

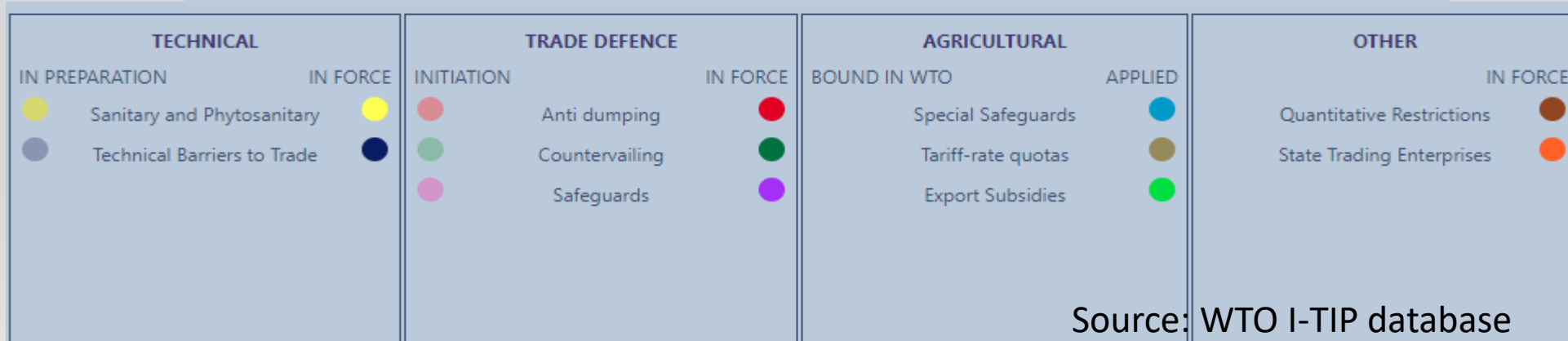
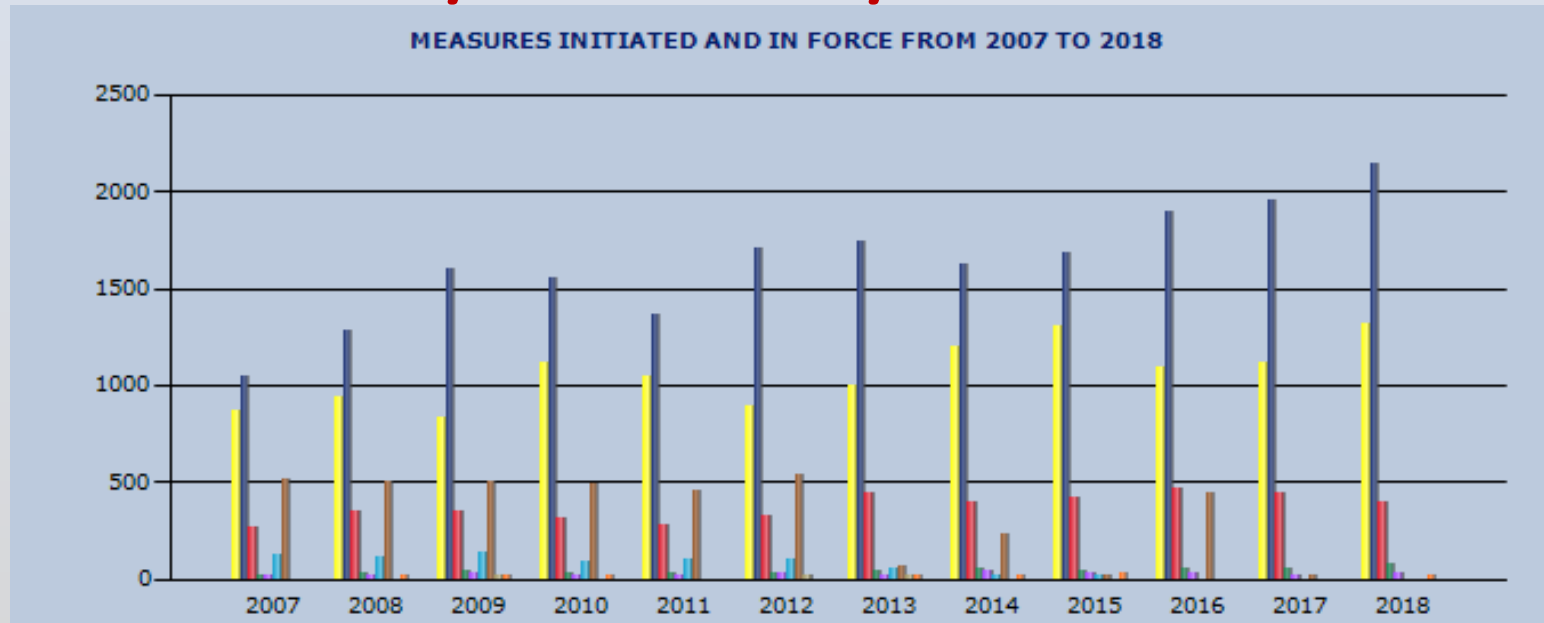
# **Non-Tariff Measures and Private Norms in GVC Trade**

**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



# 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...**

# The issue is compounded when trade takes place within Global Value Chains

- 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
- **An opportunity** to improve one's GVC position in a chain

VS

- **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**



# Often forgotten, the importance of Public services

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*”