Non-Tariff Measures and Private Norms in GVC Trade

In defence of the NTMs

or

“If you can’t beat them, join them”
The rise of Technical Barriers to Trade and Sanitary & Phytosanitary measures

Source: WTO I-TIP database
NTMs as a main barrier to international trade

• NTMs have often been held to represent “murky protectionism” (Baldwin and Evenett 2009)

• Anderson and Wincoop (2004): typical cost increase from factory to retailer in importing country amounts to 170%.
  • 21% transportation costs, 44% border related (Tariff, NTMs, other trade costs) and 55% retail and wholesale margins

• In a world of falling transport costs and tariffs, many of the remaining impediments to trade take the form of NTMs

The issue is compounded when trade takes place within Global Value Chains...
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• The international fragmentation of manufacturing opened new options for industrialization in developing countries
  • Especially the smaller ones:
    Scale of production is less important than specialization on a few intermediate tasks

• But the “quality/price” dimension is primordial in GVC trade:
  • Conformity of the product to
    • industrial standards, including “Just-in-Time” delivery
    • official norms regulating imports (NTMs)
  • Conformity of the production process to Corporate Social Responsibility norms

• Amplification of the cost of unsuitable parts and processes in a GVC
  • Any issue affecting a single step (faulty upstream component or final assembly stage)
  • jeopardizes the whole production chain ... with long-lasting impact on trust and reputation
The role of standards in Global Value Chains

Technical Barriers to Trade and Sanitary & Phytosanitary Measures; industrial standards

• **Mixed picture**: international standards are more trade-promoting than importer’s national standards
  • Using international standards by either exporters or importers likely to promote trade,
  • But national standards have more ambiguous effect (Swann 2010).
    • Some national standards add production costs in order to enhance product quality for the final consumer: trade-reducing effect (Ferrantino, 2012)

• In the case of **South-South trade**, expanded trade may be associated with weaker national standards
  • But with down-grading of the GVC position of the exporter (Kaplinsky, Terheggen and Tijaja, 2010)
An example: Automotive Value Chain in Parts and Components (Henson et al. 2000)

- **Standards help coordinating** the various steps of the Global Value Chain
  - When they are internationally recognized
  - But are problematic when they are country specific

- **Particularly problematic** for such components as seat belts and exhaust systems
  - In **EU**, laboratory testing to obtain a type approval certificate, with re-testing and reinspection for relatively small changes
  - In the **USA**: federal, state, and local standards for automotive products – for example, in California emissions standards are particularly strict
    - distinction between essential safety regulations and optional quality requirements in the U.S. market is unclear
GVC-specific TBTs and Private Standards
A Fact of GVC Life...

Standards adoption:
• A costly condition for not being excluded from business
  vs
• An opportunity to improve one’s GVC position in a chain

• GVC governance: Standards are instruments for value chain management particularly for arm’s length type of relationships
  • To enhance product quality for the final consumer while controlling costs and disruption/failure risks
  • To satisfy the “Civil Society” demands for Corporate Social Responsibility

• Entry Barriers acting as a “Schumpeterian shock”
  • Marginalization for some (destructive)
  • Process, product and functional upgrading for others (creative)

Resulting in increased social/income differentiations
• The integration of some in the global economy goes hand-in-hand with a greater marginalization of others (between countries and within countries)
  • Increased wage gap between export-oriented and inward oriented firms
Official & Private Standards and Small Producers in Developing Countries

Example of the International Food Supply Chain

• The rise of official food standards in export value chains and performance-type private standards
  • Lead Firm demands for consistent high volumes with good quality

• Requires costly investments:
  • cooling facilities, safety and quality monitoring or packaging devices

• And additional inputs, esp. professional services:
  • Pre and post harvest (agronomic and veterinary services; certification and facilities or environmental audits...)

• Most individual producers cannot afford the additional cost of GVC upgrading:
  • Access to credit is a barrier, esp. for small farmers, esp. women in many traditional cultures

• Upgrading cost assumed
  • by a local Lead Firm (wholesaler/exporter) or
  • Collectively, through a cooperative
    • with different impacts on the share of value-added going to the producers
For example, when developing countries’ agricultural exports:

- Highly responsive to the quality of transport and trade-related infrastructure.
  - An improvement of 10% in the transport and trade-related infrastructure quality
    - has the potential of increasing developing countries agricultural exports by 30%

- Human capital:
  - A 10% improvement in the secondary education enrolment rate
    - would generate a 7.2% increase in agricultural trade value.

Source: Hallaert et al., 2011, Estimating the Constraints to Trade of Developing Countries
A few points for further discussion

- **TBTs, SPSs and private standards are not negotiable** (unlike tariffs)
  - Tariffs were set to protect producers
  - Standards are set to protect consumers and facilitate inter-industry trade

- **Available options** with respect to standards are:
  - Transparency and standardization of official standards at multilateral level (WTO, deep RTAs...)
  - Unilateral adoption of higher official and private standards (North-South trade)
    - Higher costs but GVC up-grading opportunities for the successful domestic value-chain
  - Mutual recognition of high official standards (North-North trade)
    - Low cost Win-Win strategy
  - Mutual recognition of lower official and private standards (South-South trade)
    - Low cost but risks of domestic value-chain stagnation or downgrading

- **In all cases, room** for **Private-Public Partnership**
  - Devising “smart industrial policies” aiming at export-oriented clusters
  - Sharing the costs of investment and “servicification” required by GVC upgrading
    - Certification agencies
    - Infrastructure and logistic services
    - Scientific and technological R&D
    - Marketing and promotion of the national “brand name”