

TRADE LIBERALISATION AND ITS IMPACT ON ENVIRONMENT**Shweta**

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Abstract:

Increase in extreme climate disasters has reflected those anthropogenic activities that have affected the environment so much that it is beyond natural climate variability. Emission of greenhouse gases from industries, agriculture, use of fossil fuels, fluorinated gases, etc. is the major cause for climate change. This study articulates the impact of trade liberalisation on the environment. Formation of world trade organisation and its role in increasing the volume of trade is also examined. This study tries to establish the link between trade liberalisation and environment pollution which is a grey area yet to be scrutinised. This study intends to find possible solutions that could be adopted to mitigate the possible harmful effects of trade liberalisation by harmonising the correlation between trade and environment.

Keywords: Trade, Liberalisation, Climate, Environment, Pollution

Introduction:

Climate Change means long term change in climate or weather pattern. This change induced by anthropogenic activities is a cause of concern as it has caused irreparable loss to the environment and the people (NASA). Increasing extreme events has shown that the damages done to the environment is beyond natural climate variability (Gonzalez, 2018). According to the United Nations, during the last two decades of the 21st century the climatic disasters have increased by 83 percent (Brenton & Chemutai, 2021). The IPCC's 2021, sixth assessment report (IPCC: Summary for Policymakers, 2022) found that the climatic temperature has increased by 2 degrees Fahrenheit since pre-industrial times and is expected to increase by 3 degrees Fahrenheit in future. Many conventions and agreements such as Sustainable Development Goals, Kyoto Protocol and Paris Agreement for environment protection were agreed by the members of UN but no evident efforts could be seen among them.

During the Coronavirus pandemic world economies went through severe lockdown, industrial, transportation and manufacturing activities were suspended to curb the spread of the virus. This impacted the economy adversely but we certainly have witnessed some positive impact of the lockdown on environment specifically (Kumar et al., 2022) The water in Italy's Canal and river Ganges (Aman et al., 2020) was clear due to less industrial waste as the industries were shut during lockdown. Reduced transportation activities led to decrease in air pollutants which was evident from air pollution index (Mahato et al., 2020) during that period specifically. This rejuvenation of

Nature was evident to everyone. The positive impact of lockdown on the environment was short lived but it could be inferred that the major cause of environment pollution are the activities that are channelised through in the economy through liberalisation.

The liberalisation has resulted in reduction of tariffs and non-tariffs barriers (WTO, 2008), which exponentially increased the demand for products from foreign land. In order to fill the gap of demand and supply of these resources the use of natural resources such as fuel, minerals, etc has spiked which resulted in the exploitation of these resources by humans in order to secure maximum profit. Demand of natural resources (Huang & Labys, 2002) by humans leads to exploitation which results in environmental pollution. There is an environmental cost to this economic growth. All environmental agreements in respect of mitigation and adaptation to control this climate change are not considering the change in volume of trade as a problem. Trade and environment relations have always been ignored by the policy makers. Whenever there is a conflict between trade and environment the environment is always given second priority and the justification for doing so always comes out in the name of economic development. We need to evaluate the impact of trade on the environment and should work towards finding the balance between environment and trade so that neither the environment suffers nor the trade.

Aim of the Article:

This article will give some information regarding the Trade Liberalisation facilitated by the GATT and now WTO principles which increases the value as well as the volume of world trade and the impact of these liberal principles on the environment. The article highlights the advantages and disadvantages of world trade on the environment and comes out with the possible solutions.

Search Strategy:

The present study applied the doctrinal research method. The literature regarding WTO liberalisation principle, World Trade, Environmental impacts has been searched manually and electronically. Reports, data and case study form WTO, Intergovernmental Panel on Climate Change etc., have been analysed and used wherever necessary.

Trade Liberalization:

Trade liberalization means reducing the government's intervention in trade (Acharya, 2015). After the Second World War, the United States emerged as the major economic superpower (WTO, 2008). Being a capitalist country, the United States was in favor of free trade with minimum government intervention. Developing countries in their early phase followed the inward-looking policy such as import substitution and it is only after the debt crisis in 1980s the limitations of this policy was exposed to them. After the 1980s developing countries started reducing trade barriers (Wacziarg & Welch, 2008) and it increased the volume as well as value of world trade. This facilitated liberalization of trade and led to the development of regional and multilateral free trade zones (Thirlwall, 2002). This integration of economies has raised the living standard around the world. The countries which had opened their economies such as India (WTO, 2008), Vietnam, have experienced faster growth and reduction in poverty.

A conference was held in Bretton Woods to form an international organisation for the coordination and development of international trade. GATT (GATT, 1947) was formed but it has some inherent

defects regarding organised structure and dispute settlement which were resolved by the World Trade Organisation. Low tariffs are the norm created by the WTO due to which the world trade has increased to 4% (Thirlwall, 2002) per year. 1st January 1995, an international trade organisation came into being after the Uruguay round and a single document Marrakesh Agreement (Marrakesh Agreement, 1994) established the WTO. It is also known as the institution of Free trade. Earlier GATT and now WTO is committed towards lowering the trade barriers and elimination of discriminatory principles in world trade.

WTO has postulated some basic principles to promote free and fair world trade. First principle is Most-Favoured Nation (Matsushita et al., 2015), according to this principle the countries which are members to the WTO cannot discriminate between their trading partners and if they do so then the favours given to one trading partner will also be extended to other partners. Second principle specified National treatment (Matsushita et al., 2015) of goods and makes it mandatory for the member countries to treat the foreign goods and the local goods equally. These principles are not absolute but subject to certain exceptions regarding least developed countries, anti-dumping, environment protection, etc.

Above stated principles are the key drivers of Trade Liberalization and integration of the world economy. This integration of the world economy has increased the living standard across the world but at the cost of environment and sustainable growth. According to the WTO, world trade volume has increased significantly since its establishment in 1995 (WTO, handy statistics). Based on the available data, from 1751 to 1990, the cumulative CO₂ emissions amounted to 784 Gt. However, from 1990 to 2021, in just 31 years, the CO₂ emissions reached 831 Gt (Stainforth & Brzezinski, 2020). The IPCC's sixth assessment report (IPCC Summary for Policymakers, 2022) also confirms that greenhouse gases from fossil fuels and industries are significant contributors to climate change. It is essential to recognize that various factors have contributed to the increase in greenhouse gas emissions, such as population growth, economic development, technological advancements, and changes in energy consumption patterns. While the growth of industries and international trade facilitated by the WTO has played a role in increasing fossil fuel consumption, (Frumhoff, 2014) it is crucial to consider the broader context of multiple factors driving the rise in emissions.

Both Trade and the environment are essential for the development of mankind. WTO has incorporated the principle of sustainable development in the Marrakesh Agreement. This principle of sustainable development is specified by the GATT Article XX (Marrakesh Agreement, 1994) which allows the member countries to restrict trade in order to conserve exhaustible natural resources. The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) supplements the GATT article XX. The Agreement on Subsidies and Countervailing Measures (SCM) exempts the subsidies and the Agreement on Technical Barrier to Trade (TBT) allows for the enactment of high standards for the protection of the environment. (Chua, 1999)

Trade and Environment co-correlation:

Environment pollution is a major concern nowadays as we can see its negative impact on the environment in the form of high temperature, floods, melting ice caps, increasing intensities and

quantum of cyclones and tornadoes, unseasonal rains to name a few (AghaKouchak et al., 2020). The main cause of environment pollution is the increase of greenhouse gases in the environment released by the industries and burning of fossil fuels. Increasing global trade puts pressure on resources due to which large areas are being deforested and that deforested land is used for industrial purposes. This land-use pattern further adds to the problem as the environment is unable to reconcile itself. (Chua, 1999)

When on the one side WTO was taking shape by setting principles to favour Trade Liberalisation on the other hand several Multilateral Environment Agreements were formed to impose restrictions on Trade. In June 1992, United Nation Conference on Environment and Development (UNCED, 1992) also known as Earth Summit held in Rio de Janeiro addressed the issue of global climate change and gave the world some principles for future sustainable development. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) formed in 1975 (CITES, 1973) restrict the international trade in animal and plant, the Basel Convention regulates the transboundary movement of hazardous wastes, the famous Kyoto Protocol in 1995 only binds the developed countries to reduce the greenhouse gas emissions (Kyoto Protocol, 1997). These Multilateral Environment Agreements impose certain restrictions on international trade which resulted in conflict with WTO principles. WTO repeatedly, through the US-Gasoline case, US-Shrimp case, EC-Asbestos case, Brazil-Retreated Tyres case, the Canada- Renewable energy case, China- Measures concerning wind power equipment etc., (Droege et al., 2016) held that the members countries can restrict the trade on the bases of environment protection but that restriction should not violate the basic principles of WTO i.e., principle of National treatment and principle of Most-favoured nation.

The WTO system incorporates a dispute settlement mechanism that can address matters related to all agreements within the WTO regime. Advanced countries have utilized GATT Article XX to justify trade restrictions against exporting countries for environmental reasons. (Ahn, 1999)

In the US Shrimp case, the United States implemented a ban on shrimp imports from countries that did not have policies in place to protect sea turtles during the shrimp harvesting process. To export shrimp to the US (Ahn, 1999), countries had to obtain certification from the US indicating that their harvesting practices did not endanger sea turtles. The exporting countries lodged a complaint with the WTO's dispute settlement body to address the issue. In this case, the US lost not because of its objective to protect the environment, but due to the discriminatory implementation of its environmental protection policy among WTO members. The ruling highlighted that the US was applying its environmental measures unevenly and unfairly, creating an unjustifiable distinction between WTO member countries.

A similar case involved the US's regulation of tuna (Skilto, 1993) fishing practices to protect dolphins. In this instance, the US also lost the case, as it was deemed to lack jurisdiction to regulate resources beyond its national borders.

In both cases, the WTO's dispute settlement mechanism served to resolve conflicts arising from trade measures adopted for environmental purposes. The decisions emphasized the importance of fair and non-discriminatory implementation of such policies among WTO member countries.

The latest trade and environment cases before the WTO dispute settlement body is regarding the climate policies adopted by the countries within their territories.

In the Canada-Renewable Energy case, (Matsushita et al., 2015) Japan initiated a dispute against Canada's feed-in-tariff policy. The feed-in-tariff policy was implemented by the Canadian government as a means to promote the use of affordable clean energy in Ontario, a province in Canada. However, the WTO appellate body ruled against Canada, stating that it had violated the national treatment obligation under the General Agreement on Tariffs and Trade (GATT). The case highlighted the need for Canada to treat foreign and domestic entities equally in terms of their participation and benefits under the feed-in-tariff policy.

In another case, the Chinese government provided subsidies to manufacturers of wind turbines on the condition that they used components made in China (Baron, 2017). However, in 2011, the Chinese government was required to withdraw these subsidies. The case likely addressed issues related to unfair trade practices, including discriminatory treatment and the promotion of domestic industries through subsidies. (WTO, Panel Report, 2013)

Similarly in India- certain measures relating to solar cells and solar modules case (WTO, Panel Report) was filed by the US against the Indian government's local content requirement (LCRs) under the Jawaharlal Nehru National Solar Mission (JNNSM), specifically regarding solar cells and solar modules. The US argued that these LCRs violated the national treatment principle of the World Trade Organization (WTO). After reviewing the case, the WTO dispute settlement body determined that the LCRs constituted trade-related measures and, as such, were in violation of the fundamental principle of national treatment outlined in the General Agreement on Tariffs and Trade (GATT).

From the above analysis, it can be inferred that the WTO, as a trading body, has often prioritized trade considerations over environmental concerns. Although the WTO incorporates provisions related to environmental protection and urges its members to align their trade policies with sustainable development (Trachtman, 2017), its rulings have often favoured trade interests. This has resulted in instances where the WTO has ruled against measures aimed at safeguarding the environment.

The Trade Pinch:

Trade liberalisation has enabled the flow of goods and services across the world which led to the exploitation of natural resources with unsustainability. The impacts of Trade on environment are as follows:

- Increase in economic activities led to growth of industries contributing to emission of greenhouse gas.
- Lowering of trade barriers increase the exports and to beat the competition and increase the profit margins the industries ignore the environmental regulations resulting in increase of emission and untreated waste from these industries (WTO, 2008)
- Increase in demand of agricultural commodities promoted commercial crops instead of indigenous crops which has led to increase in the greenhouse gas emission by land use change (Brenton & Chemutai, 2021)

- The liberalised trade has the potential to spread localised weather shocks to other countries (Brenton & Chemutai, 2021)
- Trade has increased the use of transportation which increases the demand of fuel further contributing to the emission of greenhouse gases.
- Less stringent environment policies have led to the relocation of industries to low- and middle-income countries resulting in an increase of carbon emission in those particular countries (Islam, Kanemoto & Managi, 2019).

Positive impacts of Trade:

Trade liberalisation has a negative impact on the environment but there are a lot of positive impacts too. These impacts are as follows:

- Trade liberalisation has facilitated the transfer of better technologies across the world from developed countries to the developing and least developed countries which facilitate the improvement of the environment.
- Liberalised Trade supports the countries facing the environmental shocks by supplying necessary commodities.
- Trade liberalisation makes it easier for the farmers to fight climate change by introducing better fertilisers and machinery.
- Subsidised Trade liberalisation in environmental goods and services results in an increase in the number of private firms pledging to reduce their carbon emission.
- Trade liberalisation has increased the demand of fuel for the transport sector which will open a new market of carbon neutral fuel for the low and middle-income countries.
- Word trade provides access to a wide range of low carbon technologies. This in turn will create new jobs and opportunities (Brenton & Chemutai, 2021).

Suggestions:

Both trade and the environment are important for human development. Till now it is observed that trade is being preferred over the environment which has already damaged the environment to a large extent. Increasing heat waves, floods, storms has proved that the environment has reached its threshold and serious measures are needed to be taken to mitigate and adapt to the changing climate. As we are concerned with the impact of trade on environment following suggestions can be incorporated in trade sector to revive the environment:

- Mitigation effort will be effective if we have country-specific data. For example: in Africa the major issue is drought, so we can introduce drought-resistant seeds in the agriculture system which will boost trade by increasing exports as well as protect the environment by using less water and better fertilisers.
- Carbon emission structure of a country should be assessed so that better policies could be framed. (Wu & Salzman, 2014)
- By facilitating access to low-carbon technologies to low- and middle-income countries.
- Finance and knowledge should be provided to the low- and middle-income countries so that the low-carbon technologies can be adopted efficiently.

- Tariffs on environment friendly goods and services should be reduced as the tariffs are still high on clean goods (Shapiro, 2020).
- Environment provisions should be specifically and stringently followed.
- By expanding the range of environmentally preferable goods and removing the non-tariff barriers on these goods.
- By creating an International Environment Organisation on the lines of WTO. (Shampson, 2001)
- By facilitating the financial and technological capacity of low- and middle- income countries to combat CO₂ emission (Sugathan, 2018).

Conclusion:

Covid-19 pandemic impacted the world economy to a large extent and it resulted in rise in poverty. This increase in poverty will further impact the measures related to mitigation and adaptation of climate change as the demand of fossil fuels has spiked by affected industries due to lockdown. The policy makers have always overlooked the negative correlation between trade and the environment. Correct Trade policies have the potential of turning an economic growth which causes pollution to green economic growth. The policy makers should rationalise the trade barriers and subsidies provided to the industries in accordance with the environmental policies. It is high time the International Community addressed the issues related to trade and environment together so that the progress made till now would not be lost and the future generation could enjoy the clean and healthy environment that their predecessor has enjoyed. We need to evaluate the impact of trade on the environment and should work towards finding the balance between environment and trade so that neither the environment nor the trade suffers. Mother nature has the capacity to heal itself if we leave it on its own.

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