

BANG OR BUST

Environmental Degradation and the World Trade Organization

By ELIOT PEPPER

Of the many long-term survival issues facing our world today the most fundamental is that of environmental degradation. Human beings have a symbiotic relationship with the rest of the biosphere. In order to live and reproduce, we must extract resources from the world we live in. With the advent of the agricultural revolution more than ten thousand years ago we upped the ante by increasing the net productivity of our combined labor and creating surplus food stores. By improving our food production methods in this way we dramatically accelerated the rate of resource extraction. Instead of being used as a security measure against periods of bad harvest, the surplus food created by the agricultural revolution became a catalyst for population growth (associated both with the larger group needed to run an agrarian society and also the new practice of labor specialization). Accelerated resource extraction took its toll on an environment that could not keep up with the growing demands of agriculture. Historically, we can look at the desertification of the Sahara region and of much of the Middle East as sobering examples of the inevitable costs engendered by this paradigm shift of human production. But if the agricultural revolution was a paradigm shift in the relationship between human beings and our environment, then we simply do not have words to describe the changes linked to the industrial revolution. Our economic productivity has increased exponentially the past few hundred years; indeed, the only thing keeping pace with our technological advances is our gargantuan population. Again, this dichotomy is severely weakening the capacity of the Earth to support us. Long term desertification became a problem after millennia of traditional agriculture. Today, industrial monoculture is creating deserts in decades. From fresh water availability and the catastrophic crisis of biodiversity (especially in our oceans), to global warming, our combined lifestyles are having a massive effect on the planet. Because economics is an illustration of our relationship to the environment (every chain of supply and demand ends in natural resources or consumption respectively), it provides a valuable framework for analyzing and resolving our current situation. That situation is becoming increasingly dire. Environmental degradation is an issue that is both inherently global and inherently related to political economy. By directly threatening our physical world it threatens our economic resources and our survival prospects.

Where's the fix?

Current global environmental governance is enormously insufficient. Multilateral environmental agreements (MEAs) are plagued by a lack of monitoring and enforcement power. The policies of national governments are undermined by the industrial "race to the bottom." In this race, firms must search out those countries or regions where environmental regulations are either not present or not enforced in order to minimize the internalization of costs related to environmental degradation and the maximize profit margins. Because international trade and transnational corporations have become an integral part of the world economy, their actions have profound environmental consequences. There is an organiza-

tion that creates and effectively enforces the rules of globalization and international trade through authorized trade sanctions. This organization therefore has the responsibility to include clauses mandating environmentally responsible industrial practices in its trade agreements. Indeed, the only extant multilateral institution with the scope and power equal to the task of organizing global environmental management on a scale capable of countering environmental degradation at its current rate is the World Trade Organization (WTO).

Globalization and the Environment

Globalization - the worldwide integration of markets and production - has had equally widespread environmental side effects.

"Although the globalization trends of recent years enriched economic elites and added to the ranks of the global middle class in some countries they also bypassed billions of destitute people and in some cases directly undermined the welfare of marginalized people by destroying the ecological and social fabric that has formed the backbone of traditional, subsistence-based societies." (French, 2002, p. 175)

In the harsher terms of Chalmers Johnson, president of the Japan Policy Research Institute, "the globalization of the 1990s was premised on cheating the poor and defenseless and on destroying the only physical environment we will ever have" (Johnson, 2005, p. 281). We can find examples of this the world over. In the deserts of northern Mexico along the border with the United States the provisions of the North American Free Trade Agreement resulted in an explosion in manufacturing centers which produce for the U.S. market and are extremely damaging to the native ecology. Across the Pacific Ocean, Malaysia has destroyed much of its natural endowment of rainforests to enable rapid export-oriented industrial development; this has had widespread ecological effects, from the destruction of biodiversity to the decrease in world capacity to recapture carbon from the atmosphere. Back in the Americas, Brazil is busy demolishing the Amazon rainforests. Since the 1970s, the four billion dollar exports of Brazilian mahogany have caused significant incursions. But it does not stop there. Brazil recently became the world's top beef exporter, made possible by the huge growth of cattle populations in the Amazon. On top of that, "10,000 square miles of the Amazon were razed in 2003, a 40 percent increase over 2002, largely to grow soybeans for export" (Anderson, Cavanaugh, & Lee, 2005, 46).

China, prodigy or prodigal?

Perhaps the most relevant place to begin an analysis of the relationship between economic globalization and the environment is the country heralded as the poster child of industrial development. For the past twenty years, China has been enacting reforms oriented towards a free market economy with liberal relationships towards world trade and capital investment. This effort seems to

have been rewarded, both with a historically unprecedented sustained average GDP growth rate of 9.5% over two decades and acceptance into the international economic community with China's entrance into the WTO in 2002. Indeed, "these reforms not only gained the country acceptance into the global trading body, they have also earned the praise of the World Bank and other economists who herald China as a great success story of economic globalization" (Wen, 2005, p. 2).

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There are incredible changes occurring in China today as a result of these free market free trade reforms, and not all of them positive. According to the Netherlands Environmental Assessment Agency China now holds the dubious honor of producing more greenhouse gases than any other country, surpassing the United States by a projected 8% in 2007 (Netherlands Environmental Assessment Agency website, 2007). China sustained incredibly fast economic growth which has wreaked havoc on the natural environment. More than half of China's major rivers are classified as unsuitable for human contact. Millions of people depend on these rivers for drinking water, washing, and agricultural irrigation. In the last thirty years almost a third of China's total land has been converted into desert by commercial grazing and industrial agriculture. Almost half of China's arable soil has been primarily damaged by pollution and erosion (Wen, 2005, p. 3, 27-32).

The situation is particularly extreme in agricultural areas near to China's Export Processing Zones (EPZs), which are havens for foreign owned businesses manufacturing for export. More than 70 percent of the soil samples taken from these areas are contaminated by both heavy metals and persistent organic pollutants from the factories in the EPZs. These samples reveal that, "highly contaminated grains including 'mercury rice,' 'lead rice,' and 'cadmium rice' have been found in markets" (Wen, 2005, p. 30). Air and water quality are also suffering greatly at the hands of trade oriented express development. China has seven of the world's ten most polluted cities where almost a third of a million people die a year due to air pollution, "acid rain falls on 1/3 of the territory. More than 1/3 of the industrial wastewater and 2/3 of municipal wastewater is released into waterways without any treatment...The culprits are often agriculture runoff and untreated wastewater from industries" (Wen, 2005, p. 28). In urban areas the damage is no less striking, "Only 1% of the country's 560 million city dwellers breathe air considered safe by the European Union" (Kahn & Yardley, 2007). In short, the breakneck pace at which China is industrializing produces colossal and irreversible environmental destruction.

Closer to Home

The above-cited examples are from so called "developing countries." But what of the developed world? Does a country like the United States have much to fear in terms of negative region-

al environmental side effects of globalization and international trade? Aside from the truly worldwide consequences of processes like global warming, there are policy considerations that are put under threat. Developed countries also suffer from disintegrated environmental policies: public health threats based on the WTO prohibition against food import sourcing discrimination, invasion of nonnative species for every country involved in trade and all the oceans in between (various pests and bacteria constantly stow-away on container ships), and national environmental policies disputed as trade barriers. As harmful is the one two punch of corporate outsourcing to avoid environmental regulations and corporate blackmailing of domestic environmental policy makers to weaken domestic environmental laws to avoid further outsourcing (Anderson et al., 2005, p. 47).

The relationship between trade, development, and the environment is a controversial one, but it unarguably exists and is currently is fraught with internal contradiction. Both dynamic and incredibly dangerous, this situation should be approached with caution and restraint, two qualities which are not evidenced at present. The only binding set of rules almost all countries must abide by and that firms cannot escape from by crossing borders are the tenets of the WTO as enforceable by trade sanctions.

Environmental Policy and the World Trade Organization

International trade and transnational corporations are two of the key foundations upon which modern economic interaction occurs. Within the global economy both of these trends have recently exploded in significance: "Between 1980 and 2000, trade in goods as a percentage of goods GDP exploded- a 41 percent increase, from 79 percent to 111 percent for the world as a whole" (Appelbaum, 2005, p. 369). Because the WTO sets the ground rules for trade, it has a responsibility to make those rules environmentally responsible. Indeed, in the words of the WTO's own Committee on Trade and Environment:

"Issues relating to trade, the environment and sustainable development more generally, have been discussed in the GATT and in the WTO for many years. Environment is a horizontal issue that cuts across different rules and disciplines in WTO. The issue has been considered by Members both in terms of the impact of environmental policies on trade, and of the impact of trade on the environment." (WTO Website, n.d.)

So, how well is the WTO addressing these issues? From the empirical evidence of examining the relationship on the ground between trade, the environment and "sustainable development" in countries from Malaysia to Mexico we already know that many problems are not being dealt with. But how does the issue look from a policy standpoint?

"The first parameter is that WTO competency for policy coordination in this area is limited to trade and those trade-related aspects of environmental policies which may result in significant trade effects for its Members" (WTO Website, n.d.) Interestingly, all of the regional environmental degradation detailed earlier points to sectors that effect economic resources and trade capacity. Deterioration of arable land and desertification reduce a country's agricultural capacity, and thereby restrict agricultural exports. Pollution of such land leads to dangerous levels of pollutants found in

agriculture products, which will be that much less desirable on the world market. Destruction of rainforests decimates a country's natural resources, which are nonrenewable and unrecoverable. This seemingly endless list of examples points to the intrinsic relationship between economics and environmental management.

"In the case of intellectual property rights, WTO Members have acknowledged that the Agreement on Trade-related Intellectual Property Rights (TRIPS) plays an essential role in facilitating access to and the transfer of environmentally-sound technology and products" (WTO Website, n.d.). This stipulation retards and transfer of environmentally-sound technology instead of facilitating it. It increases the costs at which these technologies are available to less-developed countries by conferring a temporary monopoly for a given environmentally friendly product on the company who originally developed it.

"WTO rules place essentially no constraints on the policy choices available to a country to protect its own environment against damage either from domestic production or from the consumption of domestically produced or imported products" (WTO Website, n.d.). The problem with this strategy is that while countries could potentially choose to create environmentally friendly policy in this area, they are prohibited from this approach by global market competition. With the advent of widespread trade and capital liberalization (principally organized at the behest of the United States by the International Monetary Fund, the World Bank, and the WTO) firms can move so quickly and fluidly across borders that national environmental and labor policies are rendered all but meaningless in the global "race to the bottom" (this is especially true for countries with less economic clout). If India develops strict environmental regulations on apparel manufacture, manufacturers just move their factories to Bangladesh. Countries must compete to minimize environmental laws that are costly for private firms. These laws are costly precisely because reason they force firms to internalize environmental externalities. By abiding a world system in which environmental laws are not transnational in scope, we legitimize even more damaging policies such as "environmental colonialism." In such a situation wealthier states outsource their dirtiest industries to poorer states and wealthier regions outsource to poorer countries. This is, at best, morally questionable because poorer countries do not have the economic or political resources to deny such invasions of dirty industry. By hiding the disastrous effects of such industries from the wealthy countries' domestic constituency, it also hamstring developed countries' popular support for potential policy aimed at curtailing such practices. If the WTO were to mandate minimum environmental standards, all countries would have to obey them and thus, firms would not be able to escape them simply by crossing borders. Unfortunately the WTO refuses to get involved in "setting environmental standards or developing global policies on the environment" (WTO Website, n.d.) thereby exacerbating the very problems it claims to seriously consider. Were the WTO to change its stance on this issue it would immediately and dramatically transform and empower stewardship of our world's natural resources. It could provide a comprehensive solution to a systemic problem.

The Efficacy of Multilateral Environmental Agreements

There are many international organizations devoted to addressing the issue of environmental degradation and sustainable development. These include various multilateral environmental

agreements (MEAs) which have multiple national signatories. The problem is that while there is a plethora of these agreements, they genera The relationship between trade, development, and the environment is a controversial one, but it unarguably exists and is currently is fraught with internal contradiction. lly have very little monitoring or enforcement power. Sometimes the sheer volume of different agreements can impede their implementation: "as the number of treaties has climbed, problems of duplication, fragmentation, and lack of coordination have arisen that are undermining the efficacy of the system as a whole." (French, 2002, p. 177) Because developing countries often have very few diplomatic resources to devote to studying such treaties and participating in signatory meetings, their relevance is further questioned. It is often those developing countries that could potentially benefit most from multilateral and more stringent environmental policy. The most fundamental weakness of these agreements is that, "environmental treaties contain few specific targets and timetables, and provisions for monitoring and enforcement are generally weak to nonexistent" (French, 2002, p. 177). Even if a signatory is found to be in violation of a treaty, the resolution mechanisms are often voluntary and nonbinding.

The other issue that many MEAs face is policy contradiction with the WTO. There are a number of environmental treaties that contain certain provisions that debatably are in violation of WTO rules. The issue of intellectual property rights displays an illustrative example:

"The WTO requires countries to put in place strict systems for recognizing the intellectual property rights of plant breeders and biotechnology companies. The CBD [Convention on Biological Diversity], on the other hand, affirms that any economic benefits of commercializing seeds, pharmaceuticals, and other products based on indigenous knowledge gained over thousands of years should be shared with the farmers and communities that developed them in the first place." (French, 2002, p.181)

This displays one of the key dynamics at work in today's world: while the WTO and institutions of global economic governance are

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increasing in power, they are not checked by institutionalized environmental and social governance which remain very weak. The budding power of the WTO is certainly not helping, and in some cases even hurting, the human effort of avoiding environmental disaster. But this is not an unsolvable dilemma.

Conclusion

With its global scope, 149 member states, system of legally binding rules, complex dispute resolution mechanisms, and capability of actual enforcement by application of trade sanctions, the

multilateral WTO is the prime candidate for effective environmental management. To be sure, this would constitute a major policy shift for the world's paragon of "free trade at any cost," but it is a policy that is vitally necessary. In the words of economics Nobel Prize winner Joseph Stiglitz, "markets by themselves lead to too much pollution of the atmosphere and water" (Stiglitz, 2006, p. 162). Every country in the world needs to address this issue as a whole, for environmental policy affects the entire world: "the Maldives and Bangladesh are almost certainly going to be seriously harmed by the rising sea level caused by global warming, to which the United States' pollution is contributing significantly" (Stiglitz, 2006, p. 164). Just as "carbon dioxide molecules do not respect borders," (Stiglitz, 2006, p. 165) WTO provisions, too, have transnational scope and enforceability. The desire to access global markets currently intensifies the issues related to environmental degradation. This aspiration could, just as easily, be used to shape a world that is as sustainable as it is productive, "withholding the benefits of globalization through trade sanctions can be an effective instrument for bringing accountability to those that despoil the global environment" (Stiglitz, 2006, p. 185).

There are potential problems that could arise from this approach. The environmental regulations the WTO might include within trade agreements could act as an economic depressive for private firms by increasing the unit cost of production. This side effect would be significantly offset, from a macro perspective, by the decrease in public sector clean up and health costs. At present these expenses are covered by states and individuals. WTO environmental

regulations would only directly affect member states of the WTO. Non-members could potentially provide havens for firms trying to escape environmental regulation. However, member states competing for foreign investment and productive assets would apply huge amounts of geopolitical pressure on non-members to bring up environmental standards. The WTO is criticized for its lack of democratic values, transparency, and accountability. This crisis of legitimacy was emphatically illustrated by the suspension of the Doha round of trade negotiations. Thankfully, recent negotiations have brought some of these problems closer to positive resolution. According to the Director-General of the WTO, Pascal Lamy, "...political conditions are now more favorable for the conclusion of the Round than they have been for a long time." (WTO News Website, 2007)

The extreme pressures placed on the biosphere by the intersection of extremely large human population combined with extremely resource-intensive industrialization have immediate and irreversible consequences. The ecological imbalance created by this dangerous duality poses a direct threat to short run concerns of biodiversity and public health as well as the long run viability of current resource extraction strategies. Further, this situation jeopardizes global macroeconomic stability in a world of limited renewable resources. Current MEAs simply cannot handle the problem. With the revival of the Doha round, the WTO remains the only multilateral policy making institution that has both the capacity and the power to truly address the vital problem of environmental degradation.

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