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Coping with Ecological Globalization

Hilary French

As the twenty-first century dawns, the planet seems to be steadily shrinking. Goods, money, people, ideas, and pollution are traveling around the world at unprecedented speed and scale, overwhelming financial managers, political leaders, and ecological systems. The “global commons,” including the atmosphere and the oceans, is under environmental assault. The globalization of commerce is further internationalizing environmental issues, with trade in natural resources such as fish and timber soaring, and with private capital surges giving international investors a growing stake in distant corners of the globe.

Environmental problems are climbing ever higher on the international political agenda, at times preoccupying international diplomats almost as much as arms control negotiations did during the cold war. Industrial countries are increasingly arguing, with the European Union (EU) and the United

States now at odds on issues from global climate change to genetically modified organisms (GMOs). Environmental issues have also become acrimonious in North-South relations, with rich and poor countries divided over how to apportion responsibility for reversing the planet’s ecological decline.

“Globalization” has become a common buzzword. But it means vastly different things to different people. To some, it is synonymous with the growth of global corporations whose far-flung operations transcend national borders and allegiances. To others, the term is closely linked with the information revolution, and the mobility of money, ideas, and labor that computers and other new technologies have been instrumental in bringing about. In this chapter, globalization is taken to mean a broad process of societal transformation in which numerous interwoven forces are making national borders more permeable than ever before, including growth in trade, investment, travel, and computer

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networking. “Ecological globalization” is used here to refer to the collective impact that these diverse processes have on the health of the planet’s natural systems.¹

Ecological globalization in its many guises poses enormous challenges to traditional governance structures. National governments are ill suited for managing environmental problems that transcend borders, whether via air and water currents or through global commerce. Yet international environmental governance is still in its infancy, with the treaties and institutions that governments turn to for global management mostly too weak to put a meaningful dent in the problems. Nations are granting significant and growing powers to economic institutions such as the World Trade Organization (WTO) and the International Monetary Fund (IMF), but environmental issues remain mostly an afterthought in these bodies.

Although nation-states are losing ground in the face of globalization, other actors are moving to the fore, particularly international corporations and nongovernmental organizations (NGOs). New information and communications technologies are facilitating international networking, and innovative partnerships are being forged between NGOs, the business community, and international institutions.

Despite these hopeful developments, the world economy and the natural world are both in precarious states as we enter the new millennium, provoking fears that an era of global instability looms on the horizon. Over the course of the twentieth century, the global economy stretched the planet to its limits. The time is now ripe to build the international governance structures needed to ensure that the world economy of the twenty-first century meets

peoples’ aspirations for a better future without destroying the natural fabric that underpins life itself.²

Trading on Nature

International movements of goods, money, and people play a major role in today’s unprecedented biological losses. Yet the emerging rules of the global economy pay little heed to the importance of reversing the biological impoverishment of the planet. This mismatch between ecological imperatives and prevailing economic practice will need to be bridged if the world is to halt an unraveling of critical ecological systems in the early decades of this century.

The world’s forests are a particularly important reservoir of biological wealth. They harbor more than half of all species on Earth and provide a range of other important natural services, including flood control and climate regulation. But the planet’s forest cover is steadily shrinking. Nearly half of the forests that once covered Earth have already been lost, and almost 14 million hectares of tropical forest—an area almost three times the size of Costa Rica—are being sacrificed each year.³

The role of international trade in global deforestation has been a subject of controversy over the years. International timber trade is far from the only culprit in forest loss: the clearing of land for agriculture and grazing is also a major cause, as is fuelwood gathering in some regions and the felling of trees for commercial timber for domestic use. Yet the draw of international markets can be an inducement for countries to cut down trees far faster than would be required to meet domestic demand alone. Indonesia and Malaysia, for example, have both pushed plywood exports heavily in recent

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years, contributing in no small measure to rapid deforestation in both countries. Plywood exports from the two countries combined exploded from just 233,000 cubic meters in 1975 to 12 million cubic meters in 1998. These two countries now account for nearly 60 percent of world plywood exports, up from just 4 percent in 1975.⁴

The value of global trade in forest products has risen steadily over the last few decades, climbing from \$47 billion in 1970 to \$139 billion in 1998. (See Figure 10-1.) Recent years have seen particularly rapid growth in trade in more finished types of forest products such as plywood, pulp, and paper. (See Chapter 6.) Exports of industrial roundwood (raw logs), in contrast, have remained relatively constant. For all products other than logs, exports as a share of total world production increased significantly over this period—an important indication of the growing globalization of the industry.⁵

Mining and energy extraction also imperil the health of forests, as well as mountains, waters, and other sensitive ecosystems. Vast areas are often disturbed for the sake of a relatively small quantity of bounty. For every kilogram of gold pro-

duced in the United States, for example, some 3 million kilograms of waste rock are left behind. Prime extraction sites are often located in previously undisturbed forests or wilderness areas. According to the Washington-based World Resources Institute, mining, energy development, and associated activities represent the second biggest threat to frontier forests after logging, affecting nearly 40 percent of threatened forests. Besides disturbing valuable ecosystems, this activity also can be devastating for the indigenous peoples who inhabit them: current exploration targets suggest that an estimated 50 percent of the gold produced in the next 20 years will come from indigenous peoples' lands. Toxic byproducts of mining poison the rivers that local people drink from, and the mining operations themselves destroy the forests and fields that people rely on for sustenance.⁶

Industrial countries are large consumers of minerals, accounting for more than 90 percent of bauxite imports, nearly 100 percent of nickel imports, over 80 percent of zinc imports, and roughly 70 percent of copper, iron, lead, and manganese imports. But developing countries are home to much of the world's mineral production, along with the associated environmental damage. Collectively, developing countries account for 76 percent of all exports of bauxite and nickel ore, 67 percent of copper, 54 percent of tin, and 45 percent of iron ore.⁷

Even something as basic as our food supply is now deeply integrated into the global economy. The value of world agricultural trade skyrocketed in recent decades, more than doubling between 1972 and 1997 alone—from \$224 billion to \$457 billion. (See Figure 10-2.)

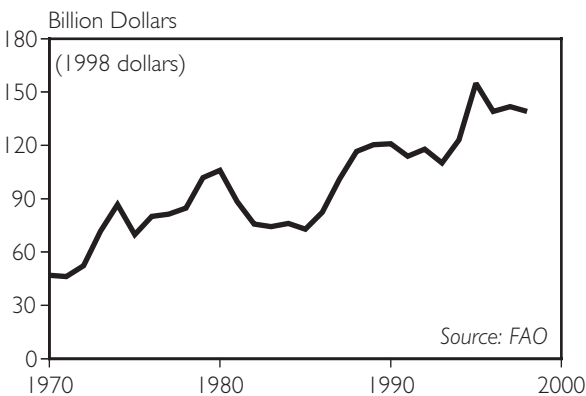


Figure 10-1. World Trade in Forest Products, 1970-98

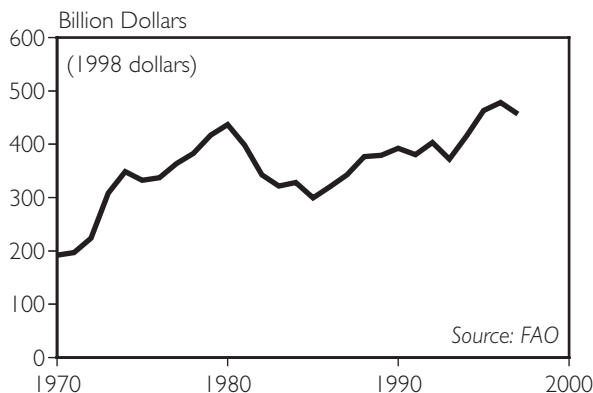


Figure 10-2. World Exports of Agricultural Products, 1970-97

Agriculture accounts for 11 percent of the value of all world exports. For some continents, this share is significantly higher—25 percent of Latin America's exports are agricultural, as are 18 percent of Africa's. Trade in basic food grains such as wheat, rice, and corn dominates international agricultural exports in volume terms. Nearly 240 million tons of grain were exported in 1998—some 13 percent of total world production. Global aggregates mask great variations in export and import dependence among countries and regions. Australia, for instance, exports 63 percent of its grain production, and Japan imports 75 percent of its consumption.⁸

The developing world is a net importer of basic foodstuffs such as grain and meat, but it is a major exporter of many cash crops, such as bananas, coffee, cotton, soybeans, sugarcane, and tobacco. As of 1997, developing countries accounted for 97 percent of cocoa exports, 92 percent of palm oil, 88 percent of coffee, and 86 percent of bananas. Although these crops are the mainstays of many national economies, heavy reliance on them can entail substantial social and environmental costs, including the displacement of subsistence farmers from their

land and the promotion of chemical-intensive agriculture. Recent decades have seen particularly rapid growth in so-called nontraditional exports—principally flowers, fruits, and vegetables. These crops tend to command far higher prices than those of traditional agricultural exports, which have been in decline in recent decades. But there are risks associated with these crops as well, one of the most serious of which is exposure to harmful levels of pesticides. A study of nearly 9,000 workers in Colombia's flower plantations indicated exposure to 127 different pesticides, some 20 percent of which are either banned or unregistered in the United Kingdom or the United States.⁹

The fishing industry is also increasingly linked into the global marketplace. Global fish exports have grown nearly fivefold in value since 1970, reaching \$52 billion in 1997. (See Figure 10-3.) By volume, nearly half of the fish caught today are traded, up from only 32 percent in 1970. But the steady expansion of the catch, as well as habitat destruction and pollution, are taking a heavy toll on the world's fish stocks: the U.N. Food and Agriculture Organization estimates that 11 of the world's 15 major fishing grounds and 70 percent of major fish species are either fully or overexploited.¹⁰

Industrial countries dominate global fish consumption, accounting for more than 80 percent of all imports by value. Developing countries, on the other hand, contribute nearly half of all exports. Their share of the total has climbed steadily in recent decades as fleets have turned south in search of fish in response to the overfishing of northern waters. In 1970, developing countries accounted for 37 percent of all fish exports, measured by value; by 1997, their share had

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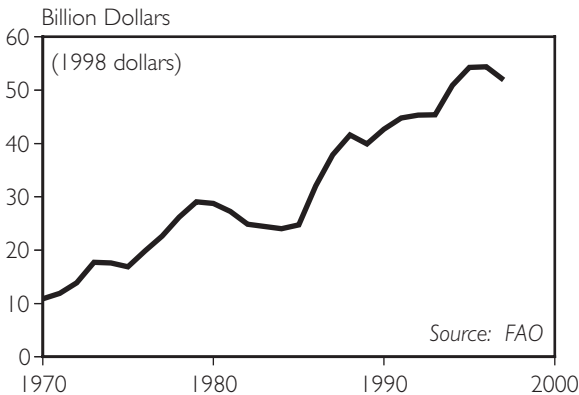


Figure 10-3. World Fish Exports, 1970-97

risen to 49 percent. Thailand, China, Chile, and Indonesia are all now among the world's top 10 fish exporters. Exports from these four countries have nearly quadrupled in value since 1980.¹¹

With many Third World fisheries now becoming depleted as well, overfishing for export markets means depriving small-scale fishers of their bounty. It also drives up the price of domestically available fish to the point where it is beyond the means of local people. In Senegal, for instance, species once commonly eaten throughout the country are now either exported or available only to the elite. This trend has serious implications for food security, as nearly 1 billion people worldwide, most of them in Asia, rely on fish as their primary source of protein.¹²

Trade in more exotic forms of wildlife is also a booming business, placing a number of commercially valuable species at growing risk of overexploitation and even extinction. Each year, some 40,000 monkeys and other primates are shipped across international borders, along with some 2-5 million live birds, 3 million live farmed turtles, 2-3 million other live reptiles, 10-15 million raw reptile skins, 500-600 million ornamental fish, 1,000-2,000 raw tons of corals, 7-8

million cacti, and 9-10 million orchids. The wildlife trade is valued at some \$10-20 billion annually, at least a quarter of which is thought to be illegal.¹³

The world community is just now beginning to awaken to a related though far more pervasive threat—the international spread of non-native “exotic” species, which is known as “bioinvasion.” For most of history, natural boundaries such as mountains, deserts, and ocean currents have served to isolate ecosystems and many of the species they contain. But over the centuries these natural barricades have gradually broken down as people and organisms have spread around the globe. This process has accelerated exponentially in recent decades, as trade and travel have skyrocketed. Once exotics establish a beachhead in a given ecosystem, they often proliferate, suppressing native species. Taken as a whole, invasive species now pose the second largest threat to the diversity of life on Earth, after habitat destruction.¹⁴

Besides endangering the health of ecosystems, the spread of microbes around the globe also threatens the health of people. Airplanes carry people to the other side of the world in far less time than the incubation period for many ailments, facilitating the unwitting introduction of foreign microbes into vulnerable populations. More than 30 new infectious diseases have emerged over the past 20 years, including AIDS, Ebola, Hantavirus, and hepatitis C and E. According to the World Health Organization, “environmental changes have contributed in one way or another to the appearance of most if not all” of these diseases. Land use changes such as deforestation or the conversion of grasslands to agriculture that alter long-established equi-

libria between microbes and their hosts are sometimes to blame. In other cases, changes in human behavior are the culprit, such as careless disposal of food and beverage containers or car tires, which can create new breeding sites for disease-carrying organisms such as mosquitoes.¹⁵

As world trade continues its steady upward climb, it is placing unprecedented strains on the health of the planet's ecosystems. But today's emerging global governance structures for the most part give short shrift to the urgent need to halt global environmental decline. The World Trade Organization is a case in point.

The WTO Meets the Environment

The WTO came into being in 1994 as an outgrowth of the "Uruguay Round" of global trade talks under the General Agreement on Tariffs and Trade (GATT). Although many people in the business community, government, and academia hailed its creation as an enlightened step toward a new era of global prosperity, critics charged that the new organization elevated corporate rights to a new plane while devastating local communities and the environment. The intervening years have done little to cool the passions on either sides of the debate.

In late November 1999, trade ministers from around the world gathered in Seattle to launch a millennium round of global trade talks. Thousands of NGO activists were also in Seattle, many of them protesting what they see as the WTO's environmental blindness. Critics particularly decry the secrecy that shrouds WTO activities. Many important documents are unavailable to the public, and most WTO committees, as well as all dispute resolution proceedings,

are conducted in closed sessions dominated by trade rather than environmental experts.¹⁶

The text of the agreement that created the WTO ran to an astounding 26,000 pages and covered a bewildering array of issues, including agriculture, intellectual property rights, investment, and services. The organization was charged with overseeing the implementation of the new rules of world trade, including settling any disputes among nations related to their terms. Member-countries granted the WTO unprecedented powers for an international body, including a binding dispute resolution mechanism and provisions for stiff trade penalties to enforce its rulings.¹⁷

In a concession to the concerns of environmentalists, the preamble to the WTO agreement includes environmental protection and sustainable development among the organization's goals. The accord also included a commitment to create a Committee on Trade and Environment charged with analyzing the relationship between trade liberalization and environmental protection and with recommending any changes to WTO rules that might be needed to make the two goals "mutually supportive." But more than five years later, the committee has produced much talk but no concrete action.¹⁸

Widespread public concern about the environmental impact of GATT dates back to September 1991, when a dispute resolution panel shocked U.S. environmentalists by ruling that an embargo against Mexican tuna imposed under the U.S. Marine Mammal Protection Act violated GATT. The United States had imposed the embargo after determining that Mexicans were fishing for tuna with purse-seine nets that often have the unintended effect of ensnaring dolphins as well. In concluding that the

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tuna embargo contravened GATT rules, the panelists emphasized a key though controversial distinction between import restrictions aimed at the characteristic of products themselves and those keyed to production processes. The panelists decreed that the U.S. law was illegal under GATT because the United States was rejecting the process by which the tuna was harvested rather than the tuna itself.¹⁹

Although GATT, and later the WTO, contains a specific provision that ostensibly protects the right of countries to pursue environmental protection policies that might otherwise contradict trade rules, the panelists ruled that this exception pertains only to efforts by countries to protect the environment within their own borders. Because the Mexican tuna fishing took place outside of U.S. waters, the panelists viewed the embargo as tantamount to the United States foisting its environmental laws and values on the rest of the world. This point of view resonated with many people, particularly in the developing world, who looked to the rule-based GATT as a check on the U.S. tendency to wield its economic power unilaterally.²⁰

But the decision exposed some glaring inconsistencies between the rules of the world trading system and emerging international environmental principles and practices. The trading system's aversion to process-related trade restrictions struck many people as particularly arbitrary, as environmental policy is moving increasingly toward focusing on the environmental impacts of products throughout their life-cycle—including production, distribution, use, and disposal. Products such as gold or timber may be harmless or beneficial as products, but enormously costly to human or environmental health in the ways they are processed. Reform of extraction and

manufacturing processes is essential to making real environmental advances, yet trade rules put up a sizable hurdle to pursuing such efforts in a world economy that is becoming steadily more integrated.²¹

Also worrisome was the ruling's failure to acknowledge the right of countries to take action to protect the atmosphere, the oceans, and other parts of the global commons—a failure that raised questions about the legality under GATT of an array of other environmental policies besides the one aimed at protecting dolphins. What would become of policies aimed at reducing the use of harmful drift nets in fishing, protecting primary forests, or staving off ozone depletion or global warming? By the panel's reasoning, it seemed that even provisions of international environmental agreements designed to protect global resources could be ruled GATT-illegal. This clash between two different spheres of international law presented the world with a major legal challenge, as it is not always clear which agreement trumps the other in cases where two treaties are in conflict.²²

Despite the furor over the tuna-dolphin decision, the WTO struck against another law in 1998, ruling against a U.S. measure aimed at reducing unintended sea turtle mortality as a byproduct of shrimp trawling. Sea turtles are both extremely endangered and highly mobile, making international action to protect them a high priority. The provisions of the U.S. law in question closed the lucrative U.S. shrimp market to countries that do not require their shrimpers to use turtle excluder devices (TEDs), simple but highly effective pieces of equipment that prevent turtles from getting ensnared in shrimp nets, or that do not have comparable policies in place. Spurred by the threat of U.S. trade restrictions, 16 nations, including 13 in Latin America plus

Indonesia, Nigeria, and Thailand, have by now moved to require the use of TEDs. India, Malaysia, and Pakistan chose a different tack, however, deciding to launch a WTO challenge rather than meeting the U.S. requirement. (Thailand joined them in this effort as a matter of principle, even though it had adopted TEDs.)²³

Although the environmental effectiveness of the U.S. law was clear, both the initial WTO dispute resolution panel and a subsequent appeals panel concluded in 1998 that the measure violated WTO rules. The legal reasoning of the appeals panel was an improvement over earlier rulings, as it acknowledged that countries may in some circumstances be justified in using trade measures to protect global resources. But the panel nonetheless took issue with the way in which the U.S. law had been implemented, arguing that it was applied in an arbitrary manner that failed to treat countries evenhandedly. The bottom line was that the U.S. law would have to be changed in order to comply with WTO rules. This outcome was particularly alarming for environmentalists, as the Uruguay Round had strengthened the rules of dispute resolution proceedings to make rulings binding, and to provide for tougher trade retaliation in cases where countries are unwilling to change offending laws in order to adhere to panel findings.²⁴

In response to the ruling, the U.S. government altered the way it was implementing the law without seeking any changes to the statute itself. The new guidelines provide for the import of specific shipments of shrimp that have been approved as turtle-safe even if the country as a whole has not met the certification requirements. It remains to be seen whether this response will satisfy the WTO, thus precluding the imposition of trade sanctions against the United States.²⁵

In any case, many U.S. environmentalists are unhappy with the government's response. Their primary concern is that the shipment-by-shipment method will be less effective in safeguarding turtles than the earlier blanket restriction, as it will not compel countries to mandate the use of TEDs when fishing for shrimp not destined for the U.S. market. A turtle might thus survive an encounter with a TED-equipped boat only to later fall prey to a TED-free vessel. Environmentalists also worry that the new policy may facilitate the entry of "laundered" shrimp into the United States. Several environmental groups filed suit against the government at the U.S. Court of International Trade, charging that the revised guidelines were inconsistent with provisions of the Endangered Species Act that stipulate adequate protection for sea turtles. In a preliminary ruling in April 1999, the court sided with the environmental groups, placing national law and international trade rules on a possible collision course.²⁶

The clash between two different spheres of international law presents the world with a major legal challenge.

Besides mandating strengthened enforcement, the package that created the WTO also included an Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures that imposes new restrictions on laws designed to protect human, animal, and plant health. Trade specialists had argued that legislators were passing disingenuous laws that lacked a scientific rationale, with the primary goal of keeping foreign products off of their shelves. Although the ostensible reason for the SPS agreement was to prevent countries from

using health and safety standards as disguised trade barriers, the worry is that legitimate laws will also run afoul of its rules.²⁷

The European Union argues that this is what is happening in its ongoing dispute with the United States over an EU law that forbids the sale of meat produced using growth hormones. The European Community and the United States have been locking horns over the EU's beef-hormone ban for several years now. Since it went into effect in the late 1980s, the law has always applied equally to domestically raised and imported livestock, and has thus passed the WTO's bedrock test of nondiscrimination. The EU insists the ban is not an intentional trade barrier at all, but only a prudent response to public concern that eating hormone-treated beef might cause cancer and reproductive health problems. But the hormone-hooked U.S. livestock industry was threatened by the law, which blocks hundreds of millions of dollars worth of U.S. beef exports, and it prevailed upon the U.S. government to take up its cause at the WTO.²⁸

This effort culminated in February 1998 when a WTO appeals panel ruling upheld an earlier dispute panel ruling that the European law violated WTO rules. In July 1999, the U.S. government imposed WTO-approved retaliatory sanctions on the EU for its refusal to accept U.S. hormone-treated beef, slapping 100-percent tariffs on \$116.8 million worth of European imports, including fruit juices, mustard, pork, truffles, and Roquefort cheese. The U.S. sanctions were greeted with widespread consternation in Europe, particularly in France, where a number of McDonald's restaurants were targeted for protests. So far, the EU has refused to back down.²⁹

The panelists' primary argument against the EU law was that it was based on inadequate risk assessment. They explicitly reject-

ed the EU's defense that the import restriction was justified by the precautionary principle—a basic tenet of international environmental law that is steadily gaining ground. The Rio Declaration on Environment and Development, for example, which was agreed to at the June 1992 Earth Summit, declares that: "Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation."³⁰

The WTO's provisions, on the other hand, require that health and safety laws be based on scientific principles and not be maintained with insufficient scientific evidence. Although on the face of it these requirements sound reasonable enough, in practice countries often disagree about how much evidence is "sufficient" to justify preventative measures. The WTO shifts the burden of proof to in effect require that chemicals and other food additives be proved harmful before their use can be restricted. The problem with this approach is that extensive testing, sometimes over a period of years, is required to know if a substance has long-term cumulative effects that might cause cancer, damage to the immune system, or other serious ailments.³¹

The beef hormone dispute is widely viewed as just a warm-up for a more serious trade controversy now brewing over genetically modified organisms. Once again, the European Union and the United States are the primary antagonists. Prompted by public concern over the health and ecological effects of GMOs, the EU passed legislation in 1998 requiring all food products containing genetically modified soybeans or corn to be labeled as such. Several other countries, including Australia, Brazil, Japan, and South Korea, are now following suit. A large share of food products made

by U.S. companies—breads, salad oils, and ice cream, among them—now contain GMOs. Many European producers, in contrast, are steering clear of GMOs in the face of public concern. U.S. companies complain that the labeling requirements amount to trade barriers, and the U.S. and Canadian governments are now making this same point at the WTO and in other international forums.³²

In February 1999, a proposed biosafety protocol to the U.N. Convention on Biological Diversity became the first major victim of the growing international trade war over GMOs. Negotiations under way for a few years had been aimed at putting in place a system of prior consent for the transport of genetically engineered seeds and products. The talks were scheduled to wrap up in Cartagena, Colombia, in February, but six major agricultural exporters—Argentina, Australia, Canada, Chile, the United States, and Uruguay—put a monkey wrench into these plans by blocking adoption of the accord. One of the main U.S. arguments against the protocol was a claim that its provisions ran counter to the rules of the WTO. As of November 1999, negotiators were still hoping to bridge the differences.³³

The environmental impact of freeing trade in forest products is another controversial issue looming on the trade horizon. Under a proposed agreement now under consideration, most industrial countries would eliminate tariffs on pulp and paper by 2000, and on wood and other forest products such as furniture by 2002. Developing countries would be given an additional two years to meet these terms. The precise effects of these steps are difficult to predict, but studies suggest that the higher prices paid to producers as a result of tariff reductions will boost production significantly in some countries. A recent U.S.

government report concluded that the agreement would likely increase production by nearly 3 percent in Malaysia and over 4 percent in Indonesia, although the report also forecasts production declines in some countries, including Mexico and Russia. With so little of today's timber industry based on sustainable practices, production increases often translate into increased forest destruction.³⁴

The beef hormone dispute is just a warm-up for a serious trade controversy over genetically modified organisms.

Although the proposed accord would initially take aim at tariffs alone, its scope might well be expanded in the future to include nontariff barriers to trade. Over the longer term, these provisions might pose a greater threat to the health of the world's forests, and to the diversity of species that inhabit them. What looks to one country or company to be a "nontariff barrier to trade" is often viewed elsewhere as a legitimate environmental law. Even under existing agreements, concern is rising that measures designed to minimize the introduction of harmful exotic species will run afoul of WTO rules. Forest certification initiatives, aimed at creating a market for sustainably harvested timber, could also run head-on into WTO rules in the years ahead. (See also Chapter 6.)³⁵

As opposition to the WTO continues to mount, many governments are beginning to acknowledge, rhetorically at least, that reforms are needed to make the world trading system environmentally sound. One idea gaining support is to enlist the WTO in an effort to reduce environmentally harmful subsidies. World trade rules have long

discouraged subsidies, as they distort the economic playing field. The United States and six other nations have suggested building on this tradition by making the elimination of fishing subsidies an objective for the upcoming round of trade talks. These subsidies, which add up to some \$14–20 billion annually, help propel overcapacity in the world's fishing fleet, which is itself a powerful driving force behind today's depleted fisheries. Other environmentally harmful payouts could also be tackled at the WTO, including multibillion-dollar agricultural, energy, and forestry subsidies.³⁶

Taking on environmentally harmful subsidies would be an important step forward, but it does not let governments off the hook for amending existing WTO rules to buffer environmental laws from trade challenges. Among the priorities for reform are clearly incorporating the precautionary principle into WTO rules, protecting consumers' right to know about the health and environmental impact of products they purchase by safeguarding labeling programs, recognizing the legitimacy of distinguishing among products based on how they were produced, providing deference to multinational environmental agreements in cases where they conflict with WTO rules, ensuring the right of countries to use trade measures to protect the global commons, and opening the WTO to meaningful public participation. These changes are imperative if the WTO is to gain the public support it needs to stay in business.³⁷

Greening the International Financial Architecture

During the 1990s, money became increasingly mobile in response to a range of factors, including the takeoff in computerized

trading as well as the deregulation of international capital markets. International investment surged in response, particularly into the newly established stock markets of the developing world.³⁸

Private capital inflows into developing countries and into the former Eastern bloc increased from only \$53 billion at the beginning of the 1990s to an all-time high of \$302 billion in 1997. (See Figure 10–4.) Large parts of Asia and Latin America were suddenly transformed in the minds of international investors from poor, “developing countries” into glistening “emerging markets.” At the same time, new financial instruments such as hedge funds and derivatives created an explosion of foreign exchange trading, with an astounding \$1.5 trillion now changing hands every day.³⁹

But in 1997 the bubble burst. Thailand was the first economic domino to fall, when it was forced to devalue the country's currency sharply after it came under sustained speculative attack. The crisis soon spread to Indonesia, Malaysia, the Philippines, and South Korea. International investors lost their nerve and raced for the exits. Some \$22 billion in 1997 and \$30 billion in 1998 flowed out of the Asian countries in crisis. Banks failed and stock markets collapsed, sending the economies of the region into a tailspin. And the crisis did not stop at the continent's edge. Shaken by the Asian experience, investors began to pull money out of emerging markets everywhere. Russia's currency and stock market went into a free fall in late August 1998, forcing the country to default on \$40 billion in international loans. Brazil appeared to be the next domino waiting to fall, prompting the International Monetary Fund to step in with a \$42-billion bailout plan.⁴⁰

The social and environmental fallout from the crisis was severe. In battered Asia,

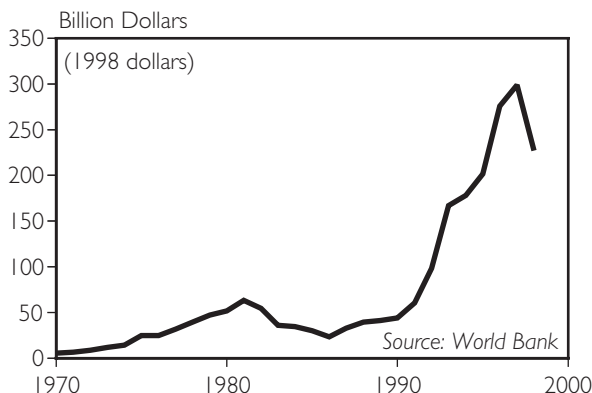


Figure 10-4. Private Capital Flows to Developing Countries, 1970-98

tens of millions of people fell into poverty as jobs were slashed, and as many as a million children were pulled out of school, with some of them pushed into prostitution by their desperate families. Growing poverty tied to the crisis also had environmental costs, such as a surge in Indonesia in the poaching of endangered monkeys, tigers, and other species as destitute people sought quick cash. And environmental spending was slashed to the bare bones by governments and businesses in crisis countries in order to stave off bankruptcy.⁴¹

The global economic crisis now appears to be in at least temporary remission. International capital has begun to return to most of the countries affected by the crisis, and economic growth rates are again headed upwards, although poverty rates have yet to respond. But many commentators warn against a false sense of complacency. They predict that the next jolt is not far off, as the globalization of international finance has outpaced the ability of governments and international institutions to manage the system effectively.⁴²

If there was a silver lining to the crisis, it was the wake-up call it provided about the risks of rapid globalization, and the subse-

quent launching of a critical international dialogue about how to reform the international financial architecture to meet the demands of the twenty-first century. As Professor Dani Rodrik of Harvard University puts it: “markets are sustainable only insofar as they are embedded in social and political institutions. . . . It is trite but true to say that none of these institutions exists at the global level.” As the process of devising international policies for a globalizing world proceeds, the need to protect the natural resource base that

underpins the global economy merits a prominent place on the agenda.⁴³

The logical place to begin any discussion of a new financial architecture is with existing structures, principally the International Monetary Fund and the World Bank. The IMF came under particularly close scrutiny in the wake of the economic crisis. The Fund’s high-profile role as a conduit for multibillion-dollar bailout packages for the crisis-stricken countries was a clear demonstration of the organization’s formidable powers. But it also stirred controversy, as prominent economists took issue with the wisdom of the institution’s financial advice and the secrecy in which its operations are shrouded.⁴⁴

Although the World Bank maintained a lower profile during the crisis, it has also been active in channeling funds into the crisis-ridden countries, often in close cooperation with the IMF. Over the last few years, the Bank has substantially boosted both its total lending and the share of its funds that are spent on cash infusions for “structural adjustment.” Total Bank lending reached \$29 billion in 1999, up from just \$19 billion two years earlier. And more than half of the Bank’s total lending in 1999 was for

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structural adjustment, compared with only 27 percent in 1997. Under conventional “structural adjustment” loans as well as the crisis-generated bailout packages, countries receiving funds agree to implement a long and specific list of policy changes intended to restore them to economic health and thus to creditworthiness. Privatization, price and exchange rate stability, and trade liberalization are among the policies commonly recommended.⁴⁵

But the World Bank and the IMF pay insufficient heed to the profound effects of these policies on the ecological health and the social fabric of recipient countries. One important component of most adjustment loans is policies aimed at boosting exports in order to generate foreign exchange with which to pay back debts. Yet the pressure to export can lead countries to liquidate natural assets such as fisheries and forests, thereby undermining longer-term economic prospects. Intensive export-oriented agriculture is also often promoted, sometimes at the expense of small-scale farmers and indigenous peoples. At the same time that structural adjustment loans promote exports of environmentally sensitive commodities, they also often require countries to make Draconian cuts in government spending, causing the budgets of already overburdened environment and natural resource management ministries to plummet.⁴⁶

All these effects are evident in the recent bailout packages. In Indonesia, the IMF encouraged more palm oil production as part of its broader strategy for pulling the country out of its economic crisis, mandating that the country remove restrictions on foreign investment in this sector. Yet rapid growth in palm oil exports has been a major contributor to the decimation of Indonesia’s biologically rich tropical forests in recent years, raising profound questions

about the wisdom of pushing such exports further still. Exports of palm oil climbed from 1.4 million to nearly 3 million tons between 1991 and 1997. The devastating Indonesia wildfires of recent years were sparked in part by fires deliberately set to clear land for oil palm and pulpwood plantations.⁴⁷

Environmental spending has declined markedly in the crisis-ridden countries, including Indonesia, the Philippines, South Korea, and Thailand. In Russia, the budget for protected areas was recently cut by 40 percent. And Brazil agreed as part of a recent pact with the IMF to cut its environmental spending by two thirds. A key international program aimed at protecting the Amazonian rainforest from destruction by ranchers, loggers, farmers, and miners is one of the programs to face the chopping block. The timing of these cuts was particularly poor in light of the unusually high rates of deforestation in the Brazilian Amazon over the last few years.⁴⁸

Although structural adjustment programs often lead to environmental harm, they have also been used in a few cases to promote environmentally beneficial policy changes. In 1996 and 1997, the IMF suspended loans to Cambodia after government officials awarded logging concessions to foreign firms that threatened to open up the country’s entire remaining forest area to exploitation—while funneling tens of millions of dollars into the bank accounts of the corrupt officials. And despite its worrisome provisions for stepped-up natural resource exports, the recent Indonesian bailout plan also included several provisions intended to benefit forest management in the country.⁴⁹

As part of an assault on the country’s tradition of “crony capitalism,” the Indonesian bailout plan required a number of

reforms to the country's corruption-laden forestry sector, including tighter control over a government reforestation fund, the revenues of which had more often been used to line the pockets of President Suharto's political allies than to plant trees. The bailout package also included several measures aimed specifically at protecting forests, such as reducing land conversion targets to environmentally sustainable levels, instituting an auctioning system for handing out concessions, and imposing new "resource rent" taxes on timber sales. Although these reforms were a step in the right direction, their ultimate effect on deforestation rates in the country remains to be seen.⁵⁰

Besides using their influence to discourage unsustainable levels of natural resource exploitation, the IMF and the World Bank are well placed to promote environmentally beneficial fiscal reforms, such as cuts in environmentally harmful subsidies or the imposition of pollution taxes. They could both also help promote improvements in environmental accounting, such as incorporating the depletion of natural resources into national income figures. As things now stand, the destruction of natural assets such as forests, fisheries, and minerals is not typically included in national income figures, which means that policymakers are working from an incomplete set of books. And the IMF could include environmental issues in its mandate to conduct "surveillance" of the economic prospects of its member countries, in part by tracking environmental spending levels and structural adjustment-mandated legislative changes that affect the environment.⁵¹

Despite the clear links between economic and environmental health, the IMF has long resisted the idea that environmental issues have much to do with its mission.

When the organization was first created, its primary role was to help to tide countries over when they faced short-term liquidity problems rather than to help them meet longer-term development goals. But the abandonment of fixed exchange rates in the 1970s deprived the IMF of much of its original mandate. Since then it has become increasingly involved with issues of longer-term development, such as its prominent role in brokering debt restructuring deals in the 1980s. The Fund now accepts that issues such as fighting corruption and alleviating poverty intersect with its mission. It is difficult to see why environmental protection should be any different.⁵²

The IMF has long resisted the idea that environmental issues have much to do with its mission.

On paper, the development-oriented World Bank has been far more open than the IMF to the idea that environmental concerns should be integrated into its structural adjustment lending. The Bank's policy that governs adjustment lending stipulates that the environmental impact of these loans should be fully considered as they are prepared, with a view toward promoting possible synergies and avoiding environmentally harmful results. But an internal review of more than 50 recent loans found few that paid much heed to environmental and social matters. Whereas a 1993 Bank report found that some 60 percent of adjustment loans included environmental goals, the recent study concluded that this share has now plummeted to less than 20 percent. An added problem is the fact that the Bank's policy on environmental impact assessment does not cover broad-based structural adjustment lending,

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although it is supposed to be applicable to adjustment loans aimed at specific sectors, such as agriculture or energy. IMF loans are also not subject to environmental impact assessment.⁵³

Despite the World Bank's growing role in adjustment lending, project lending remains a mainstay of its activities. The Bank has traditionally made loans only to governments, but in the last few years it has increasingly emphasized supporting the private sector. It has done this both by using its own funds to guarantee private-sector projects and by stepping up the operations of two affiliated agencies, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IFC lends directly to private enterprises, while MIGA insures against political risks, such as expropriation, civil disturbance, and breach of contract. At last count, in 1995, the World Bank estimated that some 10 percent of all private-sector investment in the developing world was supported at least indirectly by its various private-sector programs.⁵⁴

After more than a decade of pressure from NGOs and determined efforts by committed insiders, the World Bank now has an extensive set of environmental and social policies, which among other things cover environmental impact assessments of projects, forestry lending, involuntary resettlement, protection of wilderness areas, the rights of indigenous peoples, and pest management. The IFC and MIGA both recently issued their own parallel policies, and the World Bank published an updated Pollution Prevention and Abatement Handbook, which provides detailed pollution reduction guidelines for nearly 40 industries. In theory, Bank agencies are bound by their own policies, although the Bank admits that it has a tarnished history

in following its own rules. The importance of the World Bank's standards is magnified by the fact that they are often looked to by private investors as the prevailing international norm.⁵⁵

As World Bank environmental and social standards were strengthened over the last decade, private investors turned increasingly to bilateral export credit agencies to find support for projects that no longer pass muster at the Bank. Export credit support climbed from \$24 billion in 1988 to \$105 billion in 1996. All told, bilateral export promotion in the form of loans and investment insurance now underwrites more than 10 percent of all world trade. Bilateral export promotion often supports environmentally disruptive projects, including mines, pipelines, and hydroelectric dams.⁵⁶

The U.S. government has had environmental policies in place for several years at its main export promotion agencies, the U.S. Overseas Private Investment Corporation and the U.S. Export-Import Bank. But in a global economy, tough national standards can easily be undermined by laggards abroad. The United States learned this lesson the hard way a few years back when its Export-Import Bank refused on environmental grounds to extend credits to companies such as the heavy equipment manufacturer Caterpillar that wanted to participate in China's controversial Three Gorges dam project. The Bank's counterparts in Canada, France, Germany, Japan, and Switzerland stepped into the breach. Stung by the experience, the United States is working to persuade other donor countries to develop environmental guidelines for their export finance agencies. Several countries are now in the process of developing such standards, including Canada, Japan, Norway, and the United Kingdom. Negotiations are also under way to create common

environmental standards for the export finance agencies of the major industrial countries. Nongovernmental activists are pushing for these to be set at a high level.⁵⁷

But even if this initiative succeeds, private capital markets can still be tapped for environmentally problematic projects. In the Three Gorges case, a number of prominent investment banks—including Lehman Brothers, Morgan Stanley, and Smith Barney—have sponsored bond offerings over the last few years to help the Chinese government raise funds for the dam. Although convincing private financiers to pay attention to the environment is substantially more difficult than lobbying public institutions such as the World Bank and export credit agencies, several efforts are afoot to encourage a heightened environmental consciousness on the Wall Streets of the world.⁵⁸

A U.N. Environment Programme (UNEP) initiative launched in 1992 encourages commercial banks to incorporate environmental considerations into their lending programs. So far, 162 banks from 43 countries have signed onto the initiative's Statement by Banks on the Environment and Sustainable Development. The signatories underscore their expectation that borrowers must comply with "all applicable local, national, and international environmental regulations." They also pledge to update their accounting procedures to reflect environmental risks, such as the potential for chemical accidents or hidden hazardous waste dumps, and to develop banking products and services that promote environmental protection. Although laudable in its goals, the UNEP statement is short on specific commitments. In fact, several signatories were involved with the recent Chinese bond offerings that activists charge are helping to finance the Three Gorges project. In

order to minimize gaps between rhetoric and reality, the U.K.-based Green Alliance suggests strengthening the initiative by transforming the statement into a document whose expected standards of performance are clear enough to be subjected to the scrutiny of an audit.⁵⁹

In a global economy, tough national standards can easily be undermined by laggards abroad.

Environmental liabilities could also be better incorporated into the way stock markets are regulated. Companies operating in the United States are required to disclose large environmental risks on the forms they file with the Securities and Exchange Commission. But the information varies widely in quality, with many companies submitting no data at all. Developing countries are particularly well placed to write environmental rules into the regulations governing newly established stock markets. Thailand, for one, requires companies listed on the Stock Exchange of Thailand to undergo an environmental audit that includes an environmental impact assessment as well as a site visit.⁶⁰

If financial markets are to reflect environmental risks adequately, transparent information about corporate environmental performance is essential. The last several years have seen an explosion of interest in environmental reporting, but existing efforts have been poorly coordinated, leading to a proliferation of "non-standardized information reported in non-uniform formats," according to the Boston-based Coalition for Environmentally Responsible Economies (CERES). In an effort to address this deficiency, CERES has launched a Global Reporting Initiative in

which corporations, NGOs, professional accounting firms, and UNEP are working together to produce a global set of guidelines for corporate sustainability reporting. The goal of the initiative is to elevate environmental reporting to the same plane as financial reporting, making it standard business practice worldwide.⁶¹

Innovations in Global Environmental Governance

The new rules of the global economy are for the most part being set by institutions such as the World Trade Organization and the International Monetary Fund, where the mindset of traditional economists prevails and where the “rules” are generally aimed at unshackling global commerce rather than harnessing it for the common good. But forging an environmentally sustainable society is about more than economics, and farsighted economics is about more than reducing restrictions on the movement of goods and money. Creating a global society fit for the twenty-first century will thus require not only reform of economic institutions, but also a strengthening of international environmental institutions so that they can act as an ecological counterweight to today’s growing economic powerhouses.⁶²

A good place to start is with the hundreds of agreements, declarations, action plans, and international treaties on the environment that now exist. Environmental treaties alone number more than 230; agreement on more than three fourths of them has been reached since the first U.N. conference on the environment was held in Stockholm in 1972. (See Figure 10–5.) These accords cover atmospheric pollution, ocean despoliation, endangered species protection, haz-

ardous waste trade, and the preservation of Antarctica, among other issues.⁶³

Judging from the number of treaties, environmental diplomacy over the past few decades appears to have been a spectacular success. And many of these accords have in fact led to important results, such as the facts that chlorofluorocarbon emissions dropped 87 percent from their peak in 1988 as a result of the 1987 Montreal Protocol on ozone depletion, the killing of elephants plummeted in Africa following a 1990 ban on commercial trade in ivory, the annual whale take declined from more than 66,000 in 1961 to some 1,100 today as a result of agreements forged by the International Whaling Commission, the volume of oil spilled into the ocean has declined by 60 percent since 1981 even with a near doubling in oil shipments in response to International Maritime Organization regulations, and mining exploration and development have been forbidden in Antarctica for 50 years under a 1991 accord.⁶⁴

Yet even as the number of treaties climbs, the condition of the biosphere continues to deteriorate. Carbon dioxide levels in the atmosphere have reached record highs, scientists are warning that we are in the midst of a period of mass extinction of species, the world’s major fisheries are depleted, and water shortages loom worldwide. The notoriously slow pace of international diplomacy needs to be reconciled with the growing urgency of protecting the planet’s life-support systems.

The main reason that environmental treaties have so far mostly failed to turn around today’s alarming environmental trends is because the governments that created them have generally permitted only vague commitments and lax enforcement. Governments have also for the most part failed to provide sufficient funds to imple-

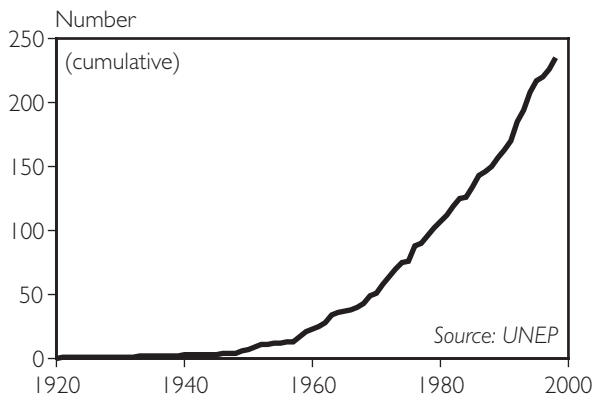


Figure 10-5. International Environmental Treaties, 1921-98

ment treaties, particularly in the developing world. Ironically, environmentalists need to take a page from the WTO and push for international environmental commitments that are as specific and as enforceable as trade accords have become.

One idea now gaining political currency is to upgrade the U.N. Environment Programme into a World Environment Organization (WEO) on a par with the WTO. Although UNEP has had some important successes since it was founded in 1972, it has suffered from meager resources and a limited mandate. Upgrading the status of environmental issues within the U.N. system is long overdue. Still, it is important that debates over form not distract from the ultimately far more important questions of function. A world environment organization could usefully serve as an umbrella organization for the current scattered collection of treaty bodies, just as domestic environment agencies oversee the implementation of national environmental laws. But in order to do so effectively, the treaties themselves would need to stipulate strong enforcement capacities, and the WEO would need to be endowed with sufficient financial resources to catalyze innovative

programs.⁶⁵

Tomorrow's international environmental institutions may turn out to be vastly different in character than the bureaucratic bodies that predominate in many quarters today. A nascent system of international environmental governance is now emerging from diverse quarters, proving that governance is no longer just for governments.⁶⁶

In recent years, the private sector has itself become increasingly and often controversially enmeshed in the standard-setting business. One prominent example is the voluntary environmental management guidelines forged by the Geneva-based International Organization for Standardization, a worldwide federation of national standards-setting bodies. Although these guidelines should not to be confused with actual environmental performance standards, they are nonetheless a useful tool. But the credibility of the process has suffered from the fact that it is widely perceived to be industry-dominated.⁶⁷

Another type of international standard setting is embodied in the numerous ecolabeling initiatives now beginning to take hold. One strength of these efforts is the diverse range of stakeholders they bring to the table. The organic agriculture community was an early pioneer. As far back as the early 1970s, it came together through the International Federation of Organic Agriculture Movements to stipulate conditions that farmers must meet in order to claim organic credentials. More recently, the Forest Stewardship Council was founded in 1993 to set standards for sustainable forest production through a cooperative process involving timber traders and retailers as well as environmental organizations and forest dwellers. And a Marine Stewardship Coun-

cil has now been formed to devise criteria for sustainable fish harvesting.⁶⁸

A particularly encouraging development of recent years has been the steady growth of the international nongovernmental movement. Environmental activists are flourishing at the national and grassroots level in most corners of the globe. Growth has been particularly rapid in the developing world and in Eastern Europe, where democratization over the last decade has opened up political space for NGOs. The number of NGOs working across international borders has also soared over this century, climbing from just 176 in 1909 to more than 23,000 in 1998. Environmental groups have risen steadily as a share of the total, climbing by one count from just 2 percent of transnational social change NGOs in 1953 to 14 percent in 1993.⁶⁹

Empowered by e-mail and the Internet, environmental activists have gradually organized themselves into a range of powerful international networks. To name but a few, the Climate Action Network links more than 250 international groups and national organizations active on climate change; the Pesticide Action Network includes at least 500 consumer, environment, health, labor, agriculture, and public interest groups worldwide; the World Forum of Fish Workers & Fish Harvesters brings together people from small-scale fishing communities on six continents; the International POPs Elimination Network coordinates hundreds of NGOs worldwide in their push for an effective treaty to limit persistent organic

pollutants; and the Women's Environment and Development Organization links activists from around the world who are committed to increasing female participation in decisionmaking at the United Nations and in other international forums where issues of concern such as population stabilization are discussed.⁷⁰

Among their many accomplishments, NGOs have educated millions of people about environmental issues, and then effectively harnessed the power of a knowledgeable citizenry to pierce the veil of secrecy that all too often surrounds both international negotiations and corporate decision-making. Recent NGO successes include exposing the environmental deficiencies of a proposed Multilateral Agreement on Investment and thereby bringing it to a halt, and slowing the introduction of genetically modified organisms worldwide until their effects on both human and ecological health are better understood.⁷¹

Thirty years ago, photographs of Earth taken from space by the Apollo expeditions indelibly impressed on all who saw them that our planet, while divided by political boundaries, is united by ecological systems. These photos helped inspire the first Earth Day, which in turn motivated numerous countries to pass environmental laws and create environmental ministries. This year, the world will celebrate Earth Day 2000. The time has come for a comparable groundswell in support of the international governance reforms that are needed to safeguard the health of the planet in the new millennium.

Notes

Chapter 10. Coping with Ecological Globalization

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