

“An analysis of how trade could benefit or deteriorate environment and their possible implication on related business today”

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I. Introduction

This essay examines the possible positive and negative impacts that businesses could have on the environment. It looks at the harmful effects of trade mainly driven by profit motive without concern for the environment and ecological integrity. Using the framework of sustainable development, the paper argues that while international trade stimulated by globalization has increased considerably in the last two decades, such economic growth has, unfortunately, engendered environmental and social problems. While trade expansion creates certain opportunities, what we have witnessed in this period is economic growth without sustainable development. The relationship between the economic, social and environmental spheres of sustainable development where given little or no attention. Trade thus became a driver of resource depletion, creating wasteful consumerism, increasing ecological footprint and contributing to climate change.

The good news is that in the last few years there have been numerous international campaigns, policy interventions and legislation attempts to regulate trade and businesses in order to reduce their negative impact on the environment. Despite the resistance to change some businesses are slowly embracing environmental sustainability. In the final analysis, the paper ends on a hopeful note that gradually more businesses would make the shift towards sustainability as they realize the added-value it will bring to economic venture and to society.

II. Trade and Environment

The Oxford advanced learner's dictionary defines Trade "as the activity of buying and selling or of goods and services between people or countries" The common ground to which these exchanges is made is called the market the market.

The recent expansion of the world trade has opened the issues of relationship between trade and the environment, and also raised issues like, is trade good or bad to the environment? The answer is not clear. Since the 1990s world trade has expanded and global economy has grown at a very fast rate, spurred by the conclusion of the Uruguay Round-Table on trade negotiation and the setting up of the World Trade Organization (WTO) in 1995. The other aspect was the process of globalization which included the growth and extended reach of transnational companies and increased international interaction between organization and Civil Society Organization, The United Nations Conference on Environment and Development (UNCED) in 1992 in Rio de Janeiro, Brazil. They discussed solutions to global problems like how to relieve the global environmental system through the introduction of the paradigm of sustainable development. It emphasizes that economic and social progress depends critically on the preservation of the natural resource base with effective measures to prevent environmental degradation and conclusion of agreements that can further address some of the serious global problem.

According to Paul Ekins, the relationship between trade and environment can be summarized in the disagreement between those who think trade liberalization could be good for the environment and those who fear that trade liberalization will have a negative impact on the environment. The points made in supporting of the following views included:

1.1 Advantages of Trade to the Environment

- ❖ Trade liberalization promotes economic growth. The richer the society, the more they acquire both the will and the resources to protect their immediate environment.
- ❖ Trade liberalization promotes the efficient use of resources (including environmental resources) allowing the production of a given economic product with the latest possible use of resources.
- ❖ Trade liberalization promotes the international transfer of environmentally preferable technologies.
- ❖ Trade liberalization promotes the convergence of environmental standards for products and processes toward the higher level of rich countries and increases the markets for environmentally preferable products.
- ❖ Promotes international co-operation in other areas. e.g. environmental protection.

1.2 Disadvantages of Trade to the Environment

- ❖ Trade liberalization amplifies environmental externalities through its promotion of economic growth.
- ❖ Trade often involves long-distance transportation which is one of the principal sources of environmental externalities (generating greenhouse gas).
- ❖ Because of competitive pressures, trade liberalization will result (at best) in political drag on environmental 'race to the bottom' through competitive deregulation.
- ❖ Trade rules arising from trade liberalization impede national government in their attempts at environmental protection, either because of possible trade effect (e.g. through the use of containers) or due to perceived discrimination (e.g. eco-labeling).
- ❖ Trade rules may inhibit the use of trade measures in multicultural environmental agreements.
- ❖ The production of some highly-traded goods (e.g. cotton, cigarettes, and certain food) is more environmentally destructive than production for domestic consumption which it replaces.
- ❖ Opportunities to use land for trade results in subsistence farmers displaced onto environmental land where they cause environmental damage

Many economists have suggested that trade liberalization can be of a good benefit and can even promote efficiency and create wealth amongst nations practicing international trade but another question is what if trade liberalization is causing environmental damage?

This makes it impossible to discuss trade-environment relationship without addressing the social issue of North-South development co-operation. In as much as this issue is not properly addressed, progress will not be made and the situation will become even more complicated because according to Jonathan M. Harris, At the national level, the standard economic policy response to environmental impacts is just to implement the policies that is within the externalities while at the international level, it is not very clear. The responsibility of environmental externalities that is related to trade is solely on the importers, exporters, or by others not directly involved in the production or consumption of traded goods. The authority to formulate and enforce environmental policies usually exists only at the national level. This can create significant problems when environmental impacts are transnational, since most international trade agreements do not include any provisions for environmental protection.

III. Arguments on Advantages of Trade and Environmental Externalities

Given the opposing views above, none of them can be totally disregarded. For most of them, there has been a body of evidence cited in their favor. The uncertainty is about the net environmental effect of trade liberalization is due to the difficulties involved in qualifying the individual effects, and in determining what portion of the effect is due to trade liberalization rather than other causes because restricting trade liberalization would not solve the problem either.

2.1 Trade, Growth and Environmental quality

A number of economists think trade liberalization will have an enormous increase in welfare of a nation, and improved allocation of domestic resources. Restriction on importation of any goods can create an anti-export bias by raising the price of importable goods relative to exportable goods. The introduction of free flow of goods and services from one nation to another will encourage a shift of resources from the production of import substitutes to the production of export-oriented goods. This, in turn, will generate growth in the short to medium term as the country adjusts to a new allocation of resources more in keeping with its comparative advantage (McCulloch, Winters and Cirera, 2001). This process is neither smooth nor automatic. On the contrary, it is expected to create adjustment costs, encompassing a wide variety of potentially disadvantageous short-term outcomes. These outcomes may include a reduction in employment and output, the loss of industry- and firm-specific human capital, and macroeconomic instability arising from balance-of-payments difficulties or reductions in government revenue (Matusz and Tarr, 1999). The size of the adjustment costs depends on the speed with which resources make the transition from one sector to another.

However, trade liberalization itself has not yet been clearly and universally linked to subsequent economic growth. Despite the vast literature looking at this link, numerous empirical studies have not found the evidence conclusive. Rodriguez and Rodrik (1999) argue that the literature is largely uninformative, and that there is a significant gap between the conclusions derived from theory and the "facts". According to the authors, a number of factors explain this gap. In many cases, the indicators of "openness" used by researchers are problematic, as measures of trade barriers are highly correlated with other sources of poor economic performance. In other cases, the empirical strategies used to ascertain the link between trade policy and growth has serious shortcomings, the removal of which results in significantly weaker findings. Moreover, the occurring process of other far-reaching reforms makes it difficult to disentangle the impact of the trade liberalization

process. It is also important to note that, even though, trade openness has not been unambiguously linked to higher growth neither has it not been identified as a hindrance.

Generally, it can be said that openness, by leading to lower prices, better information and newer technologies, has a useful role to play in promoting growth. But it must be accompanied by appropriate complementary policies (most notably, education, infrastructure, financial and macroeconomic policies) to yield strong growth results. The exact mix of trade and other policies that is needed will strongly depend on the specific circumstances of each country. It is therefore important to focus on the detailed pathways through which trade liberalization in each country has an impact on poverty (McCulloch, Winters and Cirera, 2001).

2.2 Trade Liberalization and Environmental Policy

Today, a lot of countries in Africa grow basically agricultural crops for not only home use but for exports as well. Increased trade is a major feature of structural adjustment policies required by international agencies e.g. the International Monetary Fund and World Bank, the area devoted to export crops increases. What are the environmental effects of shifting to export crops? In some cases they can be significant, and harmful. A study of Mali, for example, finds that the development of cotton as a cash export crop substantially increased the cultivated area and markedly reduced the fallow period. The profitability of cotton led farmers to expand cultivation onto marginal land, making land degradation and soil erosion increased.

On the other hand, export crops may sometimes be more environmentally friendly than the domestic crops they replace. In Latin America and Africa, tree crops such as coffee and cocoa can help to prevent erosion. Another example is the Kenya horticulture farmers growing flowers for export to European market which provides a high-value export that is claimed to have little negative environmental effect, although there has been issues recently raised about the health and environmental effects of the pesticide used in horticulture. In the Kenyan case, the flowers are flown to Europe by jet, so transportation energy use could raise an environmental issue but proponents argue that the amount of energy consumed in jet fuel is less than the energy needed to grow similar flowers in heated greenhouses in Europe.

Trade can impact domestic as well as international policy, weakening the freedom of nations to define their own environmental and social policies. Increasing trade liberalization will trigger a "race to the bottom", in the environmental standards to attract international capital flow and gain competitive advantage. Meaning that, nation based manufactures enforcing strict process standards suffers a competitive disadvantage compared with manufacturers located in member states enforcing less strict standards. So finally, this will bring about increase in sales, and profitability for those manufactures located in low-standard nations. Couple with the prospect of their industries suffering a competitive disadvantage when compared with companies located in low-standard nations, some nations may choose not to elevate environmental standards or may even relax current standards.

Trade liberalization is likely to have direct or indirect beneficial effects on the environment. Relying on the theory of comparative advantage, trade causes countries to become more efficient in their use of resources, thereby conserving resources and avoiding waste. It also involves removal of distortion of pricing policies and improves the efficiency of resource allocation. For example, placing subsidies on fertilizers and pesticides will promote environmentally harmful farming methods but for domestic manufactures this subsidies are mostly prohibited in trade agreements. Eliminating these subsidies would promote both economic efficiency and sustainable environment.

Trade may also encourage the spread of environmentally friendly technology. In energy production, for example, many developing and formerly communist nations are heavily dependent on old, inefficient, high-polluting power plant and containers. Trade can facilitate the replacement of these plants with modern, highly efficient combined cycle facilities, or although sometimes seen as offenders in the exploitation of developing countries' resources, can also introduce efficient technologies into industrial sectors. Multinationals may be responsive to domestic political pressures to develop cleaner industrial processes, which they then disseminate throughout their worldwide operations.

On the negative side, trade liberalization can create after-effects through the trans-boundary exchange of impacts. So, the ordinary man using pesticide without safety precaution suffers harmful effect, likewise, villagers who drink stream polluted water. In addition, Fruits and vegetable which are exported to developed nations also carries residues of chemicals which are harmful too.

IV. Conclusion

In conclusion, the effect of trade liberalization on environment policy will depend strongly on the extent to which it is perceived as environmental policy has an impact on co-operate competitiveness. And environmental problem require international solution, International treaties need to respond to environmental issue as regard trade. Rules regarding multilateral environment agreement (MEAs) and world trade organization (WTO) should be compatible to apply in case of a conflict.

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