

Seminar on
Export Standards and protectionism in Global Trade
(Do all “standards” have “protectionist” intention?-A theoretical study)

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Abstract

This paper looks into the reasons behind the imposition of export standards by importing country which is an inevitable feature of global trade today. The number of export standards and regulations adopted by different countries has risen significantly over the years. This may be attributed to rising awareness among people towards safer and hygienic products which should be environmentally sound also. But in spite of their necessity, imposing export standards is often looked upon as a means of restricting trade and classified under non tariff barrier or NTB. As norms and standards usually apply to national and foreign production, they do not correspond to the classical form of protectionism which openly discriminates against imports. But the governments of importing countries have the ability to set standards based on domestic firms' product characteristics or technology capacity. This can lead to substantial increase in cost for exporters. Sometimes the legitimacy of the standard also becomes questionable. This paper develops a simple model where the decision to impose standard by importing country depends on the difference in cost of compliance (CC) with that standard between importing and exporting country. If the exporting country has relatively higher CC, importing country will have an incentive to impose “positive standard”, to combat some “pseudo” negative externality, even

though the exporting country's welfare maximizes at "null standard". If the standard imposed by importing country targets "pseudo" (where protection is the only intention of standard) negative externality, (consumption or production) it is no doubt "protectionist". But when the standard targets "true" consumption externality the exporting country may also improve in welfare by adopting the standard; provide it follows the same standard in the local market also. In that case the exporting country may have some positive "welfare maximizing standard", but not surprisingly the importing country can follow "null standard" (which maximizes its welfare) unless there is significant difference in CC between two countries. Lastly if the standard targets "true" production externality there is higher chances for the exporting country to improve upon by adopting "positive standard" but the importing country can be still be interested (in fact more interested than consumption externality situation) for "null standard".
