

Does regulatory diffusion lead to inclusive trade in Asia?

2017/9/28 @ WTO Public Forum

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Perspective

- ◆ Regulation/private requirements that go beyond jurisdictions have increased with globalization to manage environmental/safety risks along with formation of global supply chains.
- ◆ Developing countries create own regulations by imitating and localizing export market regulation/standards to help firms (esp. SMEs) to keep market access.
=>The policy effort is aiming at inclusive trade as part of new type of industrial policy in developing countries.
=> Such effort of countries is leading to policy diffusion.
- ◆ Does policy diffusion help small players or are they left behind?

Regulations/Standards under Globalization

◆ Market Requirements:

To help final products to meet targeted quality, regulations/standards set requirements on characteristics of final products.

- Regulations set at a country level are heterogeneous. Relying on countries' regulations leads to insufficiency in meeting safety/sustainability target set in the final market.
- Suppliers that are spread around the world and connected through trade need to comply.

◆ Export countries' reaction for adapting to regulatory environment in export markets leads to policy diffusion.

Diffusion of EU RoHS

| Year of Implementation | Country/Region | Law Name |
|------------------------|-----------------|---|
| 2006/July | EU | RoHS Directive |
| | Japan | JIS C0950 (J-Moss) |
| 2007/March | China | Administrative Measure on the Control of Pollution Caused by Electronic Information Products |
| 2008/January | South Korea | Act for Resource Recycling of Electrical and Electronic Equipment and Vehicles |
| 2008/January | Norway | Prohibition on Certain Hazardous Substances in Consumer Products |
| 2009/February | Thailand | TIS 2368-2551 (2008) |
| 2009/June | Turkey | Turkey RoHS |
| 2010/January | California, USA | Assembly Bill No.1109 CHAPTER 534 the California Lighting Efficiency and Toxics Reduction Act |
| 2012/May | India | E-waste(Management and Handling)Rules, 2011 |
| 2012/December | Vietnam | Circular No.30/2011/TT-BCT |
| 2017 | Singapore | Restriction of Hazardous Substances (RoHS) in Electrical and Electronic Equipment (EEE) |
| 2018/January | UEA | Restriction of Hazardous Substances in Electrical and Electronic Equipment |

Why has regulatory diffusion occurred?

Motivations include:

- ◆ To improve domestic practices=> race-to-the-top
- ◆ To keep market access=>as industrial policy
- ◆ To harmonize domestic regulations=>as part of harmonization effort in domestic market
- ◆ For importation control=>to prevent pollution haven

Market access and pollution haven concerns are real!

| | Vietnam | Malaysia |
|---|-----------------------|-----------------------|
| Change export markets | 4% (among 628 firms) | 2% (among 226 firms) |
| Change inputs | 29% (among 406 firms) | 44% (among 213 firms) |
| Using different inputs depending on markets | 51% (among 247 firms) | 28% (among 209 firms) |

- The number of firms that changed export markets is 2-4%.
- 30~40% of firms changed input materials to adapt to regulations. Changing inputs may also involve suppliers change.
- More firms use different inputs depending on stringency of regulatory requirements in destination markets.

=> **This may implicate that regulations change structure of supply chains.**

=> **Using different inputs depending on markets indicate that unintended heterogeneity of regulation results in pollution haven.**

Source: Michida, Humphrey, and Nabeshima(2017) Regulations and International Trade: New Sustainability Challenges for East Asia. Palgrave Macmillan.

The similar story goes for private standards: Motivations of Global GAP Diffusion

| Standard Adopter or Developer | To Improve Domestic Practices | For Export | To Harmonize Domestic Regulations | For Importation Control |
|-------------------------------|--|--|-----------------------------------|-------------------------|
| Private Sector | AEON A-Q (Japan) J GAP(Japan) | Thai GAP (Thailand) Asia GAP (Japan) | JGAP (Japan) | |
| Public Sector | GAPs (Japan) Q GAP(Thailand) SALM(Malaysia) GAP VF(Singapore) PhilGAP(Philippines) ChinaGAP(China) IndonGAP(Indonesia) | IndGAP (India) VietGAP(Vietnam) MyGAP (Malaysia) | ASEANGAP (ASEAN) | GAP (Indonesia) |

Diffused Policies for Keeping Market Access

- ◆ The **FEAR**: if non-compliant/non-certified, you are excluded from the export market.
=> Diffused regulations/private standards aim at domestic firms being included in exportation to regulated market.
- ◆ By doing so, some countries decide to **modify the requirements** of EU RoHS/Global G.A.P. to fit better to **local conditions** so that local suppliers can adopt.
=> Multiple regulations with slightly different requirements have been introduced.
- ◆ For some local GAPs (JGAP/AsiaGAP) takes step-by-step approach to bring smaller players up to global standard levels.
=> Suppliers differentiate types of local GAPs to adopt.

Have diffused versions actually helped firms to access market?

- ◆ Diffused policy may have helped firms to introduce better management.
- ◆ Benchmarking of diffused versions for export purpose do not seem successful in Asia.
 - For food private standards, local GAPs developed in Asia have not been successful to be benchmarked under GFSI
 - For palm oil standards, ISPO and MSPO, which are local versions of RSPO are not successful in being recognized in global market.
- ◆ For the firms that export to regulated market, they need to comply with export market regulations anyway.

Knowledge and Perceptions about VietGAP

| | HCMC | | Hanoi | |
|--|-------|------|-------|------|
| | Mean | S.D. | Mean | S.D. |
| Knowledge | | | | |
| Do you know VietGAP | 3.00 | 0.98 | 2.94 | 0.99 |
| Have you ever buy VietGAP food? | 3.31 | 1.11 | 3.15 | 1.11 |
| Did you know that VietGAP food basically means the non-use of prohibited chemicals and fertilizers for production periods? | 3.25 | 0.92 | 3.15 | 0.90 |
| Total Points | 9.62 | 2.60 | 9.23 | 2.66 |
| Perceptions | | | | |
| I believe that VietGAP vegetable is safer than conventional vegetable. | 3.85 | 0.40 | 3.33 | 0.86 |
| I have a great trust in the standards behind the VietGAP. | 3.87 | 0.36 | 3.21 | 0.89 |
| I have a great trust in the inspection system behind the VietGAP. | 3.84 | 0.41 | 3.13 | 0.95 |
| Total Points | 11.49 | 1.37 | 9.69 | 2.48 |

Local GAPs suffer from limited recognition and demand from local consumers.

Issues of diffused policies in Asia

- ◆ There is a gap between local management and global requirement and certification costs are high.
 - ◆ Although countries' versions of regulations or standards have been developed, these are not so useful for export purpose as expected in the short run due to lack of global recognition.
 - ◆ Local policies may be able to function as stepping stones for global standards by offering capacity building if there is demand for it.
 - ◆ However, local suppliers face limited demand from domestic market.
- => less incentive to be certified by local regulations or standards.

Conclusion for standards

- ◆ Diffused versions of regulations can be seen as step stones for smaller players adopting requirements in export markets. (Eg. Viet GAP, J GAP)
- ◆ However, in domestic markets, diffused standards face limited recognition and demand. The situation give less incentive for smaller players to be certified.
- ◆ For export purpose, diffused GAPs may not help inclusive trade in the short run because benchmarking is not achieved.
- ◆ In the long run, with higher demands from domestic consumers, smaller players can benefit by obtaining local GAPs and learning from local GAP for export.
- ◆ Producers tend to be asked to meet multiple private standards and costs are on a rise. (For food, GFSI is doing benchmarking effort.)
Some standards aim at promotion themselves in other countries.

=>Regional harmonization may lead to suboptimal.

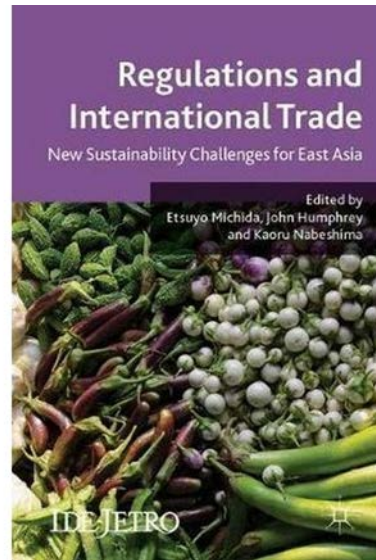
But localization is necessary in adaption process.

Conclusion for Regulations

- ◆ Diffusion of voluntary private standards and mandatory public regulations may lead to different outcome.
- ◆ Regulations that are introduced to help domestic firms to keep market access to the EU market may work as trade barriers for small players in other countries.
=>Policies to overcome trade barrier may create different trade barrier.
- ◆ For diffused RoHS, it is important that countries' versions of RoHS do not work as trade barriers.
=>Regulatory cooperation is needed. Coordination of newly introduced regulation such as RoHS type may be easier for harmonized compared to other historical and complex regulations such as Chemical regulations as a whole.
- ◆ To do so, it is inevitable to have a transparent regulatory information that can be accessed by small players.

For chemicals, AMEICC has established chemicals database.

<http://www.nite.go.jp/en/chem/kanren/asia.html>



The book describes diffusion of regulations/standards in Asia and the analysis is based on unique firm survey conducted in Vietnam, Malaysia and Thailand on firm behavior for adoption of product-related chemicals regulation introduced in export market through supply chains.

THANK YOU VERY MUCH.