

## ROLE OF CONFORMITY ASSESSMENT IN GLOBAL MARKET

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**Abstract.** The effects of globalization are increasingly felt all over the world. The world is becoming more homogeneous, since different kinds of products can be offered to a wider range of customers. Each state or union of states protects its domestic market and sets trade barriers to imports of products. One way to ensure smooth functioning of foreign trade is to apply conformity assessment. The article aims to evaluate conformity assessment system, to analyze its development and changes before Latvia's accession to the EU's single market. The research is significant because it reflects the relationship between conformity assessment system, its elements and economic development. Qualitative research methods have been applied by authors. In the result of the research, it will be possible to identify the mutual influence of conformity assessment and globalization on the basis of the identified coherence.

**Keywords:** conformity assessment system, globalization.

### Introduction

The role of globalization in ensuring the national economic and social stability is becoming increasingly important. Trade cooperation promotes economic development. Therefore there is a striving to provide equal opportunities for all countries.

The European Union (EU) has established specific requirements for goods in order to eliminate any possibilities of causing harm to human health, life and environment, thus protecting consumer interests. Therefore, within the EU evaluation process is unified. These requirements are extended to goods that are put on the EU market by other countries. A similar market principle works in other states and unions of states.

With the growth of mutual trade volumes between states, the importance of conformity assessment also increases. Conformity assessment is a precondition for imports of goods to the particular country; it ensures that products meet the necessary requirements accepted in the given region.

The article aims to evaluate conformity assessment system, to analyze its development and changes before Latvia's accession to the EU's single market.

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### **Characteristics of the globalization process**

Nowadays the concept of 'globalization' is one of the most common and at the same time – one of the most controversial terms in the processes taking place all over the world. The term 'globalization' can be defined in various ways: for Robertson globalization is 'the compression of the world and the intensification of consciousness of the world as a whole' (Robertson, 1992); Amartya Sen defined it as 'the intensification of the process of interaction involving trade, migration and dissemination of knowledge that has shaped the progress of the world over millennia' (Gerber, 2002, p. 33); Rosted's view: 'globalization represents the rapid increase in economic interrelationships worldwide - how these are affecting movements of capital, investment strategies and migration' (Rorsted, 2010). As can be seen from the comparison, definitions of 'globalization' vary widely. The authors believe that here it is important to know what kind of process is described by the term 'globalization'.

In literature various ways how globalization can influence entrepreneurship are described. Globalization is increased worldwide competition between firms, firms which have plans all over the world and are hardly susceptible to influence by national governments (De Haan, 2002). It provides global connectedness, communications, and other means of integration and accessibility through the internet worldwide (Farazmand, 2009). Several authors believe that globalization promotes business development because companies can offer their products and services on a much larger scale. Others believe that it hinders the development of business because of increasing competition and the fact that the largest companies are constantly increasing their market share.

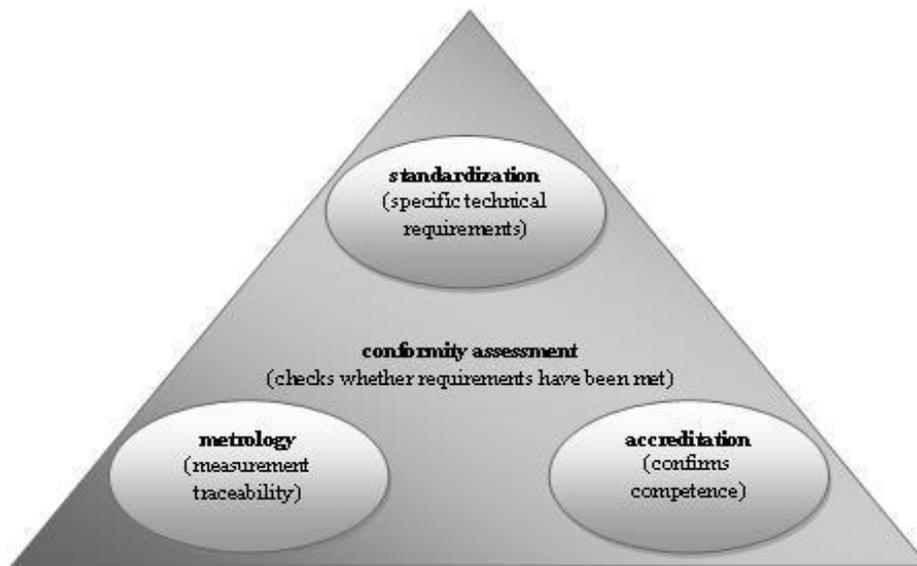
The authors believe that globalization is a driving force of the desire of entrepreneurs for the maximization of profit, which can be promoted by extending their operations into new markets. Entrepreneurs need to identify requirements for goods and find opportunities that will allow them offer their goods and services on an ever larger scale. Such drivers are acceptable to national governments because they would result in several benefits: it is possible to develop all kinds of related companies (such as in transport and commercial sectors) and state revenue increases through

taxation. Thus, globalization stimulates the development of national fiscal policy. Also, consumers gain much due to globalization because it is possible to purchase a wider variety of products for lower prices.

### Conformity assessment system

Conformity assessment is process demonstrating whether specified requirements relating to a product, process, service, system, person or body have been fulfilled (Regulation EC No 765/2008; standard EN ISO 9000). This is a consistent process in which to perform a specific action (for example, to identify the binding laws and regulations, to label the product with the CE marking, etc.).

Conformity assessment system consists of three elements: accreditation, standardization and metrology (see Figure 1).



**Figure 1.** Conformity assessment system

Accreditation shall mean an attestation by a national accreditation body that a conformity assessment body meets the requirements set by harmonised standards and, where applicable, any additional requirements including those set out in relevant sectoral schemes, to carry out a specific conformity assessment activity (Regulation EC No 765/2008). Standardisation is a set of actions aimed at establishing general principles that can be applicable many times for solving existing or prospective challenges and thereby create the conditions for optimal orderliness in a particular

area (Standardisation law). Metrology science of measurement and its application (JCGM, 2012). Within the framework of the system, each element is given a particular aim for the set of activities to be performed.

To ensure the realization of the single market, a legal instrument for policy implementation – the European Community law (*acquis communautaire*) is used in the EU. By this law the existing regulatory package is understood (Rešina, 2008). The need for common key requirements arose due to the fact that in the result of historical, cultural and economic experience and technological advancement, each country has developed a different understanding of the requirements for goods that would be assignable to the relevant markets.

Trade in the non-harmonized sector is based on the principle of mutual recognition. In accordance with this principle, goods which are legally manufactured and marketed in one Member State may move freely throughout the EU (Costinot, 2008). This principle may also be applicable to non-EU countries under signed agreements (e.g. EU mutual recognition agreements were concluded with: USA (1999), Japan (2001), Turkey (2006), etc.).

The authors believe that one of the prerequisites for successful business in the global market is the ability to recognize the significance of conformity assessment elements and to use the opportunities provided (for example, by engaging in developing standards for products, by complying with international standards, by selecting the most appropriate of conformity assessment modules, by attracting foreign companies to EU notified bodies, etc.).

### **Conformity assessment in global markets**

Within the framework of globalization, the national concept of openness to trade and regional integration is implemented. Various kinds of economic zones are organised, such as the EU, European Economic Area (EEA), etc. Within the framework of one economic zone, economic cooperation is organized and market protection is ensured. In order to ensure mutual economic cooperation, the following aspects are of utmost importance:

- removal of barriers to foreign trade (Lloyd, 2010; De Vries, 2010);
- free movement of capital and labour (Preble, 2010);
- unification and standardization of production (Wiersema et al, 2008);
- transnationalization of production (Jones, 2009);
- extension of activities and impact of international economic, trade and financial organizations (Meardi, 2012).

Each state or union of states has defined specific principles for organising conformity assessment system. To ensure mutual recognition of these systems, international organizations have

been established to unite national organizations in a particular area (such as International Organization for Standardization, European Cooperation for Accreditation, International Bureau of Weights and Measures etc.). Along with globalization, the role of conformity assessment increases because it is a prerequisite for putting goods on the market and free movement within the market.

Nowadays, the most common element and prerequisite for foreign trade is international standards. Within the framework of international and regional standardization bodies (eg the International Electrotechnical Commission, European Committees for Standardization etc.) these standards are jointly developed by industry experts of national member states, encompassing technological innovations and solutions, as well as business performance improvement initiatives and requirements for national market and business protection. Entrepreneurship without daily application of standards is no longer possible. Standards are becoming “the new guns in global competition” (Egan, 2002).

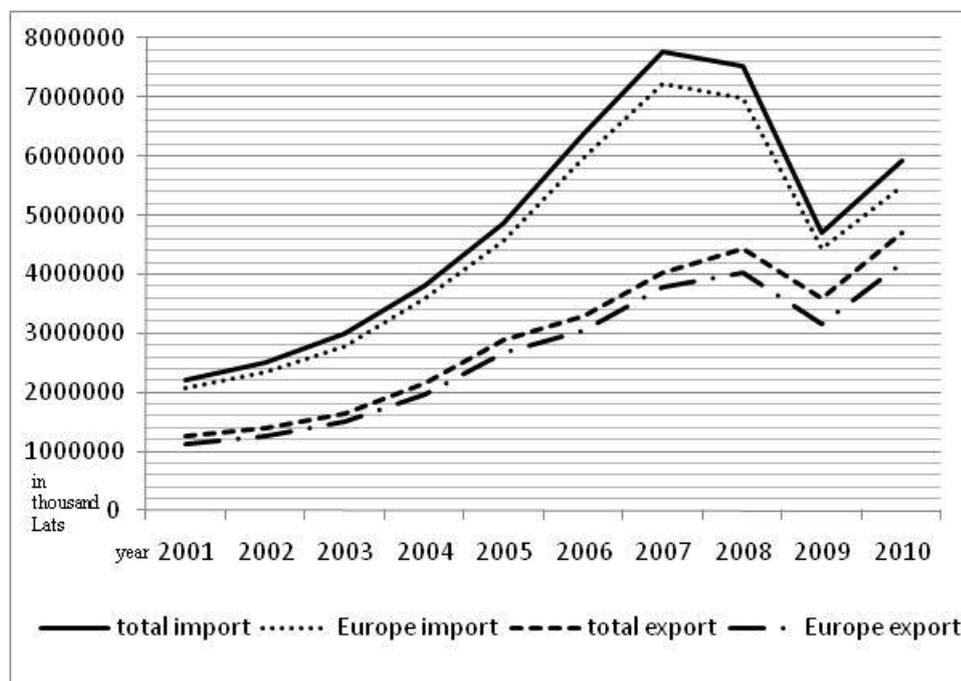
An important step in promoting harmonization of international standards was the EU’s decision on the New approach, which stated that the directives contain essential requirements only. The standards are not mandatory, but the producer has an obligation to prove that the product conforms to the essential requirements and the producer can choose the way how to ensure that (Rausand et al, 2009). This approach not only gave manufacturers the freedom of choice, but also offered specific internationally recognized solutions and established the significance of standards in rising competitiveness.

### **Changes in the conformity assessment system after joining the European Union**

Latvia’s accession to the EU on 1 May 2004 resulted in significant changes in its economic, social and political spheres. Accession to the EU’s single market for Latvian entrepreneurs paved the way for expansion and development. At the same time they had to develop their competitiveness in the conditions of increased competition. Thus, Latvia’s accession to the EU can be regarded as a kind of globalization.

To assess the impact of foreign trade, globalization and localization on the economy, the authors have examined import and export volumes in Latvia from different regions. As can be seen from Figure 2, after joining the EU in 2004, Latvian imports grew rapidly (on an average of 1 to 1.5 million thousand Lats annually). Also, exports from Latvia grew by an average of 500,000 to 800,000 thousand Lats. Import and export volumes decreased slightly in 2008 and dropped sharply in 2009 under the impact of the global economic crisis. This confirms the fact that after joining the EU, the national market within the single EU’s market was opened to foreign entrepreneurs and also

Latvian entrepreneurs had the opportunity to offer their products more widely and easily in other national markets.

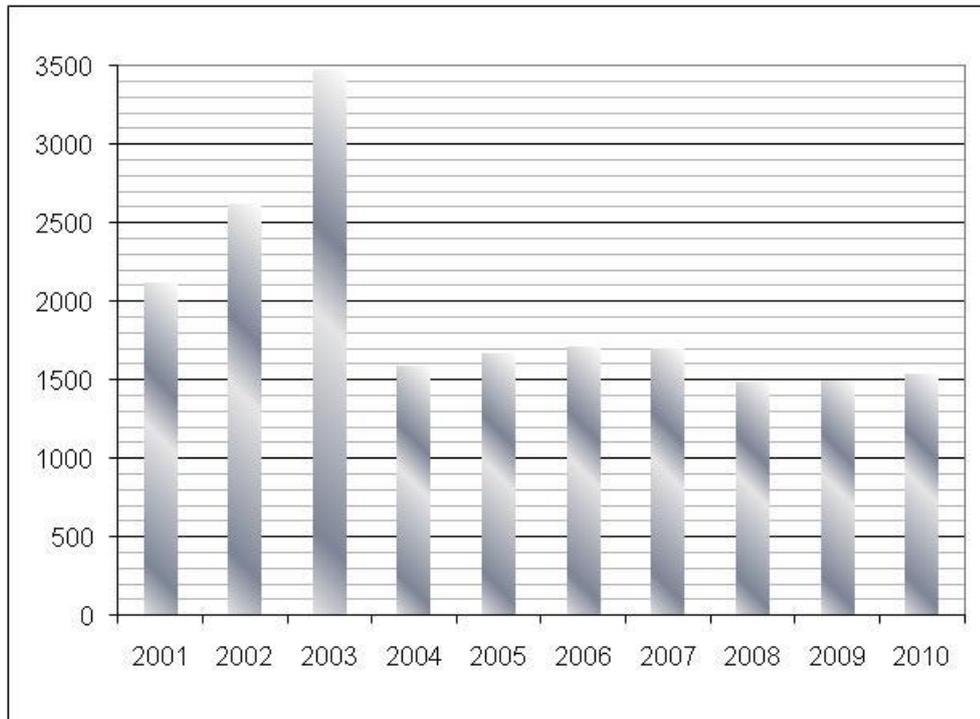


**Figure 2.** Import and export in Latvia (in thousand Lats) (CSB, 2012)

The biggest Latvian foreign trade co-operation area for both imports and exports is Europe. Overall, the largest import volumes come from: Lithuania (17.1%), Germany (11.5%), Russia (10%) and, for example, from China (2.6%) (ratio expressed as a percentage of the total import in thousand Lats 2010) (CSB, 2012). At the same time the authors want to draw attention to the fact that for importers who are non-EU Member States, the actual volumes of imports may be higher. On product entry into an EU Member State (import), it can later be put to use in any other EU Member State. In which case the country of origin of the product will not appear anywhere as the exporter.

To assess the impact of globalization on conformity assessment systems, within the framework of research, the authors looked at it in detail from various aspects of the elements of conformity assessment system. It was concluded that after Latvia's accession to the EU, the following changes were made in the national conformity assessment system: revised tasks for national accreditation, standardization and metrology institutions, specified requirements for conformity assessment institutions, changes in membership of national institutions in international organizations, active involvement in adaptation of international and regional standards, informing EU institutions on standardization processes.

For example, examination of adaptation of international and regional standards in the status of national standards (see Figure 3) reveals that major work on this matter was performed before Latvia's accession to the EU. After accession the number of adapted standard fluctuates from 1500 to 1700 standards per year. Most of them are standards of international standardisation organizations.



**Figure 3.** The number of standards adopted in the status of Latvian national standards

From the above described data analysis, the authors conclude that globalization has a direct impact on conformity assessment. For conformity assessment system to be internationally recognized, before conclusion of international agreements or accession to a union of states, it is essential to put the particular country's conformity assessment system in line with international regulatory requirements.

The authors of the research concluded that Latvia has made efforts in harmonizing conformity assessment system in line with international requirements for accession to the EU. This made it possible for Latvia to enter the EU's single market, including participation in free movement of goods. And the authors point to the importance of uniform application of standards within the single market, thus facilitating imports and exports. After joining the EU, regular work is done on maintenance of conformity assessment system and development of common international regulations.

## Conclusions

Globalization includes not only homogeneity and localization of products but also ensures possibility of offering products to new markets. It provides growth opportunities and fosters competition. The extent of globalization is also increasing with technological advancement and the willingness of businesses to expand their operations. To succeed, entrepreneurs should take into regard the fact that regional characteristics are slowly beginning to disappear and the world's global market is converted into one common market. Manufacturing of new products should take into account the widest possible international regulatory requirements, as that would later make it possible to sell products to a wider range of customers.

In line with the economic globalization and removal of technical barriers to trade, the role of standards and conformity assessment has become very crucial. It is now one of the prerequisites for foreign trade. To successfully organize international trade, first it is necessary to organize and unify the requirements for products and processes as well as to ensure that conformity assessment systems and the issued certificates of conformity will be mutually recognized. When joining the global market, an important prerequisite is timely adjustment of conformity assessment system and its elements in accordance with international standards during the pre-accession period, as can be observed in the example with Latvia. As proof of interconnection between the global international market and conformity assessment system is the rapid growth in exports and imports after joining the EU.

One of the prerequisites for successful entrepreneurship in the global market is the ability to recognize the significance of conformity assessment elements and being able to use the opportunities provided. For example, engaging in development of standards for products is one example of how entrepreneurs can enter the global market and at the same time expand their knowledge and protect their interests as far as possible.

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