

ENVIRONMENTAL CONSERVATION AND TRADE

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1. Trade Agreements and Environmental Issues

WTO negotiations became paralyzed at its 3rd Ministerial Meeting held in Seattle in 1999. The negotiation to launch a new round was thwarted mainly because NGOs around the world objected the globalization of trade. These NGOs are mostly environmental groups such as Green Peace and WWF who believed that trade integration would harm the global environment.

During 1990s, there has been a major change in trade debate in the world, particularly in the United States, the largest trader in the world. Since the global trend of trade debates have always been originated in the United States, reviewing the debate in the United States is crucially important for any countries in the world, particularly the WTO members.

2. The New Politics of Trade

(a) The Rise of "Trade and ..." Issues

Since the enactment of the Reciprocal Trade Agreements Act of 1934, US trade policy has centered on opening up the global economy through reciprocal reductions in national trade restrictions. Trade liberalization always took the similar pattern, i.e., the government negotiated trade agreement with foreign countries and opened its

market, imports poured into the United States, some vulnerable industries suffered a loss of market share, protectionism followed, movement toward further relaxation of trade barriers was troubled, and some new social measures, such as TAA, were introduced. Thus, forces working for freer trade remained constantly on guard against groups of domestic industries threatened by imports.

This continued into the last decade and still continues. During each of the past two decades, trade statistics were very similar. Merchandise imports rose 81% between 1982 and 1988, and rose 79% between 1991 and 1997. However, the landscape of trade politics was not the same at all in 1990s.

During the 1990s, the political dynamics of the trade debate changed in significant ways. Traditional protectionism became weak, except that from steel lobbies, but trade liberalization is threatened from another direction—from politically important constituencies alarmed over the impact of globalization, particularly, labor and environmental groups. Human rights activists also participated in the trade debate. For example, they influenced the passage of China-PNTR (Permanent Normal Trading Right) in 2000.

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During 1990s, mostly because of the inception of new and very important multilateral trade organization, WTO, trade became related to many issues. Not only "Trade and Labor," "Trade and Environment," and "Trade and Human Rights," but also "Trade and Public Health," "Trade and Transparency," "Trade and Competition," "Trade and Intellectual Property," "Trade and Development," "Trade and Technical Cooperation," became internationally focused, to name only a few.

These "Trade and ..." issues first rose to prominence in the struggle over the negotiation and approval of NAFTA. NAFTA debate ended as a victory for the Clinton administration which supported the trade liberalization through regional arrangement, but the struggle brought together for the first time a coalition of activist organizations. Owing to their strong demand, Clinton administration conceded to enact the labor and environmental side agreements.

(b) Trade and Labor

Organized labor is not a new player in the trade policy process. NAFTA, however, galvanized labor opposition against free trade. Labor groups developed a visceral sense of trade as a threat, particularly at the grassroots level.

Their arguments have been basically the same for decades. They maintain that "trade costs jobs," "trade suppresses wages," and "trade undercuts labor standards."

USITC assessed NAFTA's effects on employment in 1996 and concluded that the agreement's impact on labor was difficult to discern, and only modest where discernible. Trade critics concluded, however, that NAFTA and globalization generally changed the composition of employment in America, shifting it toward lower-paying services industries, thus damaging the US labor standard and causing a significant number of job losses.

(c) Trade and the Environment

Unlike organized labor, environmentalists are new player in the trade policy debate. The commitment of environmental groups to trade issues, though growing, is not as firm as that of labor. Some groups support trade liberalization asserting that it would lead to the efficient protection of environment. Others simply denounced trade because trade would expand global consumption and damage natural resources as well as earth's life supporting system. The NAFTA debate of early 1990s exposed deep political and ideological divisions within the environmental movement over trade policy.

The opponent's arguments are not limited to the economic aspect of the issue. They are also concerned about non-economical aspect, such as aesthetic value of environmental goods and ethical implications.

The environmentalists gained further political credibility through their successful campaign against MAI negotiated from 1995 to 1997.

They strengthened their opposition to free trade as a result of several WTO rulings against environmental protection measures, including those for the tuna-dolphin, shrimp-turtle, and MMT cases.

(d) After NAFTA

Clinton administration successfully let the Congress pass NAFTA by providing labor and environmental side agreements. However, moderate environmentalists who supported NAFTA were disillusioned by the weak provisions and hardened their position. Business groups also were disappointed by the enactment of side agreements. This prevented Clinton administration from gaining fast-track authorization and free trade debate turned into stalemate. American trade policymaking system faced a new and serious challenge of "trade and ..." issues.

It should be noted that the strong opposition to NAFTA was based on the image as the villain harming US workers, not based on the actual impact to the US economy.

Labor and environmental activists continued to play a significant role in important trade debates. In 1997, MAI was abandoned. In 1999, the efforts to launch the WTO new round negotiation in Seattle was thwarted by the strong demand for the inclusion of labor and

environmental negotiations as well as strong opposition from developing countries to them.

In 2000, they succeeded, for the first time in the US history, to include labor and environmental provisions in the main body of an international agreement -Free Trade Agreement with Jordan. The provision even included clauses related to possible sanctions.

In 2002, Bush administration finally gained TPA, which includes labor and environmental provisions. Under the constrains of these provisions, USTR has been engaged in various trade negotiations such as Doha Development Agenda, FTAA, FTAs with Chile, Singapore, Central American Countries, Morocco, Southern African Customs Union, Australia and EAI for ASEAN.

(e) Possible Futures

Labor was dropped from Doha Development Agenda, and environment was only partially included. FTAA did not completely rule out these two issues but it is expected that they will face a strong opposition from developing countries. However, one thing certain is that these issues will continue to be increasingly focused and seriously discussed in the future trade negotiations. Republicans have learned that they will not be able to avoid these issues.

A possible future is, therefore, a compromise that addresses labor and

environmental concerns and broadens the support coalition.

Elements of a trade compromise are:

1) A national commitment to enhanced Labor and Environmental Standards

2) Steps to reinforce the social benefits at home

Worker opportunity programs

Health and safety regulation

Review of biotechnology products

3) Steps to make the WTO friendlier toward social and environmental concerns

3. WTO Dispute Settlement Mechanism and Environmental Conservation

WTO is the only international organization equipped with a dispute settlement mechanism. The establishment of the Dispute Settlement Board (DSB) is probably the most important aspect of the entire WTO system. For other international organizations, including the United Nations, reaching agreement or consensus by negotiations is the only possible way for members to settle disputes. Under WTO DSB system, member countries have to abide by the decisions of the DSB, by giving up their own position as sovereign countries. This is indeed a remarkable achievement by the founders of WTO.

Is WTO then capable of making decisions against member countries that are depleting environmental resources? It does. However, WTO is not able to

intervene all kinds of environmental issues. WTO can make decisions if and when the cases brought up to the DSB are in accordance with the WTO rules related to trade and environment. Still, the fact that WTO is the only international organization in the present world that can make decisions to protect environment over the sovereignty of member countries is precious for the international natural environment.

WTO actually has proven to be a useful organization in terms of environmental conservation. There are some cases that WTO succeeded in making decisions in favor of environmental conservation.

Tuna-Dolphin cases between the United States and Mexico are well known to the general public but the ruling by the WTO DSB was against the environmental protection measures introduced by the United States. The WTO Shrimp-Turtle dispute is arguably the most important environment-related case under which the environmental protection measures were supported against trade. The dispute focused on Section 609 of the Endangered Species Act of the United States enacted in 1989 that requires the US government to certify that all shrimp imported to the country are caught with TEDs (turtle excluder devices) that protect sea turtles from incidental drowning in shrimp trawling nets. India, Pakistan, Malaysia, and Thailand filed a case against the Section 609 in 1997. On April 6, 1998, a

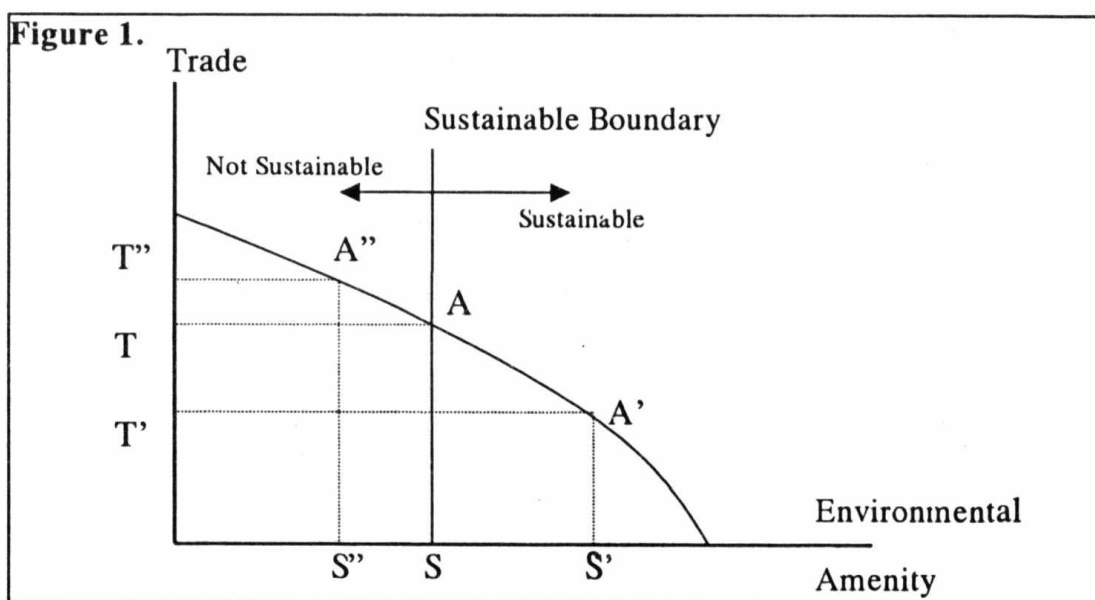
dispute settlement panel ruled against the shrimp embargo, and the Appellate Body later supported the panel decision in October 1998.

The United States made certain changes to the way it implements the law in accordance with the WTO ruling. However, in October 2000, Malaysia again challenged the implementation by the United States. In June 2001, a WTO panel ruled that U.S. implementation was consistent with its WTO obligations, and the Appellate Body later upheld that position. Thus, WTO is considered a capable international organization from the view point of environmental protection.

4. Mechanism of Trade Intervention System and Environmental Conservation

This section illustrates how the trade intervention system such as dispute settlement mechanism of WTO works to prevent natural environment from being over-exploited.

Figure 1.⁽¹⁾ illustrates a production curve which relates trade volume and environmental amenity. In this figure, natural environment is sustainably managed in the area to the right of the Sustainable Line. As the volume of trade increases into the area to the left of the Sustainable Line, natural environment is increasingly damaged and no longer sustainable.



In the Figure 1., trade is assumed to be at the level of T which corresponds to the point A of the production line where Sustainable boundary line crosses

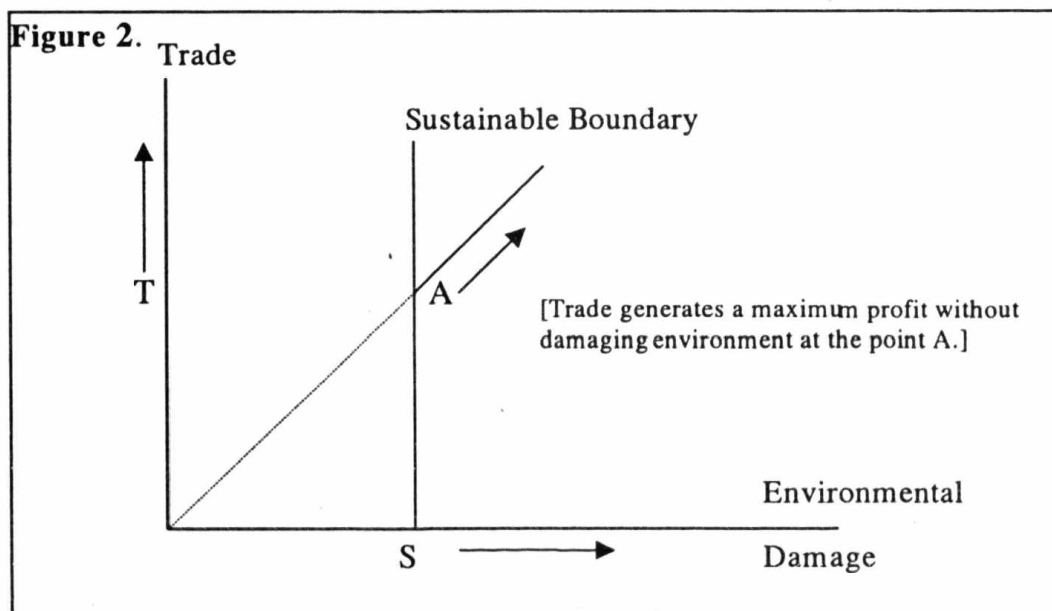
⁽¹⁾ In the Figure 1., T represents the volume of traded goods. S represents the level of environmental amenity at which the level of environmental quality is marginally sustained. A represents the point which balances the volume of trade and environmental amenity.

the production line. Therefore, the environmental amenity is being just marginally managed under this level of trade. If the level of trade volume decreases from T to T' , then the environmental amenity increases to the point S' where environmental amenity is safely managed without a threat from

damage caused by over-exploitation of natural resources triggered by trade. However, if the volume of trade increases to the point T', environmental amenity now decreases to the point S''. Here, environment is no longer sustainably managed and it dooms to be completely depleted if the volume of trade remains at the level where it crosses the production line in the area to the left of the sustainable line.

Figure 2⁽²⁾ shows the Figure 1. from a different angle. In this figure, the horizontal axis represents the degree of environmental damage, not the degree of environmental amenity.

Natural environment is being increasingly damaged as the trade increase in the area to the right of the Sustainable Line. This is how actual trade increases if no restriction is applied to free trade principles.



In this figure, A is assumed to be the current point of trade and the environmental damage caused by the activities related to trade. Environment is just marginally managed at this point A. However, in the real world, it is unlikely that the volume of trade stays at the same level. Volume of trade is usually on an increasing trend.

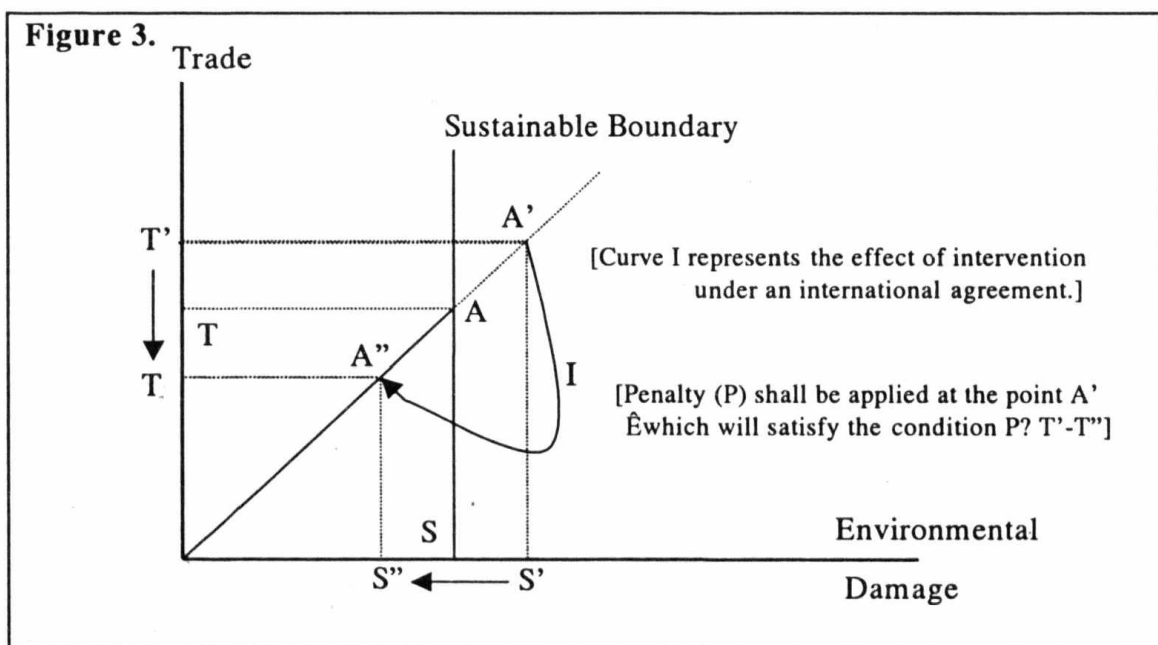
⁽²⁾ In the Figure 2., S also represents the level of environmental amenity but it reduces as the amount on the horizontal axis increases. Thus, it is defined as the damage applied to the environmental amenity (= environmental damage).

Particularly in developing countries like Vietnam, the volume of trade is increasing at a high and accelerating rate as economic liberalization advances. In other words, it is assumed impossible to keep the level of trade at the point A, where trade is conducted at the most effectively and profitably without damaging the environment. Environment is doomed to be unsustainably damaged if trade is not restricted under an internationally agreed system.

Figure 3.⁽³⁾ illustrates how the trade intervention system such as the trade dispute mechanism of WTO saves natural environment by shifting the trade curve to the left of the Sustainable Line.

For this figure to happen, an international organization responsible for environmental conservation through trade mechanisms needs to first determine the point A beyond which the natural environmental can not be

sustainably managed. Then the organization needs to enact rules to apply economic sanctions against countries which export goods over the level A. The amount of sanction must be large enough for those trading countries to find it beneficial to decrease trade below the level A. Then the trade decreases to the left of the Sustainable Line and the natural environment is sustainably managed.



In this Figure 3., trade is originally conducted at the point T where environment is just marginally sustained. Owing to the intervention of an international organization,⁽³⁾ the volume of trade is decreased to T' which is somewhere within the range smaller than T. As the figure shows, environment is now safely sustained at the point S' under the control of international trade organization. It should be noted that a sufficient level of

penalty will be applied if trade volume exceeds the point T.

Figure 4.⁽⁴⁾ explains that trade intervention mechanism does not necessarily decrease profits of trading countries. Since price of traded goods is the function of the demand and supply, the price will increase if the supply is limited due to the control of the international organization.

⁽³⁾ In the Figure 3., I indicates the shift of the trade curve from the right of S to the left of S.

⁽⁴⁾ In the Figure 4., P represents the level of profit gained from trade. Trade line is shifted from O-A' line to O-A'' line due to the intervention of international trade organization.

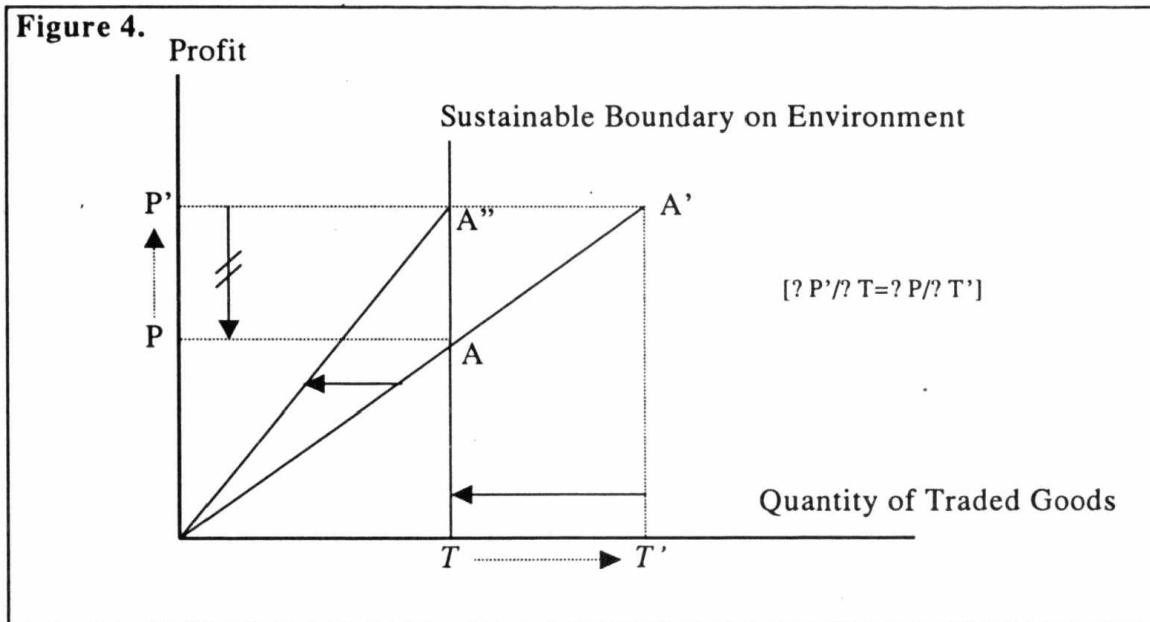


Figure 4. illustrates the profit function of above figures. The quantity of traded goods will increase from T to T' if there is no restriction in terms of environmental protection. An international trade organization then establishes rules to reduce the quantity of traded goods below the level of T which corresponds to the Sustainable point in the above figures. When trade is conducted at the point T' , the exporting country is making profit at the level of P' which is higher than P . Now the quantity of traded goods is reduced to T , the level of profit is also supposed to be reduced back to P .

However, it should be noted that demand on the traded goods was once balanced with the level of supply at the point A' . Although the supply has been forcefully reduced to T' , the expanded demand of consumers does not automatically reduced. Hence, due to the existence of extra-demand, the price of

the traded goods will become high enough to suppress the expanded demand. Accordingly, the profit gained by the trade will increase even though the quantity of traded goods is decreased. The degree of the effect on price depends on the elasticity of price against demand. If the elasticity is equal between the reduction of trade volume and the increase in price, i.e., $\Delta P'/\Delta T = \Delta P/\Delta T'$, the level of profits for the trading countries can be guaranteed at the level corresponding to A'' where goods are traded freely.

5. Conclusion

As explained in the Section 2. above, trade has now been closely related to environmental conservation. Doha round negotiations of WTO may bring new sets of regulations to control trade flows in order to protect natural environment. Developing member countries of WTO may not have to abide.

By such regulations if current rules to differentiate developing countries from the principles of free trade under WTO. However, developing countries will not be allowed to be totally indifferent to the issues related to trade and environment. For example, as the Section 3 illustrated, Malaysia actually lost a case against the United States on a turtle-shrimp problem. If new rules are adopted under WTO agreements, all countries may face trade retaliations if they do not pay due attention to the environmental aspects of trade.

However, as the Section 4. above explains, restrictions on trade may not necessarily decrease profit of exporting countries because the reduction of supply will push up the demand on the

product and thus offsets the trade balance. From another angle, this can be interpreted that international organizations can attribute the right values to the environmental goods in the trade market, for the benefit of producing and exporting countries.

Further efforts and experiments in the global trade market will have to be made in order to enact efficient rules that could be supported by the global community for the protection of environmental natural resources by way of introducing new measures related to trade. In this respect, further studies on the relation between trade and environment also need to be pursued continuously.

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BẢO VỆ MÔI TRƯỜNG VÀ THƯƠNG MẠI

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Trên thế giới gần đây có một sự thay đổi đáng kể trong những tranh luận về thương mại. Đó là thương mại ngày càng có mối quan hệ chặt chẽ với việc bảo vệ môi trường. Bài báo này trước hết muốn nghiên cứu về những vấn đề đã xảy ra trong quan hệ thương mại những thập kỷ cuối cùng của thế kỷ 20, tác động của nó đến những tranh luận về thương mại và mối quan hệ với việc bảo vệ môi trường. Đặc biệt, tác động của điều khoản về môi trường của NAFTA và phương thức hoà giải tranh chấp của Tổ chức Thương Mại thế giới (WTO) sẽ được phân tích chi tiết. Bài báo cũng sẽ minh hoạ bằng đồ thị mối quan hệ giữa khối lượng thương mại và chất lượng môi trường nhằm mục đích chỉ ra một sự cân bằng khả dĩ mà tại đó hàng hoá có thể được trao đổi cùng với sự phát triển bền vững của môi trường tự nhiên.