Trade substitutability, Standardisation and Global Trade Network

Summary

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This study examines the role of internationally harmonised standards on goods in determining potential trade partners across countries in the context of deepening economic globalisation. The analysis classifies traded products into three groups —homogeneous (organised market), internationally standardised and non-standardised differentiated products- by considering the degree of product comparability and substitutability to potential partners in Global-Value Chains in order to examine recent international specialisation patterns across countries. For this analysis we have developed alternative product-type classification based on differences in degree of product differentiation, which is in HS 6-digit products, to widely used Rauch's classification (1999).

> Organised exchange (O) homogeneous products
>
> Internationally Standardised differentiated (S) products
>
> Non-Standardised differentiated (D) products

This paper has two research purposes. one is to verify the premise of our new product-type classification. As mentioned above, O, S, and D products have different degree of substitutability each other. O products have expected highest degree of substitutability since it is consider to be homogeneous products, whereas D products have lowest degree of substitutability. Second is that we will examine the effects of international standards on international trade flow among selected 57 countries in the period between 1996 and 2010 in HS 6-digit product level trade data using our new concordance with ICS 7-digit and HS 6-digit products. We consider that the standardisation is the results of international standards published by international standards organisations, such as ISO, IEC, and ITU. Our hypothesis is that more standardised products have higher degree of substitutability than less standardised, i.e. more differentiated, products. We will empirically examine this hypothesis with gravity model.