TRADE AND ENVIRONMENT
ISSUES IN APEC

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Abstract

The central argument of this paper is that regional economic integration must be complemented by the creation of regional frameworks for environmental management. Beyond working to expand market access, APEC countries must cooperate to create conditions which provide incentives for sustainable resource and ecosystem use. In this way, trade and environmental policies can mutually reinforce each other. In one way or another, it is likely that environmental issues will be on the agenda. The crucial issue is how deep and broad will be the integration of trade and environmental concerns. This paper suggests some guiding principles and innovative strategies. Presentation to 12th International Conference in Bangkok, Thailand, May 2002.
TRADE AND ENVIRONMENT ISSUES IN APEC

I. Introduction

The Asia Pacific Economic Cooperation Mechanism (APEC) is a unique intergovernmental process. The composition of APEC’s membership is seen as a novel arrangement as it has brought together developing, newly industrializing, and advanced industrial economies into a process of regional consultation and cooperation. The process that began in November 1989 with a meeting in Canberra (Australia) and attended by ministers from 12 Asia Pacific countries has come a long way. APEC’s unique characteristics can be understood and appreciated against the background of the region’s diversity and the various attempts at promoting regionalism and regional economic cooperation over some 25 years prior to that historic meeting in Canberra (Soesastro, 1994a, 1994b). As a process of cooperation and as a forum for consultations APEC definitely has undergone a significant evolution. APEC’s evolution has been influenced by three major developments, namely: (a) expansion of membership, (b) gradual institutionalization; and, (c) widening and deepening of the cooperation agenda.

The commitment of the APEC Community to promote a sustainable development are expressed in the Leaders’ Declaration Bogor, Indonesia, 1994: “We set our vision for the community of Asia-Pacific economies based on a recognition of the growing interdependence of our economically diverse region, which comprises developed, newly industrializing and developing economies…. The approach will be coherent and comprehensive, embracing the three pillars of sustainable growth, equitable development and national stability.”

In Osaka, Japan, 1995 the following objectives were expressed: “At Blake Island we established the vision of a community of Asia-Pacific economies, and at Bogor we set a number of specific goals and objectives, including:

- free and open trade and investment in the Asia-Pacific no later than 2010 in the case of industrialized economies and 2020 in the case of developing economies,

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1 APEC includes 21 members, which are ASEAN countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam), the United States, Canada, Australia, New Zealand, Republic of Korea, Japan, People’s Republic of China, Hong Kong, Chinese Taipei, Russia, Papua New Guinea, Mexico, Peru and Chile. APEC members represent about 40% of the world’s population, about 50% of world total GDP and about 40% of world total trade (the intra-regional trade being about 30%). Its intra-regional trade in monetary terms is larger than that of the EU’s intra-regional trade.

2 The authors view openness to foreign trade, technology, and capital flows as significant in fostering growth and possibly development. Participatory democracy is seen as essential for the political sustainability of growth-promoting policies.

3 The authors use italics in Part I to show the sustainability commitment of APEC.
expansion and acceleration of trade and investment facilitation programs, and

intensified development cooperation to attain sustainable growth, equitable development, and national stability.

In the same Declaration the topic of the environment is directly addressed: “Our ambitious attempt to promote wide-ranging regional cooperation and foster the spirit of community in the Asia-Pacific will doubtless encounter numerous new challenges and incur new responsibilities despite, or perhaps because of, our economic growth. The Asia-Pacific region's fast-expanding population and rapid economic growth are forecast to sharply increase the demand for food and energy and the pressures on the environment. We are agreed on the need to put these inter-related, wide-ranging issues on our long-term agenda and consult further on ways to initiate joint action so as to ensure the region's economic prosperity is sustainable”.

Among the eleven APEC Working Groups one is explicitly dedicated to the conservation activities, the Marine Resource Conservation Working Group (MRCWG). Other Working Groups in areas related to the environment also consider in their aims the principles of sustainability and environmental protection: for example, one of the four policy goals of the Tourism Working Group (TWG) is sustainable management of tourism outcomes and impacts. The Energy Working Group (EWG) seeks to maximize the energy sector's contribution to the region's economic and social well being, while mitigating the environmental effects of energy supply and use.

Two of the five aims of the Fisheries Working Group (FWG) are: the conservation and sustainable use of fisheries resources, and the sustainable development of aquaculture and habitat preservation.

The Industrial Science and Technology Working Group's (ISTWG) objective is to fulfill the APEC vision for the 21st century, being a dynamic and prosperous Asia-Pacific region built on the development and application of industrial science and technology that improves the quality of life while safeguarding the natural environment and achieving sustainable development. In its first ISTWG Medium-term Workplan (MTWP), the issues/themes identified for future work include: science, technology, and innovation to meet the environmental challenge.

The Transportation Working Group (TPTWG) aims to achieve liberalization of transportation services and works to enhance the safety of APEC Transport

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4 We also assume that economic growth can be compatible with environmental protection. However it is worth to mention that some authors diverge from this opinion and see the free trade and environment as completely opposite, for more details see Daly (1989, 1993, 1996) and Morris (1996). Following Pearce (2004), we believe that the trade-growth-environment debate must be further encouraged, this article being a modest contribution to the topic. As the text makes clear, the compatibility between trade and the environment is not automatic: rather adequate mechanisms must be created and maintained.
Systems in order to encourage economic development in the Asia-Pacific region. The TPTWG is organized into three Steering Committees, the second of them covering: *safe and environmentally-friendly transportation systems (including new technologies).*

Further to emphasize this point, in last year’s Senior Officials Meeting (SOM) in Chile, the proposal was accepted to create a special Working Group on the Environment.

Still many environmentalists and citizen groups throughout the Asia-Pacific region worry that APEC’s "sweeping vision" portends something more akin to a clearcut, smoking forest, than an efficient economic paradise. Despite some first steps to "green" APEC, free trade diplomacy has to date taken little consideration of the environment. Yet, economic openness generates new and specific pressures on environmental policymaking. With economic interdependence, the policies and norms of one country become deeply entangled with those of its trading partners. The scope for unilateral action is reduced, even as trade-induced economic growth increase pressures on resources and eco-systems. If in the past years priority was given to the trade liberalization and facilitation goals of APEC, it is time to reinforce the goals of sustainability and environmental protection.

This paper will address these basic questions by examining the process and progress in the area of APEC’s environmental cooperation, and suggest some guiding principles and innovative strategies.

**II. Trade Liberalization, Economic Integration and the Environment**

**1. The Trade-Environment Interface**

The relationship between trade liberalization, economic growth and the environment in Asia-Pacific has not yet been charted (Strutt and Anderson, 1998). Conceptual frameworks and evidence from other regions suggest first, that trade openness has both positive and negative impacts on the environment; and second, that economic integration constrains national environmental policymaking. When regions are highly integrated economically, they must develop common frameworks to govern the trade-environment interface.

According to Ivanova (1998, p.30), the positive impacts of the openness to trade and foreign investment can include:

- a) the transfer of more efficient, cleaner production technologies and consumer goods via foreign direct investment and imports;

- b) the learning and norm-building that occurs through cross-border exchange of goods, services, capital and ideas;
c) the transmission of higher environmental standards via import requirements by "large market" countries;

d) a more efficient allocation of production activity, with potential reductions in energy and materials use per unit of output (Corona Guzman, 1994).

If the goal of good environmental management is not simply ecosystem and resource conservation but sustainable human development, than the benefits of growth-inducing trade openness would also include rises in per capita income and consumption (Zarsky, 1999).

On the negative side, trade openness subjects national economies to rising market demand and the pressures of international market prices, which rarely include any, let alone full, calculation of environmental damage. With environmental degradation simply outside the market equation, market signals do not give information about the true costs of production (Grossman and Krueger, 1992). As a result, global production and consumption patterns could be grossly inefficient, in both narrowly economic and ecological terms.

Moreover, trade openness subjects national policymaking to competitive pressures. A country which attempts to internalize its own environmental costs will be priced out of markets. In this way, trade openness can be a transmission belt not for high and rising but for low and immovable environmental standards. For example, the U.S. will not enact a tax on the carbon content of energy until the EC does--and vice versa. Indeed, the failure of studies to find any significant impact on competitiveness of environmental standards is most likely due to the fact that market pressures sit heavily on domestic standards.

Experience and empirical data increasingly show that the costs of environment-blind economic growth are likely to be higher than development paths that build in environmental protection (Zarsky, 1994). Development strategies that promote income growth while preventing or minimizing pollution and ecosystem degradation could generate an entirely different relationship between economic growth and environmental quality. Impacts could be less negative or even positive if strong environment protection policies promote product and process innovation and enhance investment in environmental infrastructure.

The point is that without explicit environmental disciplines and constraints, trade and investment liberalization will not unambiguously promote sustainable use of resources and ecosystems. A host of rules and disciplines has been erected to frame the architecture of the world's trading system (Wee and Heyzer, 1995). To protect the environment, countries must likewise develop norms and rules setting limits and guidelines.

APEC encompasses one of the most highly integrated economic regions in the world. Nearly 70 percent of total APEC trade is intra-regional, much of it between
East Asia and North America and between Southeast Asia and Japan and, increasingly, China. The sub-region of East Asia, which excludes APEC's North and South American and Australasian members, is also highly integrated. About 45 percent of total East Asian trade is with other East Asian countries.

Total trade statistics mask the importance of economic size and do not measure a "bias factor," i.e., the tendency for countries to favor particular trade partners. Another measure of trade interdependence, derived from the gravity model, adjusts for size by dividing the share of two-way trade by the partner's share in world trade. In a gravity model, setting the intensity of regional trade in East Asia outstrips the intensity of Pacific region trade by some twenty five percent; indeed, the intensity of East Asian trade is the highest in the world (Petri, 1997).

Economic integration within East Asia, as well as on a trans-Pacific basis, is also evident in rising foreign direct investment. Between 1988-2000, the stock of FDI in East Asia grew by nearly 22 percent. Investors from North America and Japan, as well as Hong Kong, Taiwan and South Korea, have targeted Southeast Asia and China as growth poles.

Spurred by market opening in China, Russia and potentially North Korea, economic integration within the sub-region of Northeast Asia is likely to grow rapidly in the coming decade. Rent by ideological and military divides for fifty years, Northeast Asian trade has been skewed away from the high level of integration that has emerged in other regions where borders are friendly. With the end of the Cold War and increasing economic openness, trade and investment flows within the region are predicted to boom. According to one estimate, the value of trade flows within the Northeast Asian region will triple by 2010 (Jeong K., S. Kubayashi, and H. Takahasi, 1995)

Some analysts consider environmental degradation to be the "cost of development" and suggest that "grow now, pay later" is the only way to overcome poverty and achieve industrialization. Attention to environmental concerns, they posit, will come at the cost of GNP growth, which will itself generate the resources for future clean up and restoration. However, the financial, let alone social and ecological, costs of environmental carelessness are likely to be large in terms of damage to human health, loss of resource productivity, and degradation of ecosystem services.

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5 According to the 'Environmental Kuznetz Curve' hypothesis (EKC), countries develop according to a two-stage development path. Due to scale effects (more production is associated with more emissions) and the composition effect (through their initial development stage, countries will increase their manufacturing output relative to agricultural and services output), economic growth is associated with higher levels of environmental pollution in the first stage of development. As services become more important and the overall population becomes increasingly aware of the risks associated with pollution, the second stage of development is characterized by decreasing emissions levels (Kuznetz, 1963). For more optimistic theories regarding the environment see Simon (1995,1996) and Lomborg (2001)
The lack of environmental care is already imposing costs on development. The Tumen River, for example, site of a major Northeast Asian development project, is so polluted that cleanup and restoration is required before site preparation. Not even treated water is usable for human consumption, and agricultural lands irrigated by the Tumen have declined in productivity due to toxic contamination. Even industrial polluters along the Tumen have suffered declining productivity because their water input is below required standards (Yamasawa, 1997).

The way to calculate potential trade-offs between environment and development is not the absolute, additional cost of environmental investment but the net cost, that is, the additional cost minus the benefit (Lucas, Wheeler and Hettige, 1992). Additional costs are often easy to calculate. A recent study, for example, calculated that reducing acid rain-causing sulfur emissions in Asia by half over the next 25 years requires an annual investment of $432 per ton of sulfur dioxide emitted per year. For China, for example, this would mean an annual extra cost of $4-6 billion per year (Leavitt Siak, 2000, p.21).

So much for additional cost. But what is the benefit? In financial terms, the benefit amounts to the cost of not making the investment, that is, the cost of the environmental and health damage. According to a recent study, the annual damage of uncontrolled emissions of a single 600-MW coal-fired power plant in Northern China totaled over $39 billion per year (Ibid., p. 23).

2. Environmental Costs of Rapid Growth

The rapid industrialization of the Asia-Pacific region has produced an environmental situation that can only be described as a situation bordering on crisis. Rapid growth, fueled in part by foreign investment and trade openness, has made East Asia the economic success story of the world. Economic success, however, has come at the expense of severe and rising ecological degradation, including the pollution of water and air systems, rapid depletion of resources such as forests, wetlands and fisheries, and loss of flora and fauna (Ban, 2000). Ecological degradation imposes large financial costs in Asia-Pacific and globally. Moreover, some losses in ecosystem goods and services may be irreversible.

The costs of environmentally unconstrained, export-oriented economic growth are not limited to the rapidly industrializing and developing countries of APEC. In Canada, unsustainable management, including inappropriate pricing, undermines forest sustainability. In California, water subsidies promote the cultivation of water-intensive crops, such as rice, in arid areas, with negative impacts on water salinity, soil microorganisms, and flora and fauna. In Australia, farming and grazing practices in some states generate soil erosion and the decline of water tables. A recent newspaper story has even warned that the city of Perth will have
to be abandoned within 15 years for lack of water supplies (Otago Times, 17.02.05)

High rates of environmental degradation are also evident throughout Southeast and Northeast Asia, as well as Mexico and Chile. Environmental groups in Indonesia, for example, predict that, at current rates of logging, Indonesian forests will be exhausted within ten years (Pangestu, 1994). In Thailand, the huge inflow of unregulated flows of foreign investment have made a nightmare of Bangkok and severely widened the gaps between urban and rural Thais (Zarsky, 1994).

As Ban (2000, p.281) notes, over the last three decades, APEC economies have been the major source of world pollution. In fact, the world's top three emitters of greenhouse gases are in the region. Carbon dioxide emissions from the region are expected to rise 1.7 to 3.2 times in the next few decades, from the current 25 per cent of the world total today to 36 per cent by 2025. Sulphur dioxide and nitrous oxide emissions are expected to increase two to three times.

China's industrialization, with most of its energy dependent on the burning of high sulfur coal, poses a massive environmental threat. The "Korean Miracle" has made the sulfur dioxide content of Seoul's air one of the highest in the world and caused close to 70 per cent of the rain falling on the city to be so acidic as to pose a threat to human health. Seoul's air pollution is not unique in being a serious health hazard: in Taiwan, cancer rates have doubled since 1960; and children in Bangkok have among the highest levels of lead in their blood, largely attributable to air pollution.

"Water pollution," says the Australian APEC Study Center, "is the most widespread environmental problem in Asia." (O'Connor, 1997, p.98) Levels of dissolved mercury in Asian rivers far exceed recommended WHO (World Health Organization) standards. A few examples underline the gravity of the situation: a Malaysian government report (Ibid., p.113) ranked only 27 per cent of 116 surveyed rivers in Peninsular Malaysia as "pollution free"--the others being ranked as "biologically dead" or "dying." In Taiwan, the lower reaches of virtually all of the island's rivers are biologically dead. In Bangkok, key sections of the Chao Phraya River "are either biologically dead or very close to being so, owing to uncontrolled dumping of both industrial and human waste; and animal species that populated the length of the river declined from 121 in the late sixties to 31 in recent times (Leavitt Siak, 2000).

Deforestation is uncontrolled. The highest rate of deforestation in the world in the period 1981-90 was in mainland Southeast Asia, followed by island Southeast Asia. From over 50 per cent in 1950, the forest cover in the Philippines had dropped to less than 25 per cent by 1990. Seventy per cent of Thailand was virgin forest in 1932; by 1990, only 17 per cent of the country was forested. In the Malaysian state of Sarawak, loggers eliminated 30 per cent of the forest area in barely 23 years, 1962 to 1985; unless stopped, they will eliminate the rest by the
end of the current decade. And in just eight years, 1982 to 1990, a third of the
forests of the island of Sumatra, in Indonesia, disappeared (Strutt and Kym

Large tracts of agricultural land are being degraded by chemical-intensive agro-
technology and erosion or being converted indiscriminately into urban real estate.
China, where estimates of loss range from 50 million to 100 million acres since
the 1950s (out of a total of 272 million to 346 million acres), is probably the worst
case (Easterly, Islam and Stiglitz, 1999).

3. Economic Integration and the Harmonization of Environmental Policy
If governments do not act together to develop common environmental
frameworks, markets and unilateral state actions will do it for them. The problem
is that neither markets not unilateral action are likely to deliver adequate and
appropriate environmental protection.

Market pressures for harmonization in environmental standards can be transmitted
in a number of ways. The traditional way is via competition for export markets; as
argued above, states are typically reluctant to (knowingly) impose regulatory
costs on domestic producers which dull their competitive edge. Competition for
foreign investment may be another gravitational pull toward similar practices and
standards. 6

For large multinational corporations (MNCs), which operate in dozens of
countries, learning about and complying with standards which differ from country
to country can be a high-cost strategy. Moreover, liability laws may make them
vulnerable to being sued in their home countries even when the damage occurs
overseas (Klitgaard and Sciele, 2000). For these reasons, many MNCs set
company-wide standards which apply wherever they operate. Moreover, MNCs
often support international standards and norms such as the International
Standards Organization's 14,000 series on environmental management.

Beyond competitive market forces, harmonization among trade and investment
partners is driven by national regulatory policies. Large-market countries set
product requirements for imports, including environmental, health and safety
requirements. Large-market states, which tend to be politically powerful, have
also taken initiatives to institutionalize convergence in environmental policy in
the context of negotiations over trade liberalization, including in the European
Union and North America. Convergence lowers transactions costs of trade. It also
reduces the likelihood that environment policies will be used as a protectionist
device. Some analysts have concluded that market-driven economic integration is
beneficial for the environment because large-market countries tend to have high
standards (Vogel, 1995), the acceptance of lower standards in other countries
would certainly translate into cost disadvantages for the greener economy.

6 However, observers have pointed to the danger of a “race to the bottom” in countries competing
for export markets and foreign investment. See…..

http://services.bepress.com/itfa/15th/art58
The "large-market" convergence process in APEC will be complicated by the fact that there are two large-market countries, the United States and Japan. With their very different industrial structures and resource endowments, the U.S. and Japan tend to have different environmental concerns and standards. Moreover, the ASEAN countries, combined with East Asian NIEs (South Korea, Taiwan, and Hong Kong) represent a significant economic force. Finally, China is already an important site for foreign investment and will emerge as a large-market country over the next decade (Elek, 1998). China is growing at the rate of about 12 per cent per year. By 2010, its GNP\(^7\) is expected to triple that of second-place Japan. Without environmental constraints, increasing integration with China would likely pull environment standards down as foreign companies compete for market share.

From an ecological standpoint, the problem with harmonization is two-fold. First, nowhere in the world are environmental standards "good enough." Market-driven and government-driven harmonization could lock countries into a relatively low ceiling on environmental commitment (Ferrantino, 2000). Second, whether driven by markets or diplomacy, whether standards rise or fall, the same standards cannot be ecologically appropriate everywhere.

Ecosystems (and social priorities) differ enormously by specific locale—even within countries, let alone across borders. Standards imported from elsewhere may be too low, too high, or simply irrelevant to the sustainable functioning of a local ecosystem or the sustainable harvesting of local resources. Moreover, the use of scarce local resources to meet standards developed elsewhere may mean that more pressing local priorities are neglected. Even within countries (the United States, for example) there is increasing dissatisfaction with rigid, national standards and search for more flexible, locale-specific regulatory approaches (Duchin, 1996).

The main problem in the trade-environment interface in APEC is the need to create common regional frameworks to govern resource and ecosystem use, while at the same time promoting local diversity and rising environmental commitments (Brandon and Ramankutty, 1993).

This suggests an approach aimed at convergence in principles and policy guidelines, rather than harmonization of standards. Most important, it suggests the need for formal and informal institutions and processes which maximize opportunities for learning, incorporating new information, resolving disputes, and generating solutions.

III. EVOLUTION OF APEC's ENVIRONMENTAL AGENDA

How central has the environment and sustainable development been in the APEC agenda?

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\(^7\) At purchasing power parity (PPP)
While sustainable development found its way into various documents prior to 1993, it was only in March 1994 when the APEC countries' environmental ministers met in Vancouver, that the environment was given serious consideration (Chia Siow, 1994). The resulting "Environmental Vision Statement" emphasized the following points:

- that there were "inseparable linkages between environment protection and economic growth" in the creation of "an enduring foundation for sustainable development."
- that APEC should take the lead in "addressing global [environmental] problems and solutions in line with the global consensus reached at United Nations Conference on Environment and Development (UNCED)."
- that the "market can be an efficient and flexible means of allocating resources but that market outcomes do not always take into full account relevant environmental concerns. The challenge is to achieve sustainable development while taking advantage of the dynamism that market economies provide."

At first, the impetus from the Vancouver meeting seemed to pay off as the August 1994 report of the Eminent Persons' Group (EPG), the quasi-official body that served as APEC's intellectual shepherd in the early 1990's, encouraged member economies "to harmonize national product standards, develop and share pro-environmental technologies, jointly fund environmentally sound development projects, and seek international acceptance of the principle of the internalization of the costs of environmental protection." (APEC, EPG, 1994)

But, as Dua (1997, p.69) pointed out, the environment was given short shrift in the next few years. The Bogor Declaration was almost totally focused on the goal of creating a free trade area and hardly mentioned sustainable development. Prior to the Osaka Summit in November 1995, in the third and last report of the EPG, environmental concerns "were conspicuous by their absence." The Osaka Summit itself resulted in the creation, at the direction of the leaders, of a "Food, Energy, Economic Growth, Population" or FEEP Task Force that would "consider cross-cutting issues." But more important was the decision not to create new working groups, which, as Dua affirms, "effectively rules out an APEC committee or working group on trade and the environment."(Ibid, p.73).

APEC appeared to regain its interest in an environmental agenda in mid-1996, during the second meeting of environmental ministers in Manila. President Fidel Ramos of the Philippines seemed to strike the appropriate note when he warned that "We finally stand on the threshold of unprecedented growth and change. That threshold--unless we watch our step and look when we cross--could very well be the brink of environmental disaster." Such an outcome would be a result of mismanaging the "critical and often competing claims of environmental protection and economic growth," thus making it imperative to continue "pushing
the limits of what we can do to harmonize these concerns." (Pacific Economic Cooperation, 1996).

At this meeting, three proposals were mooted as areas of joint cooperation in environmental matters: a "Clean Pacific" initiative that was intended as a "regional cooperative effort to improve and improve the health of the Pacific Ocean by the year 2020;" a "Clean Production" initiative that emphasized "non-regulatory, market-based approaches to achieving cleaner production, involving the mobilization of partnerships among and between government and the private sector;" and a "Sustainable Cities" program to counter the "negative environmental and social impacts such as reduced air and water quality and increased health risks" in the growing urban centers of the Asia Pacific (Drusdale, Elek and Soesastro, 1998). The problem with these initiatives was that they were very general and thus relatively non-controversial and not backed by concrete commitments of funds.

The Manila Summit, while dominated by trade concerns, nevertheless struck the note of "sustainable development" more frequently than previous summit statements.

Point 3 of the Manila declaration refers to the leaders' commitment to "sustainable growth and equitable development."

Point 16 asserts that "as an essential complement to our trade and investment agenda, economic and technical cooperation helps APEC members to participate more fully in and benefit from an open global trading environment, thus ensuring that liberalized trade contributes to sustainable growth and equitable development and to a reduction in economic disparities."

Point 19 affirms that "promoting rapid economic growth that ensures a healthy environment and improves the quality of life of our citizens is a fundamental challenge."

Finally, point 20 directs the senior ministers of the APEC countries "to develop specific initiatives to implement an initial work program for sustainable development in APEC that includes the themes of the sustainability of the marine environment, clean technology and clean production, and sustainable cities."

But juxtaposing the Manila Declaration and the Collective Action Plan approved at the same time reveals the gap between rhetoric and reality that marks APEC's approach to the environment. Of the three initiatives receiving special mention by the leaders, the only one that was touched on by some concrete proposals in the Collective Action plan was the marine environment. The "Marine Resources Conservation Working Group" completed by the year 2000 "a program to provide training, infrastructure, and oversight measures necessary to establish
harmony in policies, procedures, and capabilities to enable the export/import of fishery products without concern for algal toxins.” (Ferrantino, 2000, p.67)

The marine environment was also the focus of another working group, the "Fisheries Working Group (FWG)," but from its list of accomplishments in 2000, it was clear that exploitation of the sea was much more on the mind of the committee than the conservation of sea life.

The Collective Action Plan underlined, among other things, the consequences of the absence of a committee on the environment. Not only did the initiatives mooted by the leaders lack an institutional home which could process and implement them, but the environmental problems threatening the region could not be addressed in a comprehensive fashion. This situation was in marked contrast to the World Trade Organization (WTO) which, for all its shortcomings when it came to the environment, did have a Committee on Trade and the Environment (CTE). This, in turns, reflect the fact that even more than in the case of the WTO, the environment has not been integrated into the trade agenda of APEC, as have other areas such as energy, transportation, agricultural and technical cooperation, and telecommunications and information, on which there are working groups that meet regularly.

IV. TOWARDS COMMON PRINCIPLES IN APEC´s ENVIRONMENTAL AGENDA

As mentioned in Part IV, most APEC countries have taken steps in the last decade to improve environmental management and reduce the ecological costs of rapid growth. At a regional level, however, joint environmental discussion and action is in its infancy. The environmental agenda is very much in the development stage and the political will to discuss environmental issues at APEC is just emerging. Without external pressure, governments are likely to focus on narrow environmental concerns, such as the harmonization of product standards, which are heavily influenced by their national economic interests. It is up to citizen groups, scientists, analysts and other non-governmental stakeholders to articulate regional common interests and to press for a broader environmental agenda (Zarsky, 1998).

The first step is to develop common principles to guide the governance of the trade-environment interface. Key first principles might be:

1. **Integration of Trade and Environment**: The very first principle is the recognition that trade and environment impacts and policies are interlinked, both at the national and regional levels. Trade and investment policies should maintain the environmental integrity of ecosystems.

2. **Cooperation**: Common rules, guidelines and frameworks for environmental management should be developed through processes of regional discussion and
consensus-building. The more powerful countries should eschew the use of unilateral trade sanctions to impose environmental conditionalities, except in the context of international or regional agreements. Ample opportunities must be created for environmental concerns to be articulated by all members of APEC.

3. **Mutual Responsibility**: No APEC country can claim the moral high ground as the guardian of ecologically sound development. The embrace of regional mechanisms which promote environmentally sound trade patterns will require all APEC countries to make changes in their existing domestic policies and to enact new policies.

4. **Efficiency, Eco-Efficiency, and Cost Internalization**: One of the central aims of regional trade-environment cooperation is to generate market prices which take ecological costs into account. The reverse is also important: environment policies should promote economic efficiency and aim to ensure that scarce financial resources are well-spent. Despite the fact that the Bush administration has refused to sign the Kyoto agreement, its acceptance by Russia—a large APEC country—has given it new life. This has in turn fostered the

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8 There are formidable problems in identifying and valuing the costs of using environmental resources and allocating costs to particular goods. But that only underscores how urgently those problems need to be addressed. Broadly speaking, the problems can be divided into three groups. First, consensus is only beginning to emerge on essential concepts, definitions, measurement techniques, data needs and methods of analysis, and further research is urgently needed. Even where the theory is fairly clear, there is often disagreement as to how internalization should be put into practice. Frequently the process is further complicated by poorly-defined property rights to environmental resources.

Second, in the course of internalizing costs, producers fear there will be inadequate offsetting gains in efficiency, and that they will lose business to competitors facing less onerous requirements. It is not yet clear to what extent these fears are in fact valid, as evidence on this issue remains inconclusive. For example, given the trend to stricter environmental regulation worldwide, and growing "green" demand in major markets, companies that have a head start in adjusting production processes to environmental demands may in fact gain market share as cost internalization proceeds elsewhere. Nevertheless, competitive concerns are likely to remain, at least in the early stages of cost internalization. In instances in which it can be demonstrated that competitive forces are contributing to continued underpricing of specific products—for example, those produced by extractive industries—the acceptance of cost internalization would be aided by an internationally negotiated and coordinated schedule for internalizing the locally determined costs. Once a good faith effort had been made, however, a failure to agree on such a schedule would not be a justification for postponing cost internalization. Ultimately, each government can, at least, ensure that environmental resources within its national boundaries are not misused because of a failure to internalize costs.

Third, cost internalization is not an adequate approach to dealing with environmental costs stemming from irreplaceable losses, such as species extinction or lasting damage to the regenerative capacity of renewable resources. These problems are discussed in more detail below, under the principle of Environmental Integrity.

Despite these considerable complications and challenges, it is evident that cost internalization based on the polluter pays principle must play a central role in efforts to improve efficiency, improve the management of natural resources and promote worldwide sustainable development.
growth of emission permits trading between that country and the EU and even California.

5. **Scientist and Stakeholder Participation**: The creation of sound approaches to regional environmental management requires APEC to open its doors to scientists, especially ecological scientists, citizen groups and other stakeholders. Scientists and stakeholders should receive ongoing opportunities to participate in the design and implementation of regional trade, investment and environment policies. Stakeholders include community, consumer, environment and development groups, labor unions, farmers, businesses and others.

6. **Diversity and Commonality**: The general approach of APEC should be to promote common guidelines and frameworks while leaving micro-management to national and sub-national governments. Rather than the same standards, for example, APEC could aim to standardize information gathering and testing procedures, as well as standard-setting methodologies such as environmental and health impact and risk assessment. Harmonization of standards should be pursued where appropriate.

A broad environmental agenda aims to embed an environmental rationality into APEC’s fundamental goals and institutions--and to do so in a way which does not create a low ceiling on mutual environmental commitments (Zarsky, 1999).

**VII. CONCLUSIONS**

More than ten years after APEC’s founding, the not very attractive reality of the status of the environment in it is summed up by a report by the Nautilus Institute for Security and Sustainable Development, to the effect that the seeds of environmental cooperation at APEC are still germinating, as little has yet blossomed in terms of implementation of initiatives, let alone measurable improvements in environmental performance. Nautilus points out that significant areas of sustainable resource management, including agriculture, are not yet on the agenda, there is resistance to discussing policy change, and institutional mechanisms to coordinate environmental work and to interface with environmental NGOs are lacking. Most importantly, the trade “track” remains largely separate from rather than integrated with sustainable development objectives and environmental diplomacy (Zarsky and Hunter, 1995).

Five years on, much further action is needed. First, the US, APEC’s prime actor, has not been sympathetic to any effort within APEC that might detract from the primacy of free trade: the use of APEC to advance the global free trade agenda remains uppermost in the US agenda for APEC. To Washington, the environmental agenda within APEC is in many ways like the aid agenda, one that threatens to deflect APEC from its main goal of promoting trade liberalization.

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9 The Economist, October 21st, 2004
Second, investors in the Western Pacific are not sympathetic to a serious environmental program that would add to their costs of doing business in the region, and this would be the same for other Asia-Pacific corporate elites.

Third, many developing country elites have pursued the NIC development model, which sees no need to invest in pollution control and externalizes environmental costs. They would be loath to sacrifice their immediate economic gains to transnational environmental controls.

Finally, there is the question of the future direction of APEC’s institutional evolution. The above examination helps identify a number of issues that should be examined by APEC. First is the role of the Leaders Meetings. As shown in the past, the APEC process can be accelerated by a boost from the leaders, such as can be produced by a summit meeting. Therefore, APEC Leaders Meetings should be re-engineered, to return to free-wheeling format without a preset agenda, as, indeed, they were originally conceived. In this way the Leaders Meetings function as a ‘guiding spirit’ in the APEC process. The G-7 approach as expanded may be the closest model.10

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10 A more extensive paper would include detailed consideration of possible concrete actions such as the afford mentioned emission permit trading, voluntary agreements and other measures, that alas, lies beyond the purview of the present contribution.


Otago Times, The Regions, Februari, 20, 2005, p.1

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