

## GLOBALIZATION AND IMPORT RISKS

**Popa Ioan <sup>1</sup>, Belu Mihaela Gabriela <sup>2</sup>, Paraschiv Dorel Mihai <sup>3</sup>**

<sup>1</sup>The Department of International Business, Faculty of International Business and Economics, The Bucharest University of Economic Studies, Bucharest, Romania

<sup>2</sup>The Department of International Business, Faculty of International Business and Economics, The Bucharest University of Economic Studies, Bucharest, Romania

<sup>3</sup>The Department of International Business, Faculty of International Business and Economics, The Bucharest University of Economic Studies, Bucharest, Romania

[ioan.popa.rei@gmail.com](mailto:ioan.popa.rei@gmail.com)

[mihaelabelu2000@yahoo.com](mailto:mihaelabelu2000@yahoo.com)

[dorelpar@yahoo.com](mailto:dorelpar@yahoo.com)

**Abstract:** *Delocalization of production and diversification of the sources of offer in the global market place the issue of protection of consumer rights in major consumption centres, namely the European Union in a new light. A review of policies for the protection of consumer rights in the EU, USA and China, reveals major differences regarding the protection of consumer rights and the existence of gaps, and in particular the implementation of effective legislation in this regard. As such, the risks associated with imports have become a major concern in the European Union. The consumer has – one can say – a central role in the globalization process, which justifies the measures aimed at its protection. Although worldwide there are major differences in the degree of market regulation in matters of protection of consumer rights, the trend is the continuous adaptation of the offer to the requirements of global demand. However, one can still find significant gaps which translate into risks specific to the consumers in developed countries, namely in the EU. An important issue arises from this radical change of the localization of production centres in relation to the main consumption centres. While in the developed world, consumer rights protection has reached high levels both by creating an appropriate legislative framework and through consumer awareness and activism regarding their rights, in areas where much of the offer comes from the Western market (China, India, etc.) modern mentality on the protection of consumer rights is just emerging. A major requirement is therefore the provision of a status of the consumer compatible with the benefits and risks of globalization, a status defined by safety and protection of imports. This paper confirms the thesis that, ultimately, the main factor counteracting the risks in matters of protection of consumer rights is the consumer, its awareness of its rights.*

**Keywords:** delocalization of production, global imports, consumption risks

**JEL classification:** K32, F16 , F60 , F13 , L24 , M55

## **Introduction**

Globalization has different effects on the two drivers of the market: on the one hand, the delocalization of production leads to the expansion and diversification of the sources of offer, and on the other hand, the extension of the consumption model in developed countries requires the observance of certain conditions determined by the timeliness and quality of offer.

Within the general community policy on quality and reliability of imports in the global market, between countries there are differences in designing and implementing appropriate measures, a characteristic being the differences in matters of consumer protection in old and new Member States. The paper suggest, however, that these differences tend to decrease in terms of the regulation of consumer rights protection, but are still high in terms of knowledge and their practical exploitation by consumers.

### **1.Globalization between uniformity and diversity; EU - global imports**

The thesis that we use in this paper is that the globalization process involves above all the extension / generalization of a certain core of basic principles and rules. This core is represented from an economic perspective by the principles of market economy, and culturally by the main characteristics of the business cultures induced by this socio-economic model. Nowadays, the prototype is, of course, the American socio-economic model. Secondly, and on another level, the communication between socio-economic systems and local cultures in a process theoretically and ideologically reflected by the multiculturalism thesis increases.

The key business processes that support the trend of globalization are manifested in the fields of production and services (mainly financial); and the fundamental driving force is the multinational company (Popa et al., 1999). The mechanisms of internationalization and globalization of production are: the productive capitalization of technology abroad through licensing or other forms of transfer of technology to joint ventures, branches or subsidiaries in third countries; delocalization of production by subcontracting and creating an international production system driven by a "centre"; the conclusion of strategic alliances and the achievement of international cooperation in matters of production; the achievement of global mergers and acquisitions established by large industrial groups.

Therefore, globalization is, on the one hand, the establishment of certain basic rules in the economic, political, social, cultural fields (rules that have a Western, and more specifically an American touch) and at the same time the integration of local systems through a process of adaptation / assertion on a global scale. Globalization is a process of standardization of local systems, and the reality of our days confirms the maintenance of major global or regional differences. (Dinopoulos et al. 2008)

Regarding to the problem addressed in this paper, namely the protection of consumer rights, we can find the existence of significant differences on a global or regional scale: 1) Differentiation on the North-South axis - they fall within the issue of international economic disparities, namely, the disparities in terms of economic development involve significant differences in terms of consumer protection; 2) Differentiations on the East- West axis - differentiation between advanced countries with a market economy and emerging economies, that integrated into the global system later. While in the first case, we are dealing with the impact of the development level (degree of prosperity) on the position of consumers, in the second case we are dealing with the impact of cultural differences on the position of consumers.

Therefore, globalization is primarily the dissemination of production in centres located mainly in areas (countries, regions) with a cost difference advantageous for the ordering companies. The main direction of this migration of production is from the North (developed countries) to the South (developing countries), from the West (developed countries with strengthened market economy) to the East (countries in transition or in the stage of

creating the structure of market economy). On the other hand, the consumption is concentrated in the developed world, and the new production units become more and more leading suppliers of goods. Illustrative in this respect is the increasing role of countries like China and India in international trade .

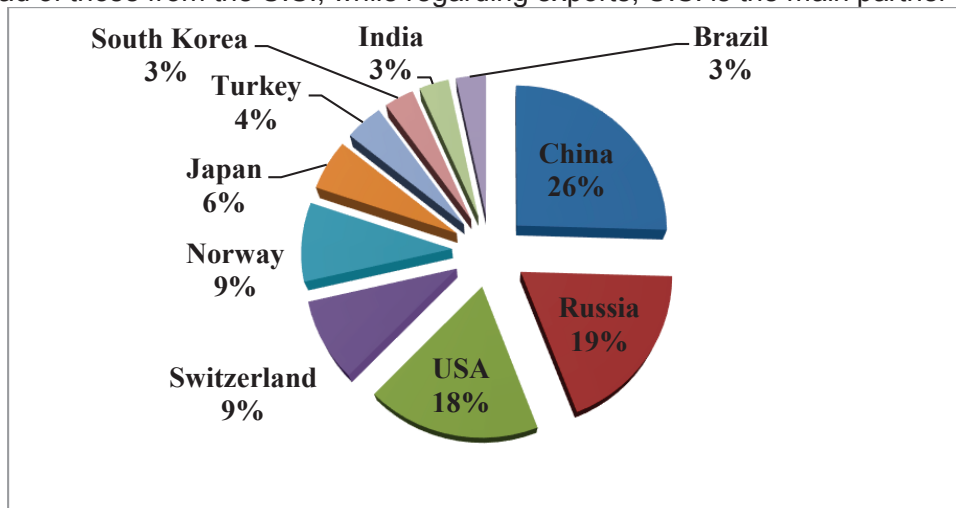
The diversification-uniformity Report in the globalization process translates from an economic perspective into changes occurring in the global value chain, changes caused by a number of economic, social and environmental factors. (Elms et. al., 2013). The economic factors that have led to the emergence of these changes are: the cost of labour - has resulted in a delocalization of companies from developed countries, the relatively low cost of land / constructions in developing countries - has spurred the relocation of companies from developed countries to less developed countries – and emerging economies (eg. China and India) - which had a major impact on the globalization process in terms of the production chain.

The concrete expression of this development is the increase of risks in the international trade process. Currently, the sources of risk (Lessard, 2013) associated with the global value chain include national factors (trade policy, fiscal policy), the consumer (purchasing power, cultural differences), natural factors (earthquakes, extreme weather events), delays caused by humans (armed conflicts, labour disputes) and innovation (technology, business model). Each source of risk has an impact on the following categories of actors: multinational companies, workers, companies involved in globalization, geographic regions, consumers.

Hence, a number of issues concerning the trust of Western consumers in the products coming from the new production areas. The issue is not new: the principle *caveat emptor* has been known ever since antiquity. The asymmetry of information between seller and buyer, which may prejudice the latter, must be countered by an active attitude of the buyer to protect the rights and promote its interests.

The above thesis is well illustrated by the experience of the EU. In 2012, on the whole, EU imports (1.7927 billion Euro) in BRIC countries accounted for around one third of total imports, half of that percentage being attributed to China. But while in case of India and Brazil, the EU trade balance is relatively balanced at relatively modest levels (38/39 billion Euro import / export), in the relations with China, the balance is heavily unbalanced (290 billion Euro imports as compared to 144 billion Euro), as in the case of Russia (213 billion Euro to 123 billion Euro).

A significant fact is that the imports from China and Russia, each of them separately, are ahead of those from the U.S., while regarding exports, U.S. is the main partner of the EU.



**Figure 1:** UE Imports (2012) - percentages trade partners  
Source: Eurostat, Comext, 2013

Trade exchanges between the countries of the European Union and China have intensified in the past two decades, having to do with a second major global economic cooperation (after the EU-US). According to statistics published by Eurostat, the daily value of goods traded between the EU and China, amounts to 1 billion Euro, and the overall value of the goods traded in 2012 was 433.6 billion Euro. Exports of European Union countries on the Chinese market increased in 2012 by 5.6 %, reaching a record value of 143.9 billion Euro. Regarding imports, China is the main trading partner of the EU in terms of import, the total value of Chinese imports reached in 2012 EUR 289.7 billion Euro. (Figure 1). We're talking about a trade deficit in the EU- China relationship, a deficit caused mainly by imports of products from the fields of telecommunications, textiles, footwear, toys, metal.

We should note that the People's Republic of China is the biggest food producer, with an annual value of agricultural production of 536 billion U.S. dollars, being the largest exporter of agricultural products globally. (Flynn, 2010)

A special role is assigned to the bilateral trade exchanges EU-US, transactions that amount to a third of world trade. According to a European Commission study, the elimination of non-tariff barriers could lead to an increase in bilateral trade (EU -US) with 70-160 billion annually.

## **2.EU concerns about the risks related to imports**

In an increasingly globalized market, and considering that a finished product is made with components manufactured in several countries (we are talking about a globalization of the value chain), a permanent concern of the government is to ensure the safety and quality of imported products. This consumer protection is achieved in the European Union by harmonizing standards on product quality in the Member States, but also through cooperation with non- EU countries.

At the first tripartite meeting (EU -US - China), held in 2008 in Brussels, on product safety, participants showed a great concern for the safe management of the supply chain. The globalization process favours trade exchanges, a fact which results in the establishment / application of high standards of quality / safety at every stage of the global supply chain, from producer to final consumer. Two years later, a second tripartite meeting (EU -US - China) on security / safety of products was held in Shanghai; the main topics discussed were: traceability of products, convergence of requirements for product safety.

World Trade Organization is concerned with the security / safety of products. In this respect, the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) was concluded. Under this agreement, the Member States may apply those sanitary and phytosanitary measures designed to protect the life / health of consumers and thus eliminating the risks related to foods containing additives, contaminants, toxins or disease-causing organisms.

Codex Alimentarius includes standards for all foods, whether prepared, cooked or raw and for the distribution to the consumer, provisions regarding food hygiene, food additives, pesticide residues, contaminants, labelling and presentation, methods of analysis and sampling.

Currently, the demand is considered to be the main driver in the food system, about 70 % of food is purchased from supermarkets, resulting in a transfer of power to distributors. These are the main link between consumers and production chain. In an increasingly competitive global environment, we are faced with a competitive environment, the emphasis is both on the quality of the products and on the price.

Regulations on safety / security of products traded on the EU market are very strict and most dangerous products are detected at the EU's borders during customs procedures.

There are two early warning systems for dangerous products, RAPEX system for non-food products and the RASFF system for food and feed.

According to RAPEX annual report, in 2012, 2,278 products considered dangerous were identified; they were withdrawn from the market. These alerts were issued by means of RAPEX system. Of all alerts, 34 % were issued for clothing, 19 % for toys (it is worth mentioning that 93 % of toys imported into the EU are made in China), 11% electronics.

In 2012, the number of alerts for products from China increased by 4 %, and these accounted for 58 % of the total alerts issued in 2012. According to RAPEX Report for 2012, 11% of products of unknown origin are considered dangerous.

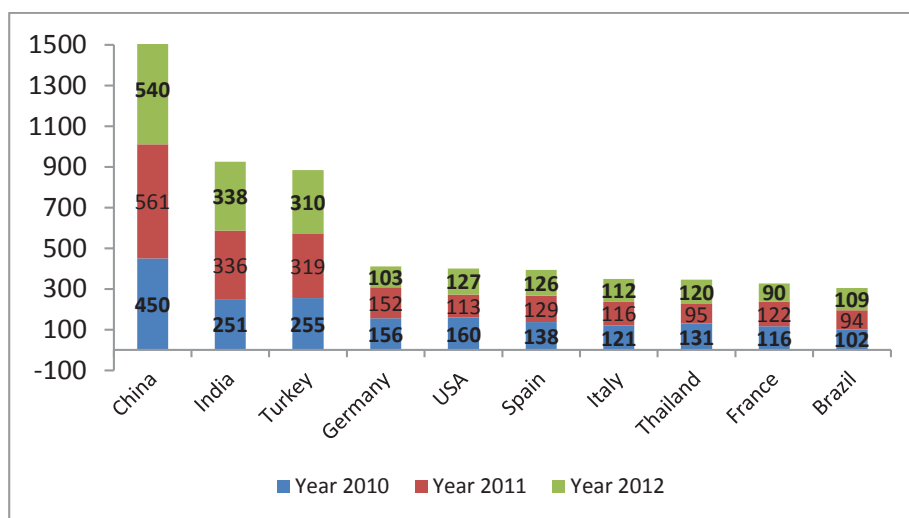
Rapid Alert System for Food and Feed - RASFF plays an important role in terms of food safety throughout the supply chain (from producer to final consumer). The system is applied in European Union countries, and the EEA countries (Norway, Liechtenstein and Iceland) and allows rapid identification of risks and their elimination from European markets by issuing alerts to national authorities in EU countries in real time. The purpose of this system is to increase consumer's trust in products marketed on the EU markets. RASFF is an online platform, implemented for over 30 years, which mainly aims to facilitate cross-border flow of information between national authorities in the acceding countries, for food safety and consumer protection.

Security standards applicable to food are defined by a set of rules applied to EU member states, which are aimed at protecting consumers. There are a number of directives relating to nutritional labelling of products. Thus, the consumer is informed of the composition of the product, namely, the name of the agricultural product or food; the description of the production method, including the type, characteristics of raw materials and / or ingredients used, and / or the methods adopted for the production of the product; the description of the product or food characteristics, from a physical, chemical, microbiological perspective and / or organoleptic characteristics in terms of specificity; control procedures . We can say that the complete and accurate information of consumers can ensure the safety / security of products purchased.

Through the RASFF system they aim at increasing the safety of imports and thus the consumer protection. Authorities play an important role, through the proper application of customs procedures. When such a product is identified, RASFF informs the third country in order to take corrective action and to prevent recurrence of the problem. When a serious and persistent problem is detected, the Commission submits to the national authorities of the third country concerned a letter asking them to implement urgent measures to correct the situation, for example: remove units from the list of licensed companies, block exports or intensify control actions.

In 2012, under the RASFF annual report, the number of notifications through RASFF system has reached a total of 8797, representing a decrease by 3.9% as compared to 2011. Of these, 3516 were new notifications (40 %), 5281 were complementary notifications (60 %). These figures show a 7.8% decrease in new notifications and a decrease by 1.2% of complementary notifications. The total of 526 complementary notifications on serious risks identified in products on the market, increased by 14 % as compared with 2011.

Most alerts were issued for food products from China, followed by India and Turkey products (Figure 2).



**Figure 2: Evolution of RASFF notifications (depending on country of origin)**

Source: RASFF annual report 2012

Regarding the types of products for which alerts have been issued, the first places are occupied by fruits and vegetables, followed by fish and fish products, nuts and seeds. (table . 1)

**Table 1: Evolution of RASFF notifications (depending on product type)**

Type of product	Alert	Rejected at customs	Notification for attention	Notification for follow-up	Total 2012	Year 2011	Year 2010
Fruit and vegetables	40	479	145	52	716	671	494
Fish and fish products	63	166	98	46	373	482	452
Nuts, seeds	15	272	23	19	329	522	537

Source: RASFF Annual Report 2012

China is the second largest exporter globally (with an export volume of 1594 billion Euro in 2012), the first trading partner in terms of import of European Union countries. Ever since 2006, the EU and the General Administration of Quality Control, Inspection and Quarantine of the People's Republic of China have established an agreement that provides for measures regarding the quality and safety of products imported from China. RAPEX alert system - China was implemented five years ago, following the identification of a large number of products originating in China, considered dangerous to consumers. This program allows the access of Chinese authorities to RAPEX system; they receive information about dangerous products from China identified at the boundaries of the European Union. In the first four years, product quality supervision authorities in China have investigated about 1,400 cases, applying restrictive measures in case of the export of investigated products for more than half of them. The goal of the RAPEX -China Program was to allow the export of safe products on the EU market.

### 3. Protection of consumer rights

Regulation of consumer rights already has a history of over a century; the first institutionalized form in this respect appeared in the U.S. in the shape of *The National Consumers League* (founded in 1891). The international consecration of this approach took place gradually, a fact which was transposed into significant differences between different regions and countries. A milestone in matters of regulation of consumer rights and interests was the adoption in 1985 by the United Nations of the Guidelines for Consumer Protection, a Guide which had a major role in shaping policies on the protection of consumers right nationwide.

European Union. In the last five decades, the protection of consumer rights has been an area of interest. Strategies that targeted protection of consumer rights were defined, and unfair trade practices, misleading advertising and the insertion of unfair contract terms discouraged.

EU Strategy for Consumer Protection Policy for 2007-2013 has three main objectives, namely: the improvement of the confidence of consumers living in the European Union; the increase of the welfare of consumers living in the EU (in terms of price, quality, range of products / services, accessibility and security); provision of effective protection to consumers against risks and threats.

An important stage in defining the consumer rights protection policy has been the adoption of the European consumer agenda (22/05/2012), a document which contains a number of measures destined to place the consumer at the centre of EU policies. The main objectives included in the agenda of European consumers are: assuring product, food and services safety; promoting sustainable consumption, ensuring the consumer rights under the conditions imposed by the digital revolution.

U.S. is the first area where consumer rights were legislated. Consumer Bill of Rights (1962) defined four fundamental consumer rights (right to safety, right to information, right to be heard and the right to choose products and services) and represents a milestone in the protection of consumer rights.

In the U.S. there are many organizations whose object of activity is the protection of consumer rights. Among these are: U.S. (Federal Trade Commission, established in 1914, whose main mission is to deter / prevent anticompetitive business practices or unfair to consumers; the purpose of the *US Consumer Product Safety Commission* (CPSC) is to reduce cases of illness or death caused by the consumption / use of certain products. Also, they established safety standards for certain manufactured products. For products such as food, drugs, cosmetics, medical devices there is another regulatory body, namely, the U.S. Food and Drug Administration (FDA). A major initiative of recent date of the FDA is the regulations imposed on the tobacco industry in 2009. (We are talking about *Tobacco Control Act*).

In the case of China, we are talking about a relatively recent consumer rights protection expertise. The first law on consumer rights and interests was adopted on October 31, 1993 - the period in which China's economy has gone from the stage of planned economy to market economy. We are talking about CRIL - Consumer Rights and Interests Protection Law - framework law regulating protection of consumer rights, which contains the basic principles applicable to the consumer. We should note the important role played by the regulations in matters of protection of consumer rights existing in the 27 autonomous provinces of China. These regulations were, in fact, the basis of national regulations.

After 20 years of the first legislative act adopted in matters of consumer protection, Chinese authorities are considering a number of amendments to the legislation in the field. More specifically, they aim at clarifying the relationship consumer – economic agent (CRIL stipulates the obligations of economic operators / consumer rights without making a connection between the two).

Research literature has highlighted a number of shortcomings of the consumer protection system in China: a) the legal framework for protection is dispersed and fragmented – the existence of different legislative acts / special regulations leads to the overlapping of regulations and to possible conflicts of laws. This makes consumer protection difficult and the application and development of the CRIL law almost impossible to achieve. b) the method of settling disputes takes time and involves high costs;

India. In India a law regulating consumer rights protection was promulgated only 40 years after the achievement of country's independence, The Consumer Protection Act 1986 . This is considered one of the most progressive and comprehensive legislation in this area. Several aspects are important in terms of the specific characteristics of the regulatory framework in the country. Firstly, the fact that they tried to use local culture, including traditions in this area. In the Arthashastra treaty, a document dating from the 4<sup>th</sup> century BC that addresses economic, political and military strategy issues in which one can find references both to consumer protection in trade and industry, as well as measures to sanction abuses in this area. Secondly, the legislative act was developed following a thorough study of the relevant legislation in the field in many countries, and in consultation with representatives of consumers, trade and industry in India. Thirdly, the main concern of legislators targeted both the elaboration of a legislative act appropriate for the Indian society in the context of globalization, and the establishment of framework in which this legislative act can be implemented in life. As with other emerging countries, the main problem has been the way in which the law can be applied in life and not simply the creation of a "perfect" legislative act.

## Conclusions

The uniformity - diversity report (ie, global / local) is a defining characteristic of the process of globalization involving benefits and risks for the participants in the global economic cycle.

Regarding the protection of consumer rights, the benefits of the extension of the Western model are transposed, for example, in the process of uniform regulation of the main issues related to safety, quality and timeliness of offer. Symmetrically, risks are related to the different ways of implementing these regulations. On the other hand, the observance of the local specificity is a prerequisite for the efficiency and sustainability of regulatory activity; but excessive diversification makes the global consumer model frothy.

We only deal with an insurmountable contradiction in appearance. In reality, the global regulatory system – representing a defining core in the principles of market economy and democratic society – it is diversified not only by means of local , "horizontal" differences, but also by means of the multi-level structuring - global, regional , national, local, "vertical" - each with an own degree of integration. The consumer complex personality is defined and stated according to these coordinates. To paraphrase a saying attributed to Socrates, it is not "(only) Athenian or Greek, but a citizen of the world." The real challenge today is the full use of this status.

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