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Globalization and Environmental Balance

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Abstract: *Globalization shows a great deal of impact on the environment and sustainable development in a wide variety of ways and through multiple channels. It changes the global environment some understand the net ecological impact of globalization as positive as a force of progress and better lives. It fosters economic growth and co-operative institution both necessary in the long run to manage the global environment. Others see the net impact as negative as a force sinking the globe into a bog of ecological decay.*

This paper aim at analyzing Globalization and Environmental Balance with a Special Emphasis on Globalization Effects on the Environment

Keywords: *Globalization, Environmental balance, Global Governance, economic growth*

GLOBALIZATION AND ENVIRONMENTAL BALANCE: A GLOBAL GOVERNANCE PERSPECTIVE

Globalization Effects on the Environment

Globalization presents a mixed blessing for the environment. It creates new opportunities for cooperation but also gives rise to new issues and tensions. For example, liberalized trade may generate economic growth, which, in turn, may translate into increased pollution, including transboundary spillovers of harm ("super externalities") and unsustainable consumption of natural resources (Dua and Esty 1997). Likewise, economic integration strengthens competitive pressures across national borders that may help consumers by lowering prices, improving service, and increasing choice (Bhagwati 1993, 2000). But these same pressures constrain national government capacities to regulate and necessitate intergovernmental coordination of domestic policies as well as cooperation in the management of the global commons. Without effective international-scale governance, globalization may intensify environmental harms wherever regulatory structures are inadequate (Nordstrom and Vaughan 1999).

Minimizing Negative Impacts

Economic theory contends that the free market can be expected to produce an efficient and welfare-enhancing level of resource use, production, consumption, and environmental balance if the prices of resources, goods, and services capture all of the social costs and benefits of their use (Anderson 1992, 1998; Panayotou 1993). However, when private costs - which are the basis for market decisions - deviate from social costs, a "market failure" will occur resulting in allocative inefficiency as well as suboptimal resource use and pollution levels. Intensified international trade and the competitiveness pressures it generates can wield deleterious impacts on environmental quality, as market failures are a hallmark of the environmental domain. Many critical resources such as water, timber, oil, fish, coal, etc. are underpriced. Ecosystem services such as flood prevention, water retention, carbon sequestration, and oxygen provision often go entirely unpriced. Because underpriced and unpriced resources are overexploited, economic actors are able to spill onto others all or part of the environmental costs they generate and environmental strains are exacerbated.

Another (and related) concern is that freer trade will lead to competitive pressures that will push down environmental standards. A regulatory "race toward the bottom" might occur as jurisdictions with high environmental standards relax their regulations to avoid burdening national

industries with pollution control costs higher than competitors operating in low-standard jurisdictions (Klevorick 1996; Esty 2001). While there is little evidence that standards are dropping, the real concern is not about a literal race to the bottom. Rather, the concern arises from the possibility that economic integration will create a regulatory dynamic in which standards are set strategically with an eye on the pollution control burdens in competing jurisdictions. The result may be a "political drag" that translates into suboptimal environmental standards at least in some jurisdictions (Dua and Esty 1997). These effects might involve not only weakened environmental laws, but perhaps more importantly, lax enforcement of existing rules, or standards not strengthened as much as they would have been.

Diversity in circumstances generally makes uniform standards less attractive than standards tailored to the heterogeneous conditions that exist (Mendelsohn 1986; Anderson 1998). But not always. Divergent standards across jurisdictions may impose transaction costs on traded goods that exceed any benefits obtained by allowing each jurisdiction to maintain its own requirements. Upward harmonization (a "race to the top") may also occur (Vogel 1994). But this logic only applies to product standards. Standards that relate to production processes or methods are not subject to the same market pressures. Yet, how things are produced matters. Production-related externalities cannot be overlooked. For example, semiconductors manufactured using chlorofluorocarbons contribute to the destruction of the ozone layer. Where international environmental agreements are in place, as with the Montreal Protocol on the balance of the ozone layer, trade rules should be interpreted to reinforce the agreed-upon standards. Recrafted trade principles that accept the legitimacy of environmental rules aimed at transboundary externalities would make global-scale trade and environmental policies more mutually reinforcing and reduce the risk of the trade regime providing cover for those shirking their share of global environmental responsibilities.

Maximizing Positive Effects

Expanded economic growth and trade can be broken down into four categories. Scale effects refer to increased pollution and natural resource depletion due to increased economic activity and greater consumption. Technique effects arise from the tendency toward cleaner production processes as wealth increases, and trade expands access to better technologies and environmental "best practices." Income or wealth effects appear when greater financial capacity results in more resources being invested in environmental balance and creates demands for greater attention to environmental quality. Composition effects arise as the economic base evolves toward a high-tech and services-based economy involving a shift in preferences toward cleaner goods. The overall environmental impact of economic growth depends on the net result of these four effects. If the technique, income, and composition effects overwhelm the negative scale effect of expanded activity, then the overarching impact will be positive (Grossman and Krueger 1995; Selden and Song 1994; Shafik 1994; Antweiler, Copeland, and Taylor 2001). For some issues and some levels of development the gains seem to outweigh the losses.

For example, free trade appears to lower sulfur-dioxide concentrations. Income effects in this case outweigh scale effects. As a recent study by Antweiler, Copeland, and Taylor (2001) shows, a 1-percent increase in the scale of economic activity raises pollution concentrations by 0.25 to 0.5 percent but the accompanying increase in income drives concentrations down by 1.25-1.5 percent via a technique effect. However, it appears that expanded trade and economic activity may worsen environmental conditions in other cases (Esty 2001). Regional and global environmental harms, for example, exhibit positive correlation with rising incomes. When harms can be spilled onto other countries or the commons, there is little incentive to pay the costs of abatement since much of the benefit will accrue to citizens in other jurisdictions (Dua and Esty 1997).

Economic integration has broader economic and social impacts. Increasing interdependence often leads to a sense of community that builds a foundation of shared values and gives citizens a basis for demanding that others with whom they trade meet certain baseline moral standards, including a commitment to environmental stewardship. As economic integration broadens and deepens, the scope of demands that citizens feel should be encompassed within the set of baseline standards grows. The process of parallel economic and political integration will not always be smooth. However, creating a sense of community will be necessary if countries wish to deepen their economic ties. This dynamic may create tensions as some countries, particularly those in the

developing world, may have an expectation of complete national sovereignty in setting their own environmental standards. But the idea that environmental policy can be made in a political vacuum and be immune from external pressures misunderstands the imperatives of deepening economic integration. At the same time, developed nations which believe that their moral preferences should be accepted by others without question will find themselves facing a major backlash. In sum, absent a solid political foundation, including agreement on how to address shared environmental challenges, the drive for economic integration will falter.

Environmental Effects on Globalization

Just as environmental balance efforts will be shaped by the path of globalization, environmental choices may affect the course of globalization, particularly efforts to liberalize trade and investment flows. At one extreme, a rigid harmonization of policy approaches and regulatory standards could run roughshod over the diversity of environmental circumstances, endowments, and preferences. At the other extreme, uncoordinated national environmental policies might become non-tariff barriers to trade that obstruct efforts to open markets. Deeper economic integration makes countries more sensitive to the regulatory choices and social policies of their trade partners. In the 1970s, when China's trade with the United States totaled less than $1 billion a year, few US citizens cared about China's labor or environmental policies. Today, as China emerges as a major trade partner and competitor - and US-China trade has increased almost 100-fold to $92 billion in 2002 - these choices seem much starker. Thus, a key focus of trade policymaking centers on non-tariff barriers to trade and the need for a "level" playing field in the global marketplace.

Environmental Standards

Because many domestic regulations could act as non-tariff barriers to trade, trade agreements now routinely include market access rules and regulatory disciplines. Public health standards, food safety requirements, emissions limits, waste management and disposal rules, and labeling policies all may shape trade flows. For example, the EU import ban on genetically modified foods has led to a 55 percent decrease in U.S. corn exports to Europe since 1998 (United States Trade Representative 2003). Venezuela objected to the discriminatory approach of the reformulated gasoline provisions of the U.S. Clean Air Act of 1990 and won a WTO dispute settlement case restoring its access to the U.S. gasoline market. From the "tuna dolphin" case of the early 1990s to the recent "shrimp turtle" dispute, the number of trade-environment flash points has continued to expand. Environmental proponents fear that liberalized trade might make it harder for high-standard countries to keep their stringent environmental requirements in the face of market access demands from trade partners.

The difficulty in the trade and environment debate lies in separating legitimate environmental standards from balanceist regulations advanced under the guise of environmental balance. Few would argue, for example, that automobile emission control standards are an illegitimate requirement or an unwarranted barrier to trade. However, the fear of balanceism in an environmental disguise is not unfounded and needs to be addressed, particularly if developing countries are to retain confidence in the fairness of the international trade system. The smooth functioning and efficiency of the international economic system cannot be maintained unless there are clear rules of engagement for international commerce, including environmental provisions.

Trade Sanctions for Environmental Ends

Environmentalists fear that commitments to trade liberalization will limit the use of trade measures as a way of obtaining leverage over countries refusing to live up to their environmental obligations (Blackhurst and Subramanian 1992; Chang 1995). The need to discipline "free riders" - those benefiting from but not contributing to pollution control or resource management - is well understood (Zhao 2000). Trade officials often argue, however, that trade sanctions deployed for environmental purposes are inappropriate and a violation of GATT principles. Environmentalists contend, in turn, that there are very few ways of exerting pressure in the international domain and that trade measures must therefore be available as an enforcement tool. They argue that trade provisions (such as those found in the Montreal Protocol's restriction of trade in CFC-related products with non-parties to the convention) have helped to promote international environmental

cooperation and to prevent free-riders from seizing an unfair competitive advantage in the global marketplace.

One way to reduce this trade-environmental tension is to insist that any global standard to be enforced with trade measures must be agreed upon multilaterally. But even this approach is not without critics. Some developing countries officials are suspicious of any "environmental conditionality." They remain convinced that global-scale environmental standards of any sort provide a guise for balanceism and obstruct Southern efforts to export to Northern markets (Runge 2001).

Multilateral Institutions for Trade and Environment

In the absence of a functioning global environmental management system capable of addressing trade and environment issues, responsibility for integrating these two policy realms has fallen to the WTO. Although the WTO has a Committee on Trade and Environment that has been meeting for a number of years, the Committee is dominated by trade experts, has demonstrated little understanding of the trade effects on environmental policy, and has almost nothing in the way of results to show for its efforts (Esty 1999). A sense of frustration about this state of affairs now permeates both the environmental and trade communities. Both sides agree that trade rules must not condone free-riding on global environmental commitments (Bhagwati 2000). But how to implement this principle remains in dispute.

Environmental groups have focused much of their attention over the past decade on reform of the World Bank and other multilateral economic bodies, including the WTO. Leaders of the trade community have begun (belatedly) to respond to this pressure. But they have also started to argue that the WTO lacks the capacity to address environmental issues effectively and that the WTO's efficacy and legitimacy are undermined whenever the organization is forced to make decisions that go beyond the scope of its trade mandate and expertise. Thus, the push for a parallel environmental governance structure now seems to be gathering momentum. The recent WTO Director-General, Renato Ruggiero, and the current Director-General, Supachai Panitchpakdi, have both urged the creation of a World Environment Organization to help focus and coordinate worldwide environmental efforts, thereby relieving environmental pressures on the WTO. During the World Summit on Sustainable Development in 2002, French President Jacques Chirac called for the creation of a World Environmental Organization that would bring greater balance to a multilateral system excessively focused on the economy. Similar calls have come from Mikhail Gorbachev, Lionel Jospin, *The Economist* magazine, and others. It is becoming increasingly clear that successful reform of the trade and finance system in support of a process of globalization that works for all needs to be coupled with an equally rigorous and fundamental reform of the global environmental regime.

CONCLUSION

In conclusion, the international economic institutions play a key role in moulding environmental issues of the globe. In recent times environmental groups have started showing more and more interest on the reform of the World Bank .They also pinpoint the limitations that WTO faces owing to their trade agreements.

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