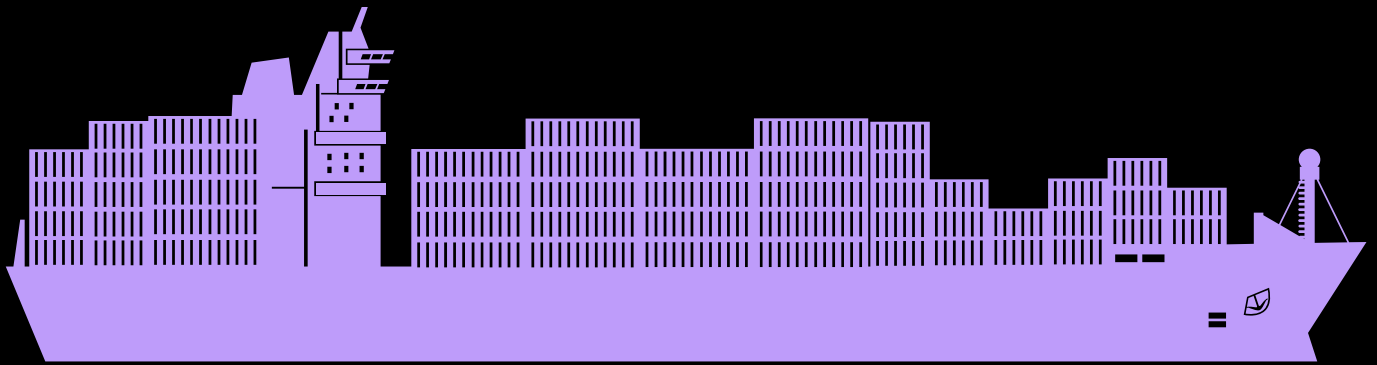


Diagonal Cumulation Optimization Tool

*Maximizing the impact of trade
partnerships*

DCOT

Practical Guide



Delivering Progress

PMCG

Policy and Management Consulting Group

Diagonal Cumulation

In international trade, diagonal cumulation allows input materials originating from different countries to be used, provided that all countries taking part in the process have free trade agreements (FTAs) in place with one another. In such circumstances, input materials with originating status are treated as equivalent to input materials originating in the exporting party. Diagonal cumulation is however only possible among participants in a corresponding system, whereby each of the participants' agreements allow for products originating from one country to be treated as if they originated from another when deciding if a particular good adheres to a product-specific rule, for example in the Pan-Euro-Mediterranean system of cumulation of origin.

Opportunities

Diagonal cumulation introduces significant opportunities for countries to fulfill their potential with respect to exports diversification, increasing inflow of foreign direct investment (FDI) and joint ventures, thus encouraging innovation and creation of new jobs.

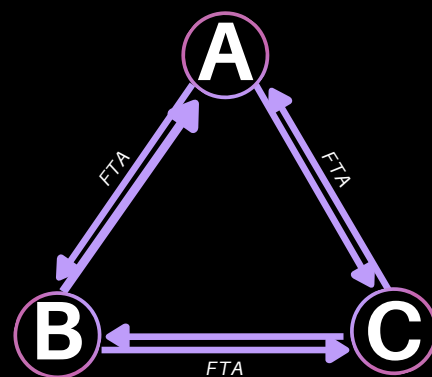
Challenges

Even though diagonal cumulation presents a number of possibilities to advance trade, using it can initially be confusing as countries lack reliable sources of information and opportunities may pass them by.

When diagonal cumulation agreement enters into the force, it is important that it keeps up with emerging changes in circumstances and related opportunities. First, it is vital to identify which products can benefit most from the agreement.

Solution

This is precisely where we are ready to assist with significant experience and the specific research methodology, containing a well-tested model in place. In particular, we identify goods, the production of which can be economically attractive following the establishment of diagonal cumulation (i.e. manufacturing in country A using the raw materials and intermediate products of country B to export to C market).



How DCOT Works

PRODUCT	MNF	EXPORT CARG	IMPORT SHARE	EXPORT VOLUME	SELECTED
#	✓	✓	✓	✓	YES
#	—	—	✓	✓	NO
#	—	—	—	—	NO
#	✓	✓	✓	—	NO

Phase I

In the first stage, we analyze country B's exports of goods manufactured mainly using its own raw materials and intermediate products to the C market and develop a list of high-potential products and value chains through a model specifically designed for the present study. The model is based on the following criteria: top exported Harmonized System (HS) 6-digit-level products from country B to the C in recent years; the share of exports of the product from country B in relation to total imports of similar products to the C market; annual growth of these exports in the C market (CAGR); the C customs tariffs for these products (MFN); and overall export volume of country B.

Phase II

In the second stage, after the high potential products and value chains are identified, we filter selected value chains, using the following criteria: product origin; and raw materials needed to manufacture the product.

Phase III

In the third stage, we look at the different factors in the production of the good. Specifically, we study the need with respect to labor, electricity, technology, and other factors in order to determine which value chains country A should favor compared to country B. After careful consideration, we provide the final list of products and value chains which can benefit most from the newly launched diagonal cumulation.

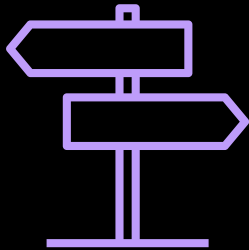
What DCOT Brings

Outcome #1



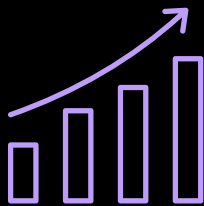
Delivers precise answers to previously unexplored trade opportunities.

Outcome #2



Equips businesses with knowledge for best-informed decision-making

Outcome #3



Ensures taking full advantage of the opportunities presented by the trade agreements, including attraction of export oriented FDI.

DCOT Team

PMCG team who developed the promising DCOT and applied it successfully in Georgia:

Mr. Mikheil Janelidze
Sector Lead, Trade Policy

As a **Vice Prime Minister and Foreign Minister of Georgia** between 2015 and 2018, Mr. Janelidze enhanced Georgia's economic integration with the largest regional and world economic powers. As **Vice Minister of Economy and chief trade negotiator** of Georgia in 2011-2015, he negotiated the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Currently, he leads trade sector development at PMCG.



Ms. Ketevan Babiashvili
Senior Consultant, Researcher

Ms. Babiashvili has sound experience in research and analysis of diverse economic issues of international development. She holds two master's degrees, one in Public Policy and Administration from the London School of Economics and Political Science (LSE), and the other in Economics from International School of Economics at Tbilisi State University (ISET).

Ms. Mariam Khubashvili
Project Manager

Ms. Khubashvili develops projects, coordinates with partners, consultants and beneficiaries, and undertakes market research and analysis at PMCG. Her previous work experience also includes an internship at UNDP. She holds master's degree in Sociology from Ilia State University, and a bachelor's degree in the same discipline from Tbilisi State University.



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