

Striking a Balance for Trade and Sustainable Development

Nicola Borregaard *CIPMA, Chile* and Mark Halle *IISD, Switzerland*

EXECUTIVE SUMMARY

We must try to put in place an international trading system that contributes to sustainable development. This will come about if trade policy at the international level is built from the bottom-up, through democratic processes at the national level that balance the interests of different stakeholders within a regulatory and institutional framework that safeguards social equity and environmental protection. It also requires an international system that guarantees adequate participation of all nations in defining the trading system, and an agreed code of conduct on how the rules should be applied.

Few issues have captured the public imagination in recent years as much as the dangers posed by rapid trade liberalisation – dangers to culture, tradition and ways of life, to the development prospects of poor countries, to genuine democracy and to the global environment. The image of rioters clashing with police in Seattle remains a potent symbol of the polarisation that surrounds trade liberalisation.

Until recently, trade liberalisation was uncontroversial. It appeared to stimulate economic growth and to consolidate co-operative relations among peoples, undermining closed-minded nationalism and fostering openness. Yet in the seven short years since the conclusion of the Uruguay Round and the establishment of the World Trade Organisation (WTO), trade policy has become increasingly vexed, and the number of people who hold a negative view of it is growing rapidly.

What went wrong with trade policy?

Whether justified or not, trade liberalisation carries much of the blame in the public eye for the dislocation and negative impacts of globalisation. Globalisation itself is associated with the increasingly discredited macroeconomic paradigm known as the *Washington consensus*. This ‘consensus’ – that rapid opening of domestic markets to trade and capital flows would offer a sure road to prosperity – has not lived up to its promise.

It is now clear that any benefits derived from globalisation depend on a range of conditions being in place – access to investment, access to technology, existence of an adequate policy, regulatory and institutional infrastructure, and the human capacity to understand where the openings lie and how they may be exploited. In the absence of these, trade liberalisation increases the inequities among and within countries.

Following the Uruguay Round, trade policy has moved aggressively into areas – food safety, intellectual property rights, product standards – once the preserve of domestic decision-making. Backed by commercial interests, trade policy can often impose itself on other policy areas with weaker support. The sense of threat felt by people in the social and environment fields is very real.

Many of the benefits promised to developing countries in exchange for their acceptance of the Uruguay Round agreements have been undermined by the revelation that some of the agreements are flawed or imbalanced (eg. Trade Related Intellectual Property Rights), that others are being implemented in bad faith (eg. Textiles), or

KEY CHALLENGES:

- **Harness trade and economic growth so that they support the fundamental principles of sustainable development – greater social equity and the sustainable use of natural resources**
- **Ensure that the trade policy process is open to all legitimate stakeholders, not just narrow commercial interests**
- **Increase support to developing countries to enable them to take advantage of more open trade**
- **Develop initiatives such as the Sustainable Trade Centre which can demonstrate that sustainable development is a means to greater equity in world trade, not a barrier**
- **Use the Johannesburg Summit as an opportunity to advocate these changes, and insist that sustainable development represents the only legitimate goal for international trade policy**

that their even-handed application is being blocked by a few powerful members (eg. Anti-Dumping).

However, it is too often forgotten that trade liberalisation can be extremely positive for development and for the environment. It can open countries to currents of democracy, good governance and respect for human rights – the foundation of modern development. It can lead to the replacement of inefficient, polluting technology with more modern equipment. It can generate the wealth needed to address development problems, and a rising standard of living will usually lead to a stronger demand for environmental quality.

Trade liberalisation: 7 steps towards sustainability

How, then, to find the balance? How can trade policy, and the institutions that govern trade relations among countries, recover their legitimacy?

The first step is to recognise that trade liberalisation is not an end in itself, but a vehicle that serves a greater purpose. The notion that pure economic growth, or aggregate statistics, can serve as the ultimate goal of trade liberalisation is no longer acceptable. Trade liberalisation must not only generate economic growth, it must contribute to increased equity among and within countries, and it must lead to the sustainable use of the environment and its resources. In short, to recover its legitimacy, trade liberalisation must dedicate itself to sustainable development. Trade liberalisation will not recover its legitimacy until it is embedded in a broader framework of social and environmental concern.

The second step is to develop agreed screens and tests that assess trade agreements and proposals against the agreed goals set for the trading system. Existing agreements should be amended or renegotiated if found to be incompatible with the broader goals. New agreements should be adopted only once they have been certified to have a neutral or positive impact on sustainable development.

The third step is to move beyond the 'one size fits all' approach to trade agreements, and into models that accept that trade disciplines may be tailored to the particular situation of individual countries or groups of countries, on the model of the General Agreement on Trade in Services or the expanded use of Special and Differential Treatment, basing differentiation not only on differences in Gross Domestic Product, but on criteria that relate to sustainable development.

The fourth step is to bring about a sharp increase in the support available to developing countries to enable them to take advantage of the opportunities that more open trade affords them, and to defend themselves against attempts to exploit their weaker status. A serious attempt to address the developing countries' implementation agenda – improving access to traditionally closed markets in developing countries, and balancing agreements that have proved to have an anti-development bias – is also urgent. The proposal that an independent Sustainable Trade Centre be established to focus European Union efforts in this area should be strongly supported.

The fifth step is to negotiate a general understanding between the trade regime and the regimes governing other areas of public policy, in particular those governing development and environment, such that trade liberalisation

strengthens and supports them rather than posing a threat. An understanding between the WTO and the Multilateral Environment Agreements is well within reach, and should serve as a model for similar agreements on labour standards and human rights. It must, however, be accompanied by a strengthening of the multilateral regimes in these areas as well.

The sixth step is to seek considerably greater openness and participation in the trade policy process, at the national, regional and multilateral levels. The national trade policy process should be open to all legitimate stakeholders, and should seek a better balance among competing national interests. It is no longer acceptable for narrow commercial interests to speak for whole nations.

The seventh is to put a great deal more emphasis on the relationship between the multilateral, regional and bilateral trade agreements, so that what is conceded at the multilateral level is not taken back through regional or bilateral agreements.

The seven steps above reflect some of the reforms that must be brought to the trading system, so that it contributes to sustainable development. These will win support only if trade policy at the international level is built from the bottom-up, through democratic processes at the national level that balance the interests of different stakeholders within a regulatory and institutional framework that safeguards social equity and environmental protection. It also requires an international system that guarantees an adequate participation of all nations in defining the trading system, and an agreed code of conduct on how the rules should be applied.

The challenge for Johannesburg

The value of the Rio process was that it looked beyond competitive national and regional interests to the requirements of a world characterised by a healthy environment and a satisfactory standard of living for all. The idealism of Rio no doubt led it to fall short of its goal, but nothing that has happened in the past ten years has indicated that the goal was wrong or that it was foolish to try.

In the intervening ten years, we have lived through an era of unprecedented growth and prosperity, accompanied by an increase in poverty, marginalisation and inequality. We have lived through the Asia crisis and the collapse of the Washington consensus. We have witnessed the crises of the World Bank, the International Monetary Fund and the WTO. We have seen the massive backlash against globalisation and the questioning of our economic models. We have lost faith in the generosity of the richer countries, which matched unprecedented prosperity with dwindling support for development co-operation.

The outlines of the new paradigm are clear. We need economic growth, and we need the trade and investment that fuel it. Yet we need to ensure that the prosperity generated is harnessed to the broader goal that Rio sought to define, and which WSSD has embraced in its title – sustainable development. That goal is not beyond our reach. ●

Trade liberalization, growth and equity: the key issues

Devotees of sustainable development know that lasting environmental progress cannot be achieved unless the

pressing development problems facing the poorer countries – and the poor within countries – are addressed. Further economic growth is required to generate the resources needed to combat poverty, improve human well-being, and bring resource use within sustainable limits. While a case can be made in the richer countries for moving to a model of development that is much less capital, resource and energy intensive, it is difficult to imagine how most of the world can possibly move to such a model without first enjoying some solid economic growth.

The liberalization of trade has, in recent decades, provided the engine for impressive growth, with expansion of trade far outstripping overall economic growth. Trade is responsible for a significant proportion of recent global economic growth and there is potential for considerable further growth if the process of trade liberalization is allowed to proceed.

The United Nations Conference on Environment and Development – the Rio Conference – recognized this reality. Unable to meet or even come close to committing the financial resources needed to place the world community on a sustainable footing, the richer countries suggested that ‘trade, not aid’ might be the answer. A full chapter in Agenda 21 was devoted to how trade might be made to contribute to sustainable development, so that countries might ‘grow their way out of poverty’ through greater access to markets in the rich countries.

If the formula “trade liberalization leads to economic growth, which leads to sustainable development” were invariably true, there would be massive support for further liberalization, and the trading system would not be facing the crisis of legitimacy from which it suffers today. Unfortunately, trade contributes to sustainable development only where trade policies, and the policies governing social and environmental matters are in harmony and are mutually supportive.

Trade supporters are guilty of selling their case on the basis of aggregate statistics. Recent evidence suggests, however, that there are disturbingly negative links between global decisions and local effects. The real-life impact at the local level of decisions taken at the global level – even for the best of reasons – is emerging as a central issue in attempting to make trade liberalization support sustainable development goals.

Are trade and sustainable development compatible?

One of the more common clichés in the trade world is that there is *no inherent contradiction* between pursuing the goals of trade liberalization and those of development or the environment. Indeed, trade policy professionals will point to a range of ways in which more open trade contributes to social development or to environmental progress. Trade, development and environmental policies, we are told, *need not be incompatible*.

Indeed, trade can be good in a number of obvious ways. First, in generating economic growth, it makes available resources that can be used to address burning national or international issues. To the extent that it does generate such disposable income, it justifies the Rio bargain of greater trade to replace dwindling aid resources. Free

trade augments competition, and breaks down protected markets that, generally speaking, are to the disadvantage of consumers. The competition is an incentive to innovate and to modernize, often replacing dirty and inefficient technology with more environmentally and worker-friendly technology. Participation in the wider world has also helped spread notions of more transparent and democratic governance, respect for human rights, priority for social issues and a cleaner environment. Indeed, it is well established that public demand for environmental quality rises with economic status. Finally, it obliges countries to review their policies, laws and regulations, often opening the way for outdated policies to be replaced.

However, this optimistic listing often masks the fact that trade policy is rarely in harmony with development and environment policies, with the result that trade liberalization often has the effect of undermining policies in these other fields, or of impeding progress towards their realization.

The problem lies in the fact that trade policy generally reflects commercial interests. Few countries undergo an open and participatory process where commercial and other public policy interests are woven together to form a trade policy representing the wide range of national interests in a balanced way. Instead, trade policy tends to be strongly biased in favour of a narrow view of immediate commercial interests.

What counts is not what is possible in a hypothetical world, but what happens in reality. Encouragement can be derived not from imagining that some hypothetical state might one day be reached, but from measuring real progress towards that state. The in-built contradiction between the two is the source of growing frustration, and has led to a serious undermining of the credibility of the multilateral trading system and of the World Trade Organization, entrusted with its administration.

This is a recent phenomenon. For most of its history, the General Agreement on Tariffs and Trade (GATT – the predecessor of the WTO) attracted little attention. This is because it dealt almost exclusively with manufactured goods, and what happened at the border when these goods were traded. The mandate of GATT was almost exclusively within the undisputed field of trade policy, leaving development and environment policy in the realm of domestic-decision making, or to purpose-built regimes dealing with their international aspects.

The Uruguay round – and the subsequent creation of the WTO to replace GATT – changed that for good, because it represented a massive expansion of the scope of trade policy, bringing it centrally into domains once reserved for domestic policy-setting. In a wide-range of fields – food safety, product standards, standardization, intellectual property rights, services, environment – the Uruguay round gave the WTO authority in areas that were, before that, the exclusive preserve of national governments, or of specific intergovernmental regimes. Add to that the power of the WTO’s dispute settlement system, with its ability to impose sanctions on sovereign governments and to ensure that trade policy took precedence over other policies, and the formula for conflict was complete. Incompatibility between trade and other policies was not only a matter for academic interest, but for genuine alarm.

In the few years leading up to the WTO ministerial conference in Seattle and since, the debate has polarized. Free trade proponents continue to insist on the beneficial impacts of trade on both development and environment, and attribute problems to policy failures in other areas. Those sceptical of – or downright opposed to – further liberalization claim that it rests on a failed model linked to the now-discredited Washington consensus, and insist that trade liberalization is nothing more than a tool, a vehicle, that should be subordinated to broader public policy goals.

The truth, as always, lies between the two. Trade and the trade rules are often blamed for problems the cause of which lies elsewhere. Trade liberalization has become a symbol of globalization, and of the insecurities associated with it, and ends up taking the blame for any aspect of the prevailing macro-economic paradigm. It is often convenient to blame the trade rules for problems in fact caused by discriminatory domestic policies, by protectionist forces, or by competition among corporations.

Impact of trade liberalization

With trade policy on the ascendant, and with the Uruguay round bringing trade policy into the realm of domestic decision-making, it has become increasingly evident that trade liberalization has had a negative impact on development and environment.

First, trade liberalization has served an economic model, described as the Washington consensus, that promised rapid growth in exchange for rapid liberalization. While this promise has often been fulfilled in the aggregate, it has led to a model of development that has deepened the inequities among and within countries. This in turn has led to the marginalization of countries, communities and populations, to the worsening of some development indicators, and to the degradation of the environment that too often accompanies poverty. It is a model that relies on massive consumption of energy and natural resources, contributing to the progressive recession of sustainable development goals.

Second, trade liberalization challenges the sovereignty of governments to establish their own domestic approaches to development and to set their own standards for environmental quality. Trade liberalization has a powerful standardizing effect, and the standards adopted tend to be those suited to the developed countries. Recent experience with NAFTA suggest that trade rules are having a 'chill effect' on new regulation, with governments afraid that new environmental or social regulations will land them in trade disputes with their partners.

Third, there are in-built contradictions between the trade rules and other international conventions, for example between the provisions of the WTO Agreement on Trade-Related Intellectual Property Rights (TRIPS) on the one hand, and the Convention on Biological Diversity at the multilateral level, or Brazilian and South African legislation on essential medicines, on the other. In the case of a dispute, it is almost always the politically more powerful trade rules that prevail.

Fourth, recent studies suggest that trade liberalization increases pressure on developing countries to export their natural resources. This increase in direct exploitation of

natural resources is taking place in an environment largely unguided by clear rules or codes of conduct at the international level, leading to serious negative impacts on developing country environmental policies.

Finally, trade liberalization favours the commercial sector, and the exporters in particular. It similarly offers advantages to export-based products over others, and to exporting countries over others. This further consolidates the commercial sector and increases its political influence, undermining the ability of governments to seek appropriate balances in the public good.

The Rio bargain betrayed

If the general public began to focus on the impacts of trade liberalization only after the Uruguay round brought trade policy into the living room, the experience of developing countries dates back to Rio. The promises inherent in the 'Rio bargain' were taken seriously; growing out of dependency will always be preferable to living on international alms. Developing countries started to join GATT on a large scale during the Uruguay Round. In the seven years since WTO was established to take over from GATT, membership has expanded to 140 the vast majority of new members coming from developing countries or economies in transition. Since WTO is a consensus-based organization, it might have been expected that the transformation would be accompanied by a sharp rise in the priority accorded to development issues in the trade context. Sadly that is not the case.

The results of the Uruguay round were aggressively sold to the developing countries on the grounds that everyone would come out ahead. Although there would be some who benefited more, no country would be left behind. Very rapidly after the round was concluded, however, it became clear that the benefits from liberalization would not be automatic, and depended on putting conditions in place domestically to take advantage of the new market openings. This in turn depended on ... *development*. It was predicated on access to investment, access to technology, existence of an adequate policy, regulatory and institutional infrastructure, and the human capacity to understand where the openings lay and how they could be exploited. In the absence of these, many developing countries found they had thrown open their own markets without being in a position to take advantage of the modest openings that the rich country markets now afforded them.

To this must be added the fact that liberalization in the fields that would most benefit to developing countries were either very modest (eg. agriculture), deferred (eg. textiles), or plagued by bad-faith implementation (eg. textiles, anti-dumping). The trade liberalization generated in the Uruguay round was potentially beneficial to all countries. In reality, it benefited those already privileged countries that were in a position to take advantage of the new market openings.

In response, the developing countries developed an implementation agenda, seeking assistance both to develop their capacity to take advantage of the new trade opportunities, and to deal with the development problems that the lack of capacity was generating. Little progress was made, and attempts to link agreement on a new round

to progress on implementation failed with the general collapse of Seattle.

Since Seattle, very little concrete progress has been made in addressing developing country concerns. A special session of the WTO Council to discuss 'confidence-building measures' yielded so little that it actually undermined confidence sharply. As the next Ministerial meeting in Qatar approaches, progress on implementation is increasingly being tied to a new Round. In other words, the developed countries have failed to respect their side of the bargain; to do so now, they want more concessions.

Why should developing countries even consider agreeing to further liberalization? Aside from strong and persistent pressure from the more powerful countries, there are three reasons:

- Still ahead are prospects for liberalization in the areas that could be of strong benefit to the developing countries – especially the prospect of greater market access for their agricultural and textile products. Without further negotiations, these prospects will not be realized.
- Although liberalization has yielded more benefits to the richer countries, it has nevertheless provided them with solid development benefits as well. They fear that an anti-liberalization stance will strengthen the hand of protectionists and 'freeze in place' the current situation of inequity.
- Lack of progress at the multilateral level will not halt liberalization, but shift it to regional and bilateral trade processes in which they have even less relative power, and which tend to be dominated by one or two 'giants' (eg. the USA in the Americas).

Priorities for WSSD

How, then, to find the balance? How can trade policy, and the institutions that govern trade relations among countries, recover their legitimacy?

The first step is to recognize that trade liberalization is not an end in itself, but a vehicle that serves an ulterior end. The notion that pure economic growth, or aggregate statistics, can serve as the ultimate goal of trade liberalization is no longer acceptable. Trade liberalization must not only generate economic growth, it must contribute to greater equity among and within countries, and it must lead to the sustainable use of the environment and its resources. In short, to recover its legitimacy, trade liberalization must dedicate itself to sustainable

development. Trade liberalization will not recover its legitimacy until it is embedded in a broader framework of social and environmental concern.

The second step is to develop agreed screens and tests that assess trade agreements and proposals against the agreed goals set for the trading system. Existing agreements should be amended or renegotiated if found to be incompatible with the broader goals. New agreements should be adopted only once they have been certified to have a neutral or positive impact on sustainable development.

The third step is to move beyond the 'one size fits all' approach to trade agreements, and into models that accept that trade disciplines may be tailored to the particular situation of individual countries or groups of countries, on the model of the General Agreement on Trade in Services or the expanded use of Special and Differential Treatment, basing differentiation not only on differences in GDP, but on criteria that relate to sustainable development.

The fourth step is to bring about a sharp increase in the support available to developing countries to enable them to take advantage of the opportunities that more open trade affords them, and to defend themselves against attempts to exploit their weaker status. A serious attempt to address the developing countries' implementation agenda – improving access to traditionally closed markets in developing countries, and balancing agreements that have proved to have an anti-development bias – is also urgent.

The fifth step is to negotiate a general understanding between the trade regime and the regimes governing other areas of public policy, in particular those governing development and environment, such that trade liberalization strengthens and supports them rather than posing a threat. An understanding between the WTO and the Multilateral Environment Agreements is well within reach, and should serve as a model for similar agreements on labour standards and human rights. It must, however, be accompanied by a strengthening of the multilateral regimes in these areas as well.

The sixth step is to seek considerably greater openness and participation in the trade policy process, at the national, regional and multilateral levels. The national trade policy process should be open to all legitimate stakeholders, and should seek a better balance among competing national interests. It is no longer acceptable for narrow commercial interests to speak for whole nations.

The seventh is to put a great deal more emphasis on the relationship between the multilateral, regional and bilateral trade agreements, so that what is conceded at the multilateral level is not taken back through regional or bilateral agreements. ●