

# Standards, Harmonization, and Trade: New Empirical Evidence

● Maggie Xiaoyang Chen, Witold Czubala, Aaditya Mattoo, Ben Shepherd, and John S. Wilson

**Harmonizing product standards can help reduce their costs to exporters as long as the burden of compliance is kept low**

Product standards and technical regulations often promote important public policy objectives such as consumer protection or public health and safety. But they can also impose costs on manufacturers through the need to adapt products and production processes. This issue can be of particular concern in the context of North-South trade because of financial or capacity constraints that might make it difficult for developing country exporters to comply with the standards prevailing in developed countries where they would like to sell their products.

For policy makers in developed and developing countries alike, it is important to be able to empirically assess the difficulties that foreign exporters may face as a result of product standards. The question of policy alternatives is also central: can such measures as regional or international harmonization help strike a better balance between pursuit of regulatory objectives and avoidance of undue costs?

Three new research papers shed some additional light on these questions. Chen and Mattoo ask, are regional agreements on technical regulations an unambiguous blessing for global trade? They focus in particular on harmonization directives issued by the European Commission. These directives, which cover only selected sectors, lay down common, mandatory regulations that apply in all member states of the European Union.

Chen and Mattoo find that such

agreements increase trade between participating countries but not necessarily with the rest of the world. Indeed, harmonization of standards may reduce the exports of excluded countries, especially in markets that have increased the stringency of standards. Among excluded countries, developing countries may be the worst affected, since their firms are likely to be less well equipped to comply with stricter standards. Chen and Mattoo argue that it is neither feasible nor desirable to restrict the freedom of countries to harmonize or mutually recognize their standards, but multilateral rules need to be reformed to strike a better balance between the interests of integrating and excluded countries.

While Chen and Mattoo look at the impact of mandatory technical regulations, Czubala, Shepherd, and Wilson focus on voluntary standards promulgated by the European Committee for Standardization. They use new data from the World Bank's EU Standards Database to examine the impact of standards on African exports of textiles and clothing. Their analysis shows that non-harmonized EU standards indeed tend to hold back

African exports. Their findings are consistent with the idea that capacity constraints in Africa can make it difficult for firms to adapt products to meet multiple standards. By contrast, internationally harmonized EU standards—those identical to standards developed by the International Organization for Standardization (ISO)—have a much weaker impact on African exports to the European Union.

Both these papers focus primarily on the impact of standards on trade flows, though they also take into account potential effects on the probability that one country will export at all to another country. Shepherd looks at this question in greater detail, by analyzing the effects of standards and harmonization on the range of prod-

ucts exported by an economy's trading partners.

Using data from the World Bank's EU Standards Database, Shepherd shows that a 10 percent increase in the number of EU standards is associated with a 6 percent decrease in the range of product varieties exported to the European Union by its trading partners. By contrast, a similar increase in the share of EU standards that are internationally harmonized produces a small but significant effect (0.2 percent) in the opposite direction. The data suggest that the strength of this harmonization effect may be up to 50 percent greater for low-income countries, which is again consistent with the existence of constraints to product or process adaptation in developing countries.

All three of these papers reinforce the importance of better understanding the links between product standards or technical regulations, trade, and development. Although many product standards are designed with the aim of promoting legitimate policy objectives, policy makers also need to pay close attention to the balance between costs and benefits. Designing standards and technical regulations that achieve regulatory goals while minimizing compliance costs must remain a central goal of reforms in this area. Efforts to reduce multiplicity in standards—such as through regional or international harmonization—can also help reduce unintended export effects on other countries.

Maggie Xiaoyang Chen and Aaditya Mattoo. *Forthcoming*. "Regionalism in Standards: Good or Bad for Trade?" *Canadian Journal of Economics*.

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Ben Shepherd. 2007. "Product Standards, Harmonization, and Trade: Evidence from the Extensive Margin." *Policy Research Working Paper 4390*, World Bank, Washington, DC.