A Win-Win Proposition: The Role of Food Standards in Promoting Export Growth and Consumer Safety in China

Harmonized domestic and international standards can support trade and export expansion. Recent World Bank research estimating the impact of voluntary and mandatory standards on Chinese agricultural and food exports finds that standards that are enforced domestically have a positive effect on China’s export growth. One additional international harmonized standard leads to an increase of $114 to $193 million in food exports for China. Standards in China that are harmonized to international ones have a larger impact on exports than purely domestic Chinese standards.

The Emerging Role of Standards in International Trade

In recent years, tariff and quota barriers to trade in many agricultural, food, and manufactured products have declined, allowing a range of developing countries to accelerate their economic growth through expanded exports. In 2010, developing country import growth contributed to half of world trade growth, compared with 43 percent in the pre-crisis period of 2004-2007. As developing countries play a more important role in global trade, there has been increased interest in food and safety standards to safeguard against health and environmental risks. Internationally harmonized food and safety standards can help ensure that trade and economies of scale flourish by providing common reference points for safety, quality, and authenticity. Food standards signal to consumers that products meet certain requirements, such as the maximum amount of trace pesticides on vegetables or the level of hormones and antibiotics in meat.

There is growing concern amongst policymakers, particularly in developing countries, about the effect of standards and technical regulations on competitiveness. Some have argued that product standards can be more prescriptive or restrictive. Product standards may be more stringent than required to achieve the intended health and safety outcomes, thereby becoming de facto barriers to trade. Similarly, standards harmonization can result in substantial additional costs for producers and mean that firms in an exporting country are in effect shut out of foreign markets.

China – A Key World Trading Power:

The pace of China’s economic growth and integration into world trade is impressive. China’s share in major import markets doubled between 2001 and 2009. China’s exports of food products increased from US$ 9.7 billion to US$56.3 billion between 1992 and 2012, far outpacing the rest of the World (see UN-DESA – World Economic Situation and Prospects 2013)
The United States alone imported US $6.5 billion worth of Chinese fish, seafood, juice, vegetables, fruit, and other food products in 2012 – making China the third largest source of US food imports.

Figure 1: Inflation Adjusted Chinese Exports, Expressed as an Index Number Relative to 1990

![Figure 1: Inflation Adjusted Chinese Exports, Expressed as an Index Number Relative to 1990](image)

**Source:** Giovanni, Levchenko, and Zhang 2012

**Chinese Food Standards, Public Health, and Trade**

The public health concern of Chinese food standards is a serious one. In 2008 the press reported on a scandal in which at least six Chinese infants died and nearly 300,000 were sickened after consuming infant formula adulterated with melamine, an industrial chemical added to raw milk to raise its apparent protein content. In The Chinese government vowed to make food safety a priority. Recently, however, several food safety incidents have made their way into the headlines, including most recently controversies over excessive levels of cadmium in rice and fox, rat and mink meat being passed off as mutton. Although the focus on extreme cases exaggerates the true extent of the problem (which is not to say the problem is not serious), media accounts of tainted food in China are likely to raise consumer concerns in importing countries and can adversely affect China’s export potential.

In addition to public health risks, concerns over Chinese food standards translate into lost trade opportunities. In a 2009 report, the USDA pointed out that the U.S. Food and Drug Administration (FDA) rejected 0.27% of import entry lines from China for the 2007 fiscal year, higher than the 0.1% rejection for all entry lines. Although refusal statistics are not directly indicative of food safety problems, FDA reports suggest these items were rejected because of concerns about pesticides, antibiotics, and misleading labeling. The rejection rates for certain products are much higher. From October 2006-May 2007 the FDA found excessive drug residues in 22 of 89 samples of fish and shrimp, a rejection rate of 25%.
The Business Case for Standards Setting:

For policymakers in developing countries, harmonizing food standards means balancing the costs of compliance with the benefits of additional safety and export competitiveness. But what are the economic benefits of compliance compared to the costs? A World Bank working paper (Mangelsdorf, Portugal-Perez, and Wilson 2012) examines how food safety standards set domestically affect China’s export performance. The results show that one additional international harmonized standard leads to a 0.38 to 0.64 percent increase in food exports, equivalent to $114 to $193 million. The authors find that the effect on trade is different for voluntary and mandatory standards. The results also suggest that standards in China that are harmonized to international ones have a larger impact on exports than purely domestic Chinese standards. The larger impact of international standards over domestic ones indicates, at least in part, that international standards have a “signaling effect,” suggesting to foreign markets certain common quality and safety guarantees that domestic standards may not.

World Bank Efforts to Address Food Safety Standards in China:

In addition to action-oriented research, the World Bank is helping China bolster food safety systems through lending and technical assistance programs. The Bank recently invested US$100 million in Jilin Province, an agriculture-heavy province in North-Eastern China, to develop improved agricultural standards and safety regulations. The program, in cooperation with the Provincial Agricultural Bureau, introduces legal minimum standards and detailed recommendations for farmers in areas including pesticide use, integrated pest management, and aquaculture production practices. Efforts such as this help farmers and producers build the technical capacity and know-how to meet international standards, improving food safety and enabling access to vast new markets.

Bottom Line:

These research findings on the trade enhancing effect of standards in China provide encouraging evidence that developing countries can gain from both domestic and national standards compliance. The results suggest that, in opposition to arguments that standards add to costs and act as a drag on competitiveness, they provide important quality and safety signals that promote market access and export growth. The results suggest that Chinese authorities should continue to harmonize domestic food standards and continue their participation in international standards setting organizations such as the Codex Alimentarius Commission. Overall, these results suggest that standards reform by developing countries can be made on the basis of both health benefits and economic competitiveness.
References:


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i The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent.

ii This brief draws on research under a project on Trade Facilitation and Economic Development at the World Bank, with support of the U.K. Department for International Development. It is also aligned with work under the Multi-Donor Trust Fund Trade Project on "Trade Costs and Facilitation."