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Trade and Environment and APEC: Imperatives and Benefits of Regional Cooperation

1994

Lyuba Zarsky and Jane Drake-Brockman

In recent years, intense public interest in environmental issues has led to a greening of world politics. Public demand for better environmental management is likely to grow. Asia-Pacific, like other regions, will be deeply affected, not least through impacts on trade and investment. Responding to environmental issues will generate new imperatives--and opportunities--for regional cooperation within the institutional framework of the Asia Pacific Economic Cooperation group (APEC).

To date, APEC has focused nearly exclusively on economic cooperation, especially the liberalization of trade and investment. Meeting for the first time in March, 1994, APEC environment ministers called for the integration of environmental objectives into economic decisionmaking, both by individual member countries and within APEC's two committees and ten working groups. They also developed a broad Framework of Principles for Integrating Economy and Environment in APEC.

One crucial area for cooperation is the set of issues which lie at the interface between trade and environment policies. At a recent workshop on "Trade and Environment in Asia-Pacific: Prospects for Regional Cooperation," regional researchers for the first time explored the contours of the

interface.

At the most fundamental level, the trade-environment agenda is about how to chart and navigate a path to sustainable development in the context of economic integration. For APEC countries in particular, rapid economic growth is heavily dependent on trade and foreign investment. Environment policies which impede economic openness could dampen economic growth and block efficient resource use. Moreover, in some parts of Asia-Pacific, poverty itself creates environmental degradation.

On the other hand, the ecological, financial and social costs of environmentally unregulated economic growth will be staggering, not only for the region but for the world. While environmental regulation is the purview of national governments, the region's economies and eco-systems are heavily interdependent. Coupled with global diplomatic pressures, regional interdependence suggests that there are both imperatives and benefits in developing regional approaches to trade and environment.

RESPONDING TO GLOBAL TRADE-ENVIRONMENT DIPLOMACY

One set of imperatives stems from the fact that environmental issues have become central concerns of global trade diplomacy. Trade-environment work programs are being pursued by the Commission on Sustainable Development, UNEP, and UNCTAD, as well as the GATT, the OECD and the North American Commission for Environmental Cooperation.

Environmental provisions are also increasingly likely to be part of bilateral trade diplomacy, especially with the US and EU. Setting a significant international precedent, environmental provisions and side agreements were incorporated in the North American Free Trade Agreement (NAFTA). American environmentalists will press strongly for the inclusion of environmental provisions in any future US trade agreements and within Presidential fast-track trade negotiating authority. Moreover, in June 1993, OECD countries agreed to procedural guidelines which aim to make national trade and environmental policies mutually supportive. One guideline subjects trade policies and trade agreements to environmental assessment. Environmental issues have also moved into the mainstream at the GATT. In April, 1994, ministers from over 100 countries met in Marakesh to conclude the Uruguay Round of multilateral trade talks. They also agreed to establish a Committee on Trade and Environment within the new World Trade Organization which, given requisite ratification, would supersede the GATT in 1995. The preamble to the agreement establishing the WTO describes its overarching goal as:

0. "expanding the production and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and enhance the means for doing so in a manner consistent with respective needs and concerns at different levels of economic development."

Together with the creation of the Committee on Trade and Environment, broad agreement to the wording of the preamble suggests the beginning of a new chapter in multilateral trade negotiations. Incorporating environmental objectives will require changes in and additions to global trade rules, especially those governing production process standards. APEC countries will need to define their own interests and needs in both creating and responding to an emerging multilateral framework.

A global framework will be slow in evolving. In the meantime, there will be continuing domestic pressure on national governments, especially in Europe and North America, to enact trade restrictions in support of environmental objectives. Examples of unilateral "Trade-Related Environment Measures" (TREMs) include import restrictions on tropical timber, dolphin-unfriendly

tuna and illegal wildlife.

Conflicts run deep between countries of the North and South, as well as between environmentalists and the trade policy community, over whether and when the use of TREMs might be justified. Trade advocates fear that TREMs will be used to increase protectionism. Environmentalists fear that without the prodding of TREMs, environmental protection will be compromised.

Some APEC members, such as the United States, are among the countries enacting TREMs while others, such as Mexico and Taipei, have been targets. Rising environment- related trade tensions could jeopardize the larger APEC economic cooperation agenda. Moreover, some environmental groups oppose unregulated trade liberalization per se on the grounds that it promotes unsustainable levels of production and consumption, and that it undermines domestic regulatory authority. While Asia-Pacific environment NGOs have not yet directly targeted APEC, they are likely to do so in the near future.

COSTS OF NON-COOPERATION

A second imperative for regional trade-environment cooperation stems from the high costs of non-cooperation. Intense intra-regional competition for export markets and direct foreign investment could act as a drag on the political will required to raise and enforce environmental standards at a national level. Without environmental constraints, rapid economic growth will generate a large and in some cases irreversible drawdown of ecological assets.

At a recent conference organized by the Asian Development Bank , for example, experts concluded that Asia is fighting a losing battle against rapid loss of terrestrial and marine biodiversity. Despite recent efforts, over 70 percent of the region's natural vegetation cover has been lost. Marine preservation lags far behind efforts to conserve forests. Other environmental costs include widespread terrestrial, marine, riverine, and air pollution, especially from toxic wastes and agro-chemicals. The financial costs of clean-up will be higher, perhaps far higher, than the costs of pollution prevention.

Regional cooperation would aim to promote rising and more effective environmental commitments by developing common environment management frameworks. By working together, APEC countries could reduce or eliminate competitive pressures to degrade the environment for the sake of rapid economic growth. And they could help channel economic growth toward environmentally sustainable technologies, practices and industries. Cooperation could also target particular trade-related environment problems, such as the region's extensive illegal wildlife trade and the widespread coastal destruction generated by shrimp aquaculture. Besides the costs of environmental degradation, non-cooperation has costs arising from a patchwork of national environmental policies. Different environment policies require investment by investors and exporters in acquiring information and in changing production processes. Convergence in national approaches to environmental policy would reduce the transactions costs of trade, promoting further regional economic integration. If convergence tended toward stronger rather than weaker environment commitments, it could also promote more ecologically sustainable development.

MANAGING DIVERSITY WITHIN COMMONALITY

Economic integration, in short, generates pressures for convergence or even harmonization of environmental standards. Harmonization, however, is not necessarily optimal. Countries and regions within countries are enormously diverse ecologically, let alone in cultural, economic and political terms.

Ecological diversity suggests that appropriate environmental micro-management requires localized decisionmaking. Social diversity means that people in different places face different environmental risks, have different environmental priorities, and possess different capabilities to restore or conserve environmental assets. Globally, regionally, or even nationally harmonized standards may promote commerce but do little to address crucial environmental issues. International or regional harmonization tends to follow the standards set by the country or countries with the largest markets. In the worst case, internationally harmonized standards could even undermine sound environmental management by diverting resources from more pressing concerns. The greater the social and ecological gaps between countries, the more likely that harmonized standards will reflect the concerns and preferences of the richer and more powerful. The central problematique from an environmental perspective is the simultaneous and conflicting need for cooperative but diverse ecological management regimes. Resolving this dilemma will require the creation of inter-governmental management frameworks flexible enough to respect and promote ecological and social diversity. Such frameworks would aim to move toward convergence of management principles, guidelines and methodologies.

For example, rather than uniform standards, countries could work toward adopting common standard-setting methodologies, such as social and environmental risk assessment. With common methodologies in place, trading partners could trust that environmental regulations were neither covert trade barriers nor a subsidy to irresponsible domestic producers. With greater trust, nations could adopt a policy of mutual recognition of diverse environmental standards.

The primary rationale for APEC cooperation is that it offers a fruitful arena in which to develop new, common-yet-diverse approaches to trade-environment issues. APEC membership includes a wide range but relatively small number of countries. Moreover, economic, political and ecological interests tend to be more pronounced and concentrated regionally than globally. In particular, APEC cooperation on trade and environment could both reduce the likelihood of fractious regional environment-related trade disputes and at the same time contribute to the multilateral work underway at the UN and GATT/WTO.

SECTORAL ENVIRONMENTAL APPROACHES

One possible approach to the diversity-within-commonality problem might be to establish common environmental guidelines in particular sectors. The aim would be to specify environmental goals and set parameters for environmental management. Parameters include guidelines for environmental and social impact assessment and the use of economic instruments such as user charges, green taxes, subsidies, and tradeable emissions permits. Sectoral guidelines could also promote enforcement strategies based on market instruments such as licensing and labelling. A sectoral approach would also facilitate the design of complementary policies to mitigate any environmental degradation which might be expected to arise from trade reform.

The sectoral approach could be useful in both manufacturing and resource-intensive sectors. In manufacturing, broad environmental guidelines could be considered in light of work being undertaken by the International Standards Organization to develop Environment Management Standards.

The sectoral approach might be especially effective for resource-intensive sectors. Tourism, for example, is the fastest-growing industry in the region. Without a common floor for environmental management, regional competition could undermine the longterm value of tourism assets. A set of common guidelines could set a broad framework for environmental responsibilities, including environmental impact assessment, biodiversity and waste management plans, and environment loading. Micro-management would be left to national and/or local governments.

Agriculture might be another sector in which broad environmental guidelines would help to promote sound management in the context of trade openness. A cooperative sectoral approach, for example, could assist in developing effective approaches to minimizing resource inputs and conserving crop and soil bio-diversity, especially in combination with resource input subsidy reforms.

A key advantage of a sectoral approach is that policies can be designed around specific environmental goals. Discussion of environmental issues in relation to agriculture, for example, could have addressed one of the most important but ignored environmental impacts of the NAFTA agreement: the rapid displacement of Mexican corn farmers which threatens the loss of Mexican crop bio-diversity.

In practice, trade negotiations are often structured at a sectoral level. Where relevant, jointly agreed environmental guidelines could facilitate the integration of environmental concerns within regional trade discussions regarding liberalization in particular sectors.

TOWARDS AN APEC TRADE-ENVIRONMENT AGENDA

An APEC agenda on trade and environment should have two broad and integrated prongs. On the one hand, it should develop mechanisms to mitigate and mediate potential conflicts between APEC nations arising from differences in environmental commitments. On the other hand, it should promote cooperation in developing innovative approaches to regional environmental management. The overarching aim of regional cooperation should be to seek the best, most constructive ways to protect and enhance the environment in Asia-Pacific in the context of trade openness and sustained economic growth.

APEC environmental cooperation is at a very early stage. In August, 1994, APEC Environment Experts meeting in Chinese Taipei prepared a "Summary Action Plan for Integrating Environmental Considerations into APEC." The primary recommendation is that APEC's two committees and ten Working Groups consider expanding and harmonizing the use of economic instruments. Senior Officials from foreign and trade ministries are expected to endorse and forward these recommendations to the APEC Ministerial meeting in Bogor, Indonesia in November. The second report of the Eminent Persons Group identified trade and environment issues as a "key facilitation issue" for APEC. The report recommended that APEC advance the international acceptance of the principle of the internalization of environmental costs; and that the gradual convergence of environmental standards in the region, the objective should be gradual convergence of environmental standards in the region, taking into account differences in levels of development. (We would emphasize that harmonization should also be constrained, at least in some cases, by ecological diversity.) The Report also stressed that measures to protect the environment should not be used as covert trade barriers.

Another proposal worthy of consideration is the incorporation of environmental provisions within the proposed Principles of Investment which will be considered at the 1994 Leaders Meeting in Bogor. The NAFTA agreement, for example, explicitly imposes environment-related conditions on capital inflows. First, foreign projects are to be treated no differently from domestic ones in terms of environmental standards. Second, foreign investment is not to be encouraged by relaxing environment-related project requirements.

In effect, these provisions require host countries to pledge not to become "pollution havens," that is not to use lower environmental standards or lack of enforcement of standards to attract foreign investment. There is scope for further work in APEC on the potential relevance of principles such as these to liberalization of foreign investment regimes in the Asia-Pacific region.

APEC itself, as well as the Pacific Economic Cooperation Council, has begun a research agenda on trade and environment. Most prominently, APEC has commissioned a study on the environmental effects of tourism.

GUIDING PRINCIPLES ON TRADE AND ENVIRONMENT

One very positive step would be for APEC to develop a set of Guiding Principles on Trade and Environment. Suggested principles might be:

- * **Economy-Environment Integration:** Trade and investment policies should respect and maintain the environmental integrity of regional eco-systems. This suggests that the design and implementation of trade and investment policies and agreements take environmental impacts into account.
- * **Efficiency of Resource Use:** Trade, development and environmental policies should increase the efficiency of resource use. This suggests that APEC governments give priority to liberalizing trade and reducing resource subsidies in those sectors where there are also net environmental benefits.
- * **Internalization of Environmental Costs:** Governments should enact and enforce appropriate domestic environmental policies which aim to internalize environmental costs.
- * **Inter-Governmental Cooperation::** Regional inter-governmental dialogue and cooperation on environmental issues should be enhanced, consistent with the principle of subsidiarity. Governments should refrain from the unnecessary use of trade-restrictive environmental measures. Where used, trade measures should pass the tests of necessity and proportionality, taking into account the polluter pays and precautionary principles and the concept of life-cycle management. Measures undertaken should be the least-trade restrictive of feasible environmental measures. Trade-restrictive measures should also be transparent, non-discriminatory, and consistent with the principle of national treatment.
- * **Capacity-Building:** Trade and investment policies should aim to lift national capacities for environmental management through technology transfer, human resource development, and technical assistance.
- * **Scientist and Stakeholder Input:** Greater opportunities should be established for consultation with scientific experts, especially ecological scientists, and with regional stakeholders in the design and implementation of regional trade, development and environment policies. Stakeholders include community, consumer and environment groups, as well as businesses, labor unions, farmers, and others.

INSTITUTIONAL EVOLUTION

APEC's institutional capacity will need to be enhanced to allow for greater cooperation on environmental issues. Environment officials should have more regular input into APEC proceedings. Environmental issues should be diffused throughout all APEC Committees and Working Groups. Some environmental oversight capacity will be needed. To build scientific capacity, an APEC Environmental Policy and Science Group could be established to facilitate the exchange of ideas and information. Over the longer term, it might be useful for APEC to consider the formation of an APEC Commission for Environmental Cooperation.

APEC will also need to consider how to create opportunities for increased stakeholder input and public access, especially at the national but also at the regional level. One approach at the regional level would be to establish a counterpart advisory body similar to the Pacific Business Forum. Another approach is to expand the "Official Observer" status to non-governmental organizations.

Still another approach, proposed by the Canadian Government, is to create an Asia-Pacific Round Table on Environment and Economy. The Round Table would develop multi-sectoral dialogues on a broad range of environmental issues. Another proposal might be for each Committee and Working Group to hold public hearings as part of its ongoing work program.

Finally, APEC should establish an inter-governmental dispute mediation mechanism. The scope of such a mechanism would extend beyond trade-related environmental disputes to cover a broad range of potential trade conflicts. On the trade- environment front, however, the mechanism should be guided by Trade and Environment Principles like those articulated above.

Linkages between trade and environment are multi-faceted, complex and, in diplomatic terms, here to stay. A simultaneous commitment to trade openness and environmental responsibility presents APEC with new challenges and opportunities. The sooner APEC governments move to meet the challenge, the more room they will have to undertake creative and regionally appropriate initiatives.

ENDNOTES:

1. Lyuba Zarsky is co-Director of the Nautilus Institute for Security and Sustainable Development based in Berkeley, California. Jane Drake-Brockman is a Visiting Fellow at the Centre for International Economic Studies, University of Adelaide on leave from the Australian Department of Foreign Affairs and Trade. The views expressed are the authors' own. This text is the draft for a Policy Brief to be published in November for Center for Asian and Pacific Affairs of the Asia Foundation.
2. The Workshop was held at the East West Center in September 1994. Workshop papers are available from Nautilus Institute, 746 Ensenada Ave, Berkeley CA 94707 USA.
3. James Boyce, "NAFTA: Wiping Out 7000 Years of Biodiversity," Nautilus Bulletin, Berkeley, December, 1993.
4. Subsidiarity means that supra-national environmental agreements should be sought only when necessary as an addition to policy action at the individual country level.
5. Observer status has been granted only to two government bodies, the ASEAN Secretariat and the South Pacific Forum, and to the tripartite (government, academic, business) Pacific Economic Cooperation Council.

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Nautilus Institute
608 San Miguel Ave., Berkeley, CA 94707-1535 | Phone: (510) 423-0372 | Email:
nautilus@nautilus.org