive climate and process of change would support their readiness for change in implementing CPTPP ROO and Origin Procedures.

Therefore, we recommend ROO Section to implement national measures to prevent circumvention, i.e. by conducting a detail and comprehensive verification process to assure that C/O used in importation is valid and accurate, and goods imported to Thailand under CPTPP are eligible for a preferential tariff. In addition, Customs need to provide support to private sector by providing more information, technical advice, and training of CPTPP ROO and Origin Procedures.

6. RESEARCH IMPLICATIONS AND LIMITATIONS

The implication of this study is that it can be adopted by other Customs organization that plan to implement CPTPP, as they should pay attention not only to the technical differences, but also to their organizational readiness for change. In addition, we encourage further study to obtain Superior officers' perception on the readiness-for-change survey, which would give a complete overview regarding challenges and the organizational readiness for change in implementing new FTA ROO and Origin Procedures.

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