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Competitiveness, Harmonization, and the Global Ecolonomy

Steve Charnovitz

Introduction

The debate over the linkage of trade and the environment has provided a new window for understanding the exigencies of these dual goals. By encouraging both communities to defend their precepts to the other, the debate has clarified the synergies as well as the incompatibilities. The advent of the World Trade Organization (WTO) is focusing attention on the benefits (and inadequacies) of international rules.

The GATT Secretariat (1994) is optimistic about the Uruguay Round and its impact on the environment. It states, "The conclusion of the Uruguay Round represents an achievement in multilateral policy coordination, and should help to raise expectations of similar successes in the environment field" (p. 2). This is an interesting judgment given the lengthiness of the negotiations, the disappointing amount of liberalization achieved, and the new rules that will limit the application of environmental trade measures [e.g., technical barriers to trade (TBT) and sanitary/phytosanitary standards (SPS)]. Still, the sentiment is basically correct. The world community needs to embark on environmental negotiations commensurate in intensity to the Uruguay Round.

What is the Ecolonomy?

In recent years, it has become increasingly apparent that the world economy and the global environment are connected. The 1990 Bergen Ministerial Declaration on Sustainable Development pointed out the "symbiotic nature of economy and the environment" (U.N. Economic

Commission for Europe, para. 13). The Rio Declaration on Environment and Development of 1992 declared: "In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it" (Principle 4, 31 ILM, 874).

There are many economic issues that are far more domestic than international. There are also environmental issues that are more domestic than international. Some economic issues have no serious environmental implications, and some environmental issues have small implications for the economy. Nevertheless, the world economy and the global environment are, to a large and probably ever-increasing extent, two sides of the same coin. I have termed this planetary coin the *ecolonomy*.

This chapter presents an overview of the key issues in the debate and makes some recommendations for policy changes. Four major sections comprise the remainder of this chapter, providing discussion on: (1) the key problems in our ecolonomy, (2) the need for international rules, (3) the need for better international institutions, and (4) some areas where caution is advised.

Dysfunctions in the Ecolonomy

Understanding the ecolonomy does not require new analytical models. What is needed is a good blend of economics (especially resource economics) and science. One can start with equilibrium in economics and in nature, and then examine how various perturbations such as pollution or overabsorption can produce negative results. One can measure the impact of environmental change in economic terms and the cost of economic development in environmental terms. (This requires better national income accounting to reflect the environmental dimension.) Many of the insights of political economy regarding the failure of economic policy are also applicable to environmental policy.

Of course, there are already many connections between economic and environmental policymaking in some countries. It may be appropriate to continue utilizing separate government bureaus and officials dealing with these issues because of the need for specialized skills. But closer linkages are needed at all levels of government, especially in international institutions such as the GATT, which until now have been very insular. Closer linkages can help reduce the high economic costs of poor environmental policies and the high environmental costs of poor economic policies.

The new generation of environmental policies, which are market-friendly, are an example of how a closer connection between economics and environment can yield better outcomes. The importance of property

rights is also something that has become clearer as former communist countries struggle to upgrade their economies and as developing countries attempt to use their natural resources wisely, including their biodiversity.¹ In view of the high unemployment in industrial countries, it is becoming increasingly apparent that we should be shifting from taxes on employment to taxes on pollution and resource extraction.² Population control is a concern of both economics and environment.

In considering the connections between environmental and economic policies, it is important not to lose sight of some fundamental differences. The economic goal is growth, production, and consumption. The environmental goal is the maintenance of the ecosystem and, where necessary, environmental restoration. The difference between the two is *not* that economists embrace change and environmentalists oppose it. Only a dead ecosystem fails to evolve. The difference is that while economists focus on increasing outputs and reducing inputs, environmentalists focus on the rates of change and on the need for balance. Environmentalists also tend to have long time horizons (and implicitly low discount rates).

Trade and Environment Conflicts

Increasing trade and safeguarding the environment are not generally inconsistent objectives. But there are two potentials for conflict that need attention. First, international trade permits countries to specialize, which alters patterns of production. When the impact of this induced production is extrajurisdictional, that is, affecting other countries or the global commons, one can say that trade affects the environment. For example, there might be an increase in the use of ozone-depleting chemicals or of pesticides harmful to birds. When trade leads to the use of exhaustible resources, such as minerals, this may limit options for the future.

The changing patterns of production stemming from trade can have extensive effects on the development of poor countries. There is no reason why the effects of industrialization or agricultural mechanization need to be negative. The benefits of such growth for the economy and the environment will depend on the quality of governmental regulation and planning.

Insofar as industrial countries desire to promote the development of poor countries and tax their own citizens to pay for this, then the environmental policies of poor countries are a legitimate concern. If these environmental policies undercut development, then donor countries may be wasting their money.

A second potential for conflict involves competitiveness. International trade can boost the competitiveness of industries by expanding potential markets, thereby achieving economies of scale.³ Trade can also wipe out prior market dominance.

Differences in environmental regulation between countries can affect the cost of production and thereby change patterns of comparative advantage and disadvantage.⁴ Some of these differences may be viewed as making international trade unfair. Such unfairness claims should sometimes be rejected (for example, when there is little environmental connection between countries), but many such claims will be justified in a global economy. This is particularly so when competitiveness pressure puts a drag on necessary environmental regulation.

In the face of the ecological, development, and competitiveness problems brought about by international trade, the appropriate policy responses include international disciplines and intergovernmental cooperative activities.⁵ For example, disciplines are needed to deal with global environmental problems that require a harmonized response (e.g., ozone protection). Cooperation is needed to assure that one country's policy does not cancel out another's. All governments need better policies on trade and better policies on the environment.

We should also recognize that international rules on the use of trade measures (e.g., GATT rules) can interfere with national social regulation. As James E. Meade (1975) once noted:

... it is not possible for the developed countries to bind themselves to a strict and effective free-trade code...and at the same time to retain complete freedom of action to intervene in their national economies (by taxes, subsidies, or other means) to encourage or discourage any particular line of consumption or production on social grounds (p.141).

Many environmentalists believe that the GATT has gone too far in recent adjudication and in the Uruguay Round toward supervision of national environmental laws. If that were all GATT was doing, there would be less controversy. But the GATT Secretariat and some GATT members have also suggested that international environmental treaties have to conform to international trade rules. The GATT Committee on Environmental Measures met for two years, but was unable to agree whether the Conference on Trade in Endangered Species (CITES), the Montreal Protocol, and the Basel Convention should be deemed GATT-legal.

Rules for the Economy

There are some treaties about production [e.g., International Labor Organization (ILO) conventions] and about commerce (e.g., CITES). But for the most part, economic and environmental decisions remain national (or subnational). When should such decisions become international?

Environmental Effects of Trade

There are few environmental effects of trade per se. Most of the environmental concerns involving trade are really concerns about production rather than trade. If production presents a transborder environmental problem, then it deserves attention, whether the good is consumed domestically or exported. It is interesting to note that international labor conventions have always recognized this and are not limited to export sectors. Nevertheless, since trade is inherently international, it may be less controversial to characterize proposed multilateral regulation as rules about trade than as rules about domestic production.

The main environmental effects related to trade are: (1) importation of waste; (2) overuse of renewable resources (including humans); and (3) pollution caused by production stimulated by foreign demand. These effects are exacerbated by the large differences in wealth between poor and rich countries (Stone 1993, p. 111). For example, landowners or governments can be induced to accept industrial country waste for disposal. When the waste is lethal, the morality of such trades becomes questionable.⁶ The recent action by the Basel Convention to ban waste trade between Organization for Economic Cooperation and Development (OECD) and non-OECD countries provides one solution to this problem (though it may need some fine tuning).

Regulatory Motives

Governments use regulations (and some taxes) as instruments for changing production and/or consumption. For example, a regulation might ban the production of cosmetics tested on animals or ban the consumption of narcotics. When such regulations (or taxes) apply to imported goods, parallel trade measures can be used at the border. For instance, a regulation might ban CFCs in domestically-produced or imported products.

The GATT Secretariat and both GATT Dolphin panels have suggested that a critical distinction in the trade and environment debate is whether a regulation seeks to influence foreign producer behavior. Yet making such a distinction is difficult because production and consumption are interrelated. (There is an interchangeability between the regulation of production and consumption. If one bans production, there is nothing to consume. If one bans consumption, producers will stop production.) This author has not found any way to draw this line consistently. For example, a ban on the sale of dolphin-unsafe tuna aims to change production as well as consumption. The same is true for a ban on the sale of meat produced with hormones.

Motives are often difficult to judge. Since regulations can influence production or consumption, it seems likely that many regulations will do both. Thus, a regulation applied to an import may influence foreign production and consumption as well as domestic production and consumption.

One can validly distinguish between trade measures that reflect domestic regulation and trade measures that apply only to imports.⁷ But it is interesting to note that the GATT permits many trade measures in the latter category. A tariff, for example, applies only to imports. The GATT also permits trade measures that seek to influence foreign production, such as anti-dumping and countervailing duties. Thus, it would seem difficult to argue that the GATT, as a matter of principle, does not permit countries to use trade measures to influence activities in other countries.

Complex Exchanges

It is sometimes suggested that trade should be solely about exchange—that no other baggage (such as human rights) should intrude. One can certainly imagine such value-free trades. But if individuals *want* to incorporate issues relating to values in their negotiations, then such issues become part of the free market. To illustrate, if someone wants to buy running shoes made without prison labor, such tastes become part of the transaction. If a group of individuals wants to boycott Norwegian products until that government stops its citizens from hunting whales, then such preferences would seem as valid as any other.

Depending on the extent of popular support, individuals might want to employ government help for their cause. The simplest intervention would be government action to assure that labels on goods are accurate. For example, if the producer of the running shoes advertises that they were not made with forced labor or child labor, one can imagine a government agency assuring the accuracy of that claim. The GATT Dolphin I panel found that a U.S. law requiring such truth in labeling was GATT-consistent.

A more complex intervention would be government action to ban the sale of goods produced in a way that the "public" finds objectionable. For instance, a government might forbid the sale of dolphin-unsafe tuna (as the United States does). Some commentators object to such a law as "coercing" foreign fishermen to change their practices. But the commentators often miss the fact that this economic coercion pales next to the legal coercion directed at domestic fishermen on how to fish or at domestic consumers on what to eat. It is true that foreign citizens may not participate in such rulemaking (although they increasingly have lobbyists). But many domestic citizens do not participate either (or may participate but

lose). A foreign fisherman who dislikes the dolphin-unsafe regulation is no more injured than a domestic consumer (perhaps a dolphin hater) who dislikes it.

All government regulations are "coercive" to some extent. A requirement that automobiles have catalytic converters coerces foreign producers to install them. In considering whether there should be limits to such coercive regulations, it is useful to distinguish among three types of environmental trade measures: (1) defiled items, (2) production practices, and (3) government policy.⁸ Defiled item standards aim at the product itself—such as no cosmetics tested on animals. (This can be viewed as an agreement between the buyer and the producer.) Production practice standards focus on how all such products are made—for example, no tuna caught from industries that use dolphin-unsafe techniques. Government policy standards aim at how a government regulates the production—for example, no fur caught with leg-hold traps. The coercion of the latter two categories might be viewed as more onerous than the first. It should also be noted that the latter two categories are not standards (applying equally to domestic production). They can only be import bans.

Trade and International Rulemaking

When an overlap of interests occurs among countries, as often occurs in an economy, then international cooperation and rulemaking is needed. Treaties can be used to commit governments to take certain actions (e.g., the Wellington Convention on driftnets). Treaties can also be used to commit governments not to take certain actions (e.g., GATT rules against discrimination).

Trade accentuates the need for such rulemaking. In a country that didn't trade, it would be easy for the government to regulate both production and consumption. But the more a country engages in trade, the greater the percentage of its consumption that comes from imports. In a highly specialized (and efficient) economy, each country would export nearly all of its production and import its consumptive needs. (It might be noted that most individuals in industrial countries do this now.) There is nothing troublesome about this from an economic perspective. But from an environmental perspective, it may prove troublesome, as consuming nations do not regulate the production of what they consume. This interferes with the ability of a nation to engage in social cost internalization, life cycle analysis, and sustainable development.

Nevertheless, one should not misunderstand this problem. Even if nations did not trade at all, they would still need environmental agreements so long as they shared the same planet. Although trade does not create additional environmental problems, it does magnify problems, as

the GATT Secretariat (1994) has noted. Trade also weakens the ability of governments to engage in effective environmental regulation. This is not meant to be an argument against trade. Trade is desirable for economic reasons. But trade strengthens the case for attaining better international environmental governance.

Setting the Level

One key task of environmental governance is to determine the appropriate level for a problem to be addressed, i.e., global, regional, or local. Many commentators have suggested a principle of subsidiary—that problems should be handled at the “lowest” possible level. Others argue that subsidiary may be a distraction from determining the optimal level.

For any particular issue, there may be more than one response, and therefore more than one level. That is, some aspects may require harmonized international standards, while for other aspects, minimum standards will suffice. Still other aspects might be dealt with through coordination. Labels might also be used.

In some circumstances, the best level may not be regulation at all, but rather a code of conduct for corporations. This will allow investors to insist upon responsible action without running up against difficult legal and psychological problems of extraterritoriality.

It is sometimes suggested that while product standards (e.g., pesticide-free wine) may be imposed unilaterally by governments, process standards (e.g., dolphin-safe tuna) should be imposed only multilaterally.⁹ This view is untenable.¹⁰ First, it is becoming increasingly difficult to distinguish between product and process standards (Charnovitz 1993). Second, the regulation of services involves both. Third, the critical environmental issues in the future are likely to be process-oriented rather than product-oriented. Thus, while it would certainly be desirable if multilateral agreements on process could be obtained, it would be counterproductive to rule out unilateral measures in the meantime. As David Wirth (1992) has noted, “The international system as currently structured invites the proliferation of holdouts, free riders, laggards, scofflaws, and defectors.”

Improving International Organizations

Throughout the past century, our perception of the “internationality” of many economic and conservation issues has evolved. A common response has been to create international organizations to devise rules and/or to encourage cooperation. Within its narrow purview,¹¹ the GATT has become more successful both in rulemaking and in cooperation. The ILO, with a much broader purview, has become less successful in recent

decades. The United Nations Environmental Program (UNEP) has had only modest success.

Creating a Global Environmental Organization

Even though we live in an economy, it is probably better to have specialized institutions rather than general ones. But while we have a GATT (soon to be WTO) and an ILO, we lack any comparable institution for the environment. Some environmental groups would like to green the WTO and turn it into an environmental institution. But this would be unwise, since combating protectionism is a full-time job.

Instead, we need to create a Global Environmental Organization (GEO).¹² The GEO could fulfill the following functions:

- Devise environmental standards for critical issues.
- Conduct environmental negotiating “rounds” which seek to group together issues involving trade-offs between North and South.
- Conciliate environmental disputes between countries.
- Improve the delivery of environmental technical assistance.

It may seem inconsistent to advocate a new international organization for the environment at the same time that one points out the interrelationship between environmental and economic issues. But this is a pragmatic stance. Organizations with broad mandates do not perform as well as those with narrow ones. The way to deal with the interrelationships is to insist that international organizations coordinate more with each other. (The recent proposal for a U.N. Economic Security Council merits consideration.)

It may also be useful to begin exploring direct regulation (and taxation) of multinational corporations by an international institution. In the absence of such regulation, there will be more conflicts of legal jurisdiction and a declining effectiveness of regulation. This will require new concepts of “sovereignty.”

Role of Interest Groups

Elsewhere I have advocated that the GEO be organized on a tripartite basis (like the ILO) with representatives from businesses, governments, and environmental non-government organizations (NGOs).¹³ The participation of NGOs is also important for existing institutions, not organized on tripartite lines, such as the GATT. Many countries have resisted this idea in the GATT on the grounds that NGOs should filter their ideas through their governments. But this traditional model is becoming increasingly obsolete for several reasons.

First, as more issues require collective action, international organizations will become a more important site for decision making. To exclude NGOs is to weaken their effectiveness. Second, NGOs are increasingly becoming multinational. As a result, an NGO can no longer lobby its government, since it has none (or several). Third, the government-only approach is not suited for the complex decision making required for global issues (particularly since governments do not perfectly reflect well-informed public opinion). We need "virtual" negotiations involving all the key players at once.

Cautionary Notes

As we improve our capacity for global decision making through institutions like the WTO, we should exercise caution in three areas. First, we should preserve national (and subnational) sovereignty when possible. Nations should not be told to lower their environmental standards unnecessarily or to raise them unnecessarily.

Second, we should recognize that international trade has a homogenizing effect on culture and community. In some cases, it may be appropriate to sacrifice some economic gain in order to retain these values. For instance, there are good arguments for preserving traditional family farms.

Third, the inevitable participation of NGOs has a downside. It can lead to "Demosclerosis," a malady that we suffer from greatly in the United States. Thus, any system of governance will need periodic reinvention. As Joan Robinson (1962) commented, "Social life will always present mankind with a choice of evils. No metaphysical solution that can ever be formulated will seem satisfactory for long."

In conclusion, the trade and environment debate is providing a useful impetus for improving both international environmental governance and national decision making. By recognizing the ecolonomy, we can link policies more constructively as we seek both sustainable growth and sustainable employment.

Notes

1. For a good discussion of property rights and environmental resources, see Chichilnisky (1994).
2. For additional information on this subject, see European Commission (1994), especially chapter 10.
3. Thus, promoting exports is useful because it allows nations to specialize more. It is not mercantilism to be export-oriented or to promote exports. One crosses the line into mercantilism when one combines an export orientation with an anti-import orientation. Ideally, a country would promote exports and imports.

4. The effects so far have been very small. See Sorsa (1994).
5. For an early discussion of the need for an international economic authority, see Fisher (1945, p. 351).
6. Although voluntary exchanges should carry a presumption of legitimacy, there are many instances where government paternalism will override objectionable transactions.
7. Sometimes trade measures may support domestic measures. For example, a country seeking to regulate the harvesting of lobsters might apply equivalent controls to foreign lobsters because of the possibility of substitution. This approach is also used for look-alike species.
8. For further discussion, see Charnovitz (1993).
9. For example, see Vossenaar and Jha (1994), and OECD Secretariat (1994).
10. A better characterization might be production-related, use-related, transport-related, and disposal-related.
11. GATT is mainly about abstention or mutual de-escalation. This is conceptually a far easier task than that faced by UNEP or the ILO.
12. For a thoughtful proposal for a World Environmental Organization, see Runge (1994, pp. 100-07).
13. For example, see Charnovitz (1993, pp. 283-85).

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**Agriculture, Trade, and the
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edited by

**Maury E. Bredahl, Nicole Ballenger,
John C. Dunmore, and Terry L. Roe**


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