

Approaches for Overcoming Standards and Conformity Assessment Barriers: *Options for Cambodian Exports*

There should initially be subsidized services facilitating standard certifications for small and medium export firms to build up experience and confidence, after which, firms will be willing to pay for themselves.

Cambodian exports have played a crucial role in the country's economic growth, job creation and poverty alleviation. Evidently, during the last decade, garment exports contributed largely in sustaining significant economic growth and employed thousands of workers, mostly women from rural areas where the poor are concentrated.

Markets for Cambodian exports are gradually opening through tariff reduction. This is due to the country's integration into regional (ASEAN) and global trading systems (WTO). Additionally, Cambodia is receiving preferential schemes from a number of countries which allows Cambodian exports to benefit from zero or low tariff rates. Despite these privileges, exports are still limited in terms of products and destinations. About 90 percent of total exports are garment products. Likewise, about 90 percent of total exports are directed to the US and the EU. Therefore, the strategy needed for trade development should be the diversification of export products and their market access.

While tariff barriers are removed non-tariff barriers become increasingly problematic. The standard compliance, commonly known as one of these barriers, is an obstruction for Cambodian exports. Cambodian products have to satisfy standard rules of both importing countries and markets in order to be placed in international markets. The standard satisfaction is remarkably costly for the country in the current stages of development due to a number of reasons. These include low technological development, lack of expertise and small market scale which cannot accommodate the cost of building and sustaining standard compliance.

This article examines differ-

ent approaches available for upgrading and overcoming standards and conformity assessment barriers from various international practices. Then it considers the issues in Cambodia. Finally, some suggested options for Cambodia's potential exports are discussed.

Approaches for Upgrading Standards

Two types of standard barriers are faced by exporters to access international markets; mandatory standards and voluntary standards. Mandatory standards, or technical regulations, are compulsory and enforced by governments of importing countries for particular purposes such as safety, health and environment issues. This type of standard differs from country to country since it depends on

the designs of individual governments. It also diverges national standards and hinders trade by imposing extra costs for foreign suppliers and reduces economies of scale as suppliers need to produce different characteristics, conditions or packages for the same products to satisfy different countries or markets.

The second type of standard is voluntary standards, which are generally attributed to consumer preferences or technical levels of industrial purchases. Initially, it may differ from company to company but markets will drive convergence. Because it is attached to consumers' tastes, compliance with voluntary standards are often used by firms as a marketing tool to secure their sale levels.

Imports from a country may be refused by countries because stan-

Box 1: Different Approaches to Standards Upgrading and Harmonizing

Unilateral approach: A country upgrades unilaterally its standards towards international standards (e.g. Chile).

Coordinated Approach: Countries coordinate their standards upgrading. They can apply a cooperation approach or regional trade agreement (RTA) approach.

Cooperation Approach: It is an agreement between countries, which can consist of bilateral agreements and multilateral agreements. This approach has low levels of enforcement and of formal institutions. Objective can be standard harmonization (e.g. APEC) or standard compatibility (e.g. Chile-USA).

RTA Approach: Country members regionally upgrade and harmonize their standards. This approach has a higher degree of enforcement and of formal institutions. There are different speeds of upgrading:

- One Go Approach: Country members upgrade standard in one time then equate them to international standards (e.g. ASEAN)
- Gradual Upgrading Approach: Country members set regional standards and gradually upgrade them towards international standards (e.g. Andean Community and Mercosur)

Source: Compiled from Enrique Aldaz-Carrol, World Bank Research Policy Working Paper 3948, June 2006

dards cannot meet local or desirable standards of importing countries or buyers.

The standard divergence in diverse countries and markets also creates obstacles for exporters to produce different goods for compliance with various standards. Thus, as part of a penetration strategy into international markets, exporting countries and producers try to upgrade their standards to international or regional levels in order to gain acceptance from a majority of importing countries and markets.

Upgrading standards can be achieved in several ways. Firstly, it can be a unilateral approach. This simply means that a country upgrades unilaterally their standards to an international level. This approach would give a positive signal to buyers that the country has a standards culture and the country's standards would be assumed to be consistent with WTO agreements since international standards are recognised by technical barriers to trade and sanitary and phytosanitary agreements. Nevertheless, this is costly for developing countries since they need to readjust their production and regulatory systems to meet international standards and the potential benefits from this standard setting are also low if market size is small. Moreover, the satisfaction with international standards does not always ensure market access, especially while voluntary standards became more relevant. For instance some EU markets require the satisfaction with voluntary standard EUREPGAP, which stipulates good farming practices that suppliers must adhere to.

The second type of approach is a coordinated approach, which refers to coordination between countries. The coordinated approach can be divided into two kinds: cooperation approach and regional trade agreement (RTA) approach. Cooperation approach can be bilateral agreements or multilateral agreements. With this cooperation approach, a country recognizes standards of other countries through their standard harmonization

or standard compatibility. The standard compatibility means that contacting parties are not required to have the same standards but have to change their standards only to the extent necessary for compatibility to be possible. Harmonization requires that standards of members must be identical. The cooperation approach has been followed by bilateral agreements, such as Chile-USA, and by multilateral agreements, such as APEC.

Countries can adopt the RTA approach to regionally upgrade their standards either by upgrading standards in one then equating them to international standards or by setting regional standards then gradually upgrading them towards international standards. Such as with the ASEAN region, country members follow international standards and harmonize them among member countries. To date, 140 international standards have been harmonized in the ASEAN region and more standards for electrical and electronic equipment are in process of harmonization.

A country which has international standards is not ensured that its products have de facto access to international markets. While standard legislations are established, products also need the mechanism to show its conformity to those standards to importing countries or buyers. Conformity assessment encompasses testing, inspection, certification, registration and accreditation. Importantly, conformity assessments of exporting coun-

tries have to be recognised by importing countries to facilitate export flow. While a country does not recognize the conformity assessment of exporting countries, double testing rules are applied and additional costs and time are incurred by exporters. To avoid this burden, countries are generally seeking accreditation from international standard organizations to earn the recognition of its conformity assessment system. However, the cost of compliance is not small and compliance sustainability is very costly. Consequently, some countries are finding other ways such as mutual recognition arrangements with their trading partners.

Standard Issues in Cambodia

Obviously, weakness is prevailing in Cambodia's standard infrastructure which is made up of several layers such as standard legislations, conformity assessment and accreditation. First, standard legislations which are compliant with international ones are limited. The national standard body, established in 2002, created only 51 standard legislations, among which 47 are standards in electronic products and four in food products. This limitation of standard legislations could noticeably limit the range of products to be tested and be internationally recognised.

The second issue is the recognition of conformity assessment system by international bodies. The con-

Box 2: Main Layers of Standard Infrastructure

Body of Technical Experts (1st Layer): It refers to a government agency, a private trade association or international forum that writes standards.

Conformity Assessment (2nd Layer): This is the mechanism for assuring that goods and services that claim to meet the relevant standard do in fact live up to the claim.

Accreditation and Recognition System (3rd Layer): This is the audit system that ensures that conformity assessment is working properly - that errors are kept within an acceptable level of tolerance given the type of product

Source: Gary Clyde Hufbauer, Barbara Kotschwar and John S. Wilson, *World Bank Policy Research Working Paper 2576*, March 2001.

formity assessment, which is the mechanism for assuring that goods and services that claim to meet relevant standards do in fact live up to the claim, are often performed by laboratories, remain a major concern in Cambodia.

Cambodian institutional laboratories are finding it difficult to claim international accreditations due to a lack of technical competence and facilities which in general require skilled people and high levels of technology development. Unfortunately, the current status of institutional laboratories and facilities cannot fully perform checks against international standard legislations. Additionally, conformity assessments served by the private sector are also limited owing to Cambodia's small market size. There are only a few certification-serving firms operating in the country, which mainly focus on garment exports.

Exporters still depend heavily on negotiations with importing countries and buyers. The intervention of importers on how to overcome importing procedures in terms of standard certifications are obviously common practice in Cambodia. Sometimes, exporters need to perform double testing in both Cambodia and importing countries due to the non-recognition of local conformity assessment. In some cases, importers dispatch their expert group to conduct field inspections in the factory to evaluate whether exported products are compliant with desirable standards. The samples are sent to be tested in importing countries then products will be shipped after approved standards on sample.

Importantly, standard compliance and conformity assessment certifications are posing severe constraints for medium scale enterprises. Producers need to pay costs for adjusting the structure in their supply chains for standard compliance. Prominently, entrepreneurs are lacking experience to use certification services and are reluctant to risk investments. In addition, they are also facing divergence of different importing countries' require-

ments which requires them to further invest to comply with different markets' conditions.

Another risk arising from this matter is the change of standards over-time. The requirements for standards and conformity assessment of importing countries can change as a result of high technology development, discovery of new diseases, or for environmental protection. These changes require the country to upgrade standards and conformity assessment system.

Options for Cambodian Exports

Besides the garment sector, potential exports can be viewed within the agriculture sector. Recognition of standards in agricultural and agro-processing products can stimulate export diversification. To overcome standard compliance obstacles, the country should upgrade its standards unilaterally to attain international standards. It can also upgrade its standards by using

the One Go Approach through the ASEAN framework. However, both approaches are costly for the country and the potential for benefits are also low since market size is still small.

The recommended option is the use of a standard certification system in the ASEAN region. Instead of setting up recognised laboratory system for conformity assessment in Cambodia, exporters would use laboratories in other regional countries which are internationally recognised. Nevertheless, Cambodian exporters, mainly small and medium scale, are not yet familiar with this practice and lack of experience make them reluctant to risk investment for compliance with standards. Thus, there should initially be subsidised services for facilitating this standard certification services to increase experience and confidence before companies will be willing to pay themselves.

Dourng Kakada

Box 3: Experiences from a Family-business Company Confronting Non-tariff Barriers to Exports

KY-SIV Cheng Protein Foods Co., Ltd was established seven years ago by Mr. Chuor Chheng. The company produces protein foods processed from bananas, pineapples, bees and inland fish. Presently, it is still a family business and employs just seven people.

The owner is ambitious to access international markets and his products used to be placed at overseas trade fairs including China, Thailand and Japan. Nevertheless, he failed several times to export to some countries due to several constraints which included standard certification and import documents. He could not overcome these constraints because of the investment risk.

Retailers from the US contacted Mr. Chuor Chheng for the possible import of his products to the US. However, he was requested to satisfy specific requirements including ISO certification and import registrations with FDA and other relevant bodies in the US. This demanded that the company adjust its production chain, thus requiring additional investments. Furthermore, the private firm serving ISO certification has only one office representative in Cambodia; their laboratory and exports are based in Thailand. Consequently, the process to obtain ISO certification would be long and induce significant costs compared to his sale revenue, proving difficult for the firm to accommodate.

Likewise, the company is unable to sell to retailers in the EU and Japan as these buyers request the GMP/HACCP certificates which, again, require additional significant investments.

Source: In-depth interviews with company owner, April, 2006