

## WTO Public Forum 2017

## Diffusion of Environment/Food Policy and Challenges for Trade in Asia

Etsuyo MICHIDA, Lei LEI, Kaoru NABESHIMA

- Policy diffusion of the EU environment and food safety standards as a result of effort for inclusive trade by Asian governments leads to regulatory race-to-the-top. However, diffused policies create trade barriers with other countries and diffused standards face sustainability challenge due to limited domestic demand.

### Policy Diffusion in the Environment and Food Safety Standards and Challenges for Trade in Asia

(This policy brief provides a summary of the presentation at the working session co-organized by IDE-JETRO and UNCTAD at WTO Public forum 2017.)

#### Summary:

Many Asian countries have adopted regulations/standards that are similar to the European Union's policies such as RoHS directive that restricts hazardous materials contained in electric and electronics products or European food safety private standards, GlobalG.A.P. as an effort to assist domestic SMEs adapting to export market requirements. Policy adoption across countries leads to policy diffusion. Policy diffusion is a voluntary regulatory/standard adoption from one jurisdiction to others without negotiations or international treaties. It, partly occurs as a result of policy effort to make trade inclusive for firms especially in developing countries. Policy adoption partly aims at providing consumers better quality products or options to choose environmentally friendly products. Moreover some countries intend to prevent sub-standard products flowing into their own jurisdictions, leading their countries to become pollution-haven.

The session discusses two questions. First, whether diffused policy have been actually successful to make trade inclusive in developing countries. Second, how to coordinate regulatory policies so that haphazard policy diffusions will not become as trade obstacles for firms and will not create pollution havens in countries without regulations.

The session showed the situation of policy diffusion in Asia

and explained there is various motivation behind policy adoption. It concluded that policy adoption that helps domestic small and medium firms to meet regulations/private standards in export markets may prevent SMEs from other countries to export to their market. Also for diffused private standards in Asian countries tend to face challenge due to limited domestic demand for the standards. Creating new standards with not much market demand may create burden for smaller producers.

In order to coordinate and to make trade more inclusive, transparency of regulatory information as well as private standards is inevitable. The UNCTAD NTM database can serve as the source of information on current available regulatory data for major exporting and importing countries.

#### Speakers:

- Etsuyo Michida, Associate Senior Research Fellow, Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO)
- Lei Lei, Research Fellow, Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO)
- Ralf Peters, Chief of Trade Information Section, Trade Analysis Branch, International Trade in Goods and Services and Commodities Division, UNCTAD

#### Moderator:

- Kaoru Nabeshima, Associate Professor, Graduate School of Asia-Pacific Studies, Waseda University

#### Introduction: Food Detention due to Food Safety Regulation

Kaoru Nabeshima from Waseda University started the

## WTO Public Forum 2017

## Diffusion of Environment/Food Policy and Challenges for Trade in Asia

session by noting that exporters regularly faces difficulties in meeting the requirements set in the regulations of importing countries. For instance, every year agriculture and food products are rejected at the borders of major importing countries (Australia, EU, Japan, and US) because these products failed to meet the food safety regulations. While more studies are needed to identify what kind of firms are more likely to face rejections, it is likely that small and medium-sized enterprises (SMEs) find it more challenging to meet these regulations. There are a number of approaches that a country can take. Some country may try to improve their regulatory (and standard) compliance capabilities. For some governments, they opt to adopt foreign regulations and standards as a way to improve export competitiveness of their industries. In either approaches, taking stock of current regulations that are in force around the globe is a necessary step to assist policy choices and formulation.

### How do we balance localized policy for inclusive trade and globally coordinated regulations for trade facilitation?

Etsuyo Michida from IDE-JETRO presented about policy adoption of the EU RoHS Directive which occurs as a result of modifying the original regulation to fit for local conditions in various Asian countries. Similar situation has been observed in a private standard scheme GlobalG.A.P. Such policy adoption leads to policy diffusion from the EU to Asia. Although motivations behind the adoption vary across countries, one of the most important motives is to help local producers to easily adapt to the export market requirements and to keep market access to the EU. The policy diffusion occurs as a result of policy effort making trade inclusive for SMEs of own jurisdictions in terms of the EU market. And the diffusion help bringing up regulatory stringency in developing countries, which otherwise might have stayed weak without the adoption, leading to race-to-the-top. However, regulatory introduction may not be efficient from trade perspective. The same policy may work as a new layer of trade barriers for SMEs in other countries exporting to the newly regulated countries, either de jure or de facto. Another concern is that policy diffusion creates pollution haven as countries lacking capacity to adapt to product regulations/standards fear to become destinations for receiving products that are non-compliant in regulated countries. How to balance between localized policy for the sake of local producers and reducing trade barriers globally is a critical issue to consider for achieving more inclusive trade. The content of presentation is based on E. Michida, J. Humphrey, and K. Nabeshima ed. (2017) *Regulations and International Trade: New Sustainability*

*Challenges for East Asia*, Palgrave Macmillan.

<http://www.springer.com/jp/book/9783319550404>

### Case study on China GAP

Lei Lei from IDE-JETRO presented a case study of China GAP as a diffused versions of agricultural private standards GlobalG.A.P. in China. China GAP was initiated by the Chinese government as a voluntary public standards and has been successful in benchmarking to GlobalG.A.P under GFSI (Global Food Safety Initiative). China GAP is a case to overcome the problem in which a localized standard becomes yet another different standard, leading to act as potential trade barrier. Also, knock-on effect of diffusion was reported. Myanmar creates policy to help firms to adopt China GAP as China is an important market for Myanmar. However, China GAP in Chinese domestic market faces challenges. Consumers' demand for China GAP is still limited and those producers exporting to the EU market prefer obtaining GlobalG.A.P. despite the higher costs for its wilder international recognition. Asian countries other than China have been unsuccessful in benchmarking effort. These countries also face limited demand in domestic markets. How to have a sustainable diffused policy is becoming an issue.

### To provide regulatory transparency: NTMs Database by UNCTAD

Ralf Peters from UNCTAD showed the global database of non-tariff measures (NTMs) as part of efforts to make regulations more transparent. UNCTAD has gathered the data on NTMs not from the TBT/SPS notifications to WTO but from the universe of currently implemented domestic regulations. They have covered many jurisdictions, mainly Europe, Americas, and Asia, accounting for more than 80% of global trade. The coverage for Africa is still sparse compared to other regions. This effort was made to make the data on NTMs more complete compared to the notification database. In addition to gathering these data, UNCTAD NTM database categorizes regulations into 16 categories, within which subcategories are also defined. In total, they define 177 measures (type of regulations) in the database. The database also contains detailed information on regulations as well as where one can find the regulation. Data is made available through UNCTAD TRAINS (<http://i-tip.unctad.org>) and through partner institutions. The aim of this database is to make regulatory information more transparent across countries to facilitate smoother flow of goods across borders.

(Etsuyo MICHIDA/IDE-JETRO,

Lei LEI/IDE-JETRO,

Kaoru Nabeshima/ Waseda University)