# International trade

**Reconciling open trade with environmental protection is a central dilemma for the world in the 21st century. Trade issues go to the heart of whether increased wealth is good or bad for the environment. Will global markets provide the means to take ecological concerns into account, or merely encourage the excessive consumption, pollution and waste that stoke the engines of environmental destruction?**

Trade has been one of the driving forces of civilization since antiquity, when maritime trade through the Indian and Pacific Oceans sustained Chinese imperial dynasties. The search for spices, gold and other luxuries first brought Europe into regular contact with both Asia and Africa, while trade sustained the early colonies of the Americas.

Trade, by expanding export markets and boosting timber demand for ships, has always had the potential to trigger environmental destruction. Plantations of crops bound for Europe displaced most of the coastal rainforests of West Africa in the 19th century[1]. More recently, Japanese demand for timber fuelled the plundering of the rainforests of Southeast Asia. But trade has allowed other countries to conserve natural resources through substituting local products with imports.

World trade at the start of the 21st century is running at unprecedented levels and for the first time is being regulated by a single body. The World Trade Organization (WTO) was set up in 1996 and has more than 130 member nations. But its rules, which aim to maximize global trading, present a dilemma for environmental protection. On the one hand they encourage economic efficiency which, by ensuring the careful use of materials, should also promote environmental efficiency. On the other, they may undermine livelihoods and invalidate national and international laws framed to address specific environmental threats.

Most economic activities create ecological "externalities", such as pollution or loss of finite natural resources, that are not reflected in the price of the product. Some governments attempt to fill this gap by taxes on pollution, regulations on the environmental behavior of manufacturers, or subsidies for environmentally preferable methods. But such interventions can be seen as "protectionist" if they skew trade against foreign competitors.

A parallel debate concerns the role of wealth in environmental protection. Some argue that poverty is the real enemy of the environment, and that increasing trade opens up markets for the products of the poor, diminishing poverty and providing the means, incentives and technical know-how to use resources efficiently and invest in cleaner production, thereby encouraging sustainable economic growth[2].

Others believe that a growth in international trade is already undermining poor economies by increasing penetration by foreign companies. They say that this process has hastened the pauperization of Africa, whose share of world exports fell from 4.2 percent in 1985 to 2.3 percent in 1996, of which South Africa made up almost a quarter[3].

Proponents of lowering barriers to trade argue that bans on subsidies for farming and the

## MERCHANDISE, 1998
### Top exporters

| | Value Billion US$ | % of world exports |
|---|---|---|
| USA | 682.5 | 12.6 |
| Germany | 539.7 | 10.0 |
| Japan | 387.9 | 7.2 |
| France | 304.8 | 5.6 |
| UK | 272.9 | 5.0 |
| Italy | 242.3 | 4.5 |
| Canada | 214.3 | 4.0 |
| Netherlands | 198.7 | 3.7 |
| China | 183.8 | 3.4 |
| Benelux | 178.5 | 3.3 |

### Top importers

| | Value Billion US$ | % of world imports |
|---|---|---|
| USA | 944.4 | 16.8 |
| Germany | 466.6 | 8.3 |
| UK | 315.2 | 5.6 |
| France | 286.3 | 5.1 |
| Japan | 280.5 | 5.0 |
| Italy | 215.6 | 3.8 |
| Canada | 206.2 | 3.7 |
| Hong Kong* (China) | 186.8 | 3.3 |
| Netherlands | 184.2 | 3.3 |
| Benelux | 166.5 | 3.0 |

* Imports less re-exports = 36.5; share = 0.6

## COMMERCIAL SERVICES, 1998
### Top exporters

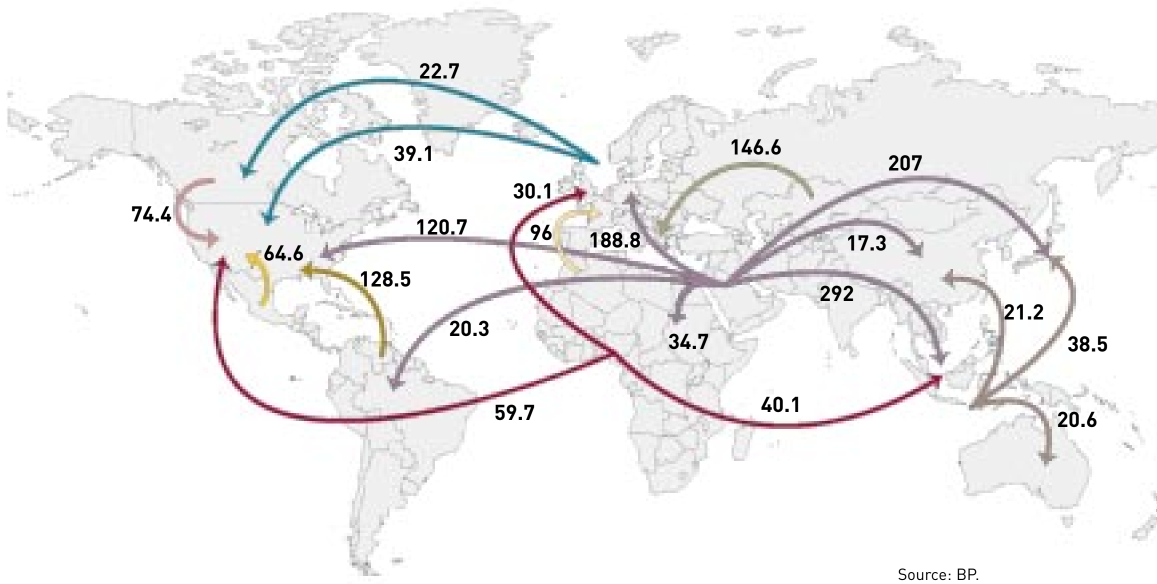
| | Value Billion US$ | % of world exports |
|---|---|---|
| USA | 240.0 | 18.2 |
| UK | 100.5 | 7.6 |
| France | 84.6 | 6.4 |
| Germany | 78.9 | 6.0 |
| Italy | 66.6 | 5.1 |
| Japan | 61.8 | 4.7 |
| Netherlands | 51.6 | 3.9 |
| Spain | 48.7 | 3.7 |
| Benelux | 35.4 | 2.7 |
| Hong Kong (China) | 34.2 | 2.6 |

### Top importers

| | Value Billion US$ | % of world imports |
|---|---|---|
| USA | 165.8 | 12.7 |
| Germany | 125.0 | 9.6 |
| Japan | 110.7 | 8.5 |
| UK | 78.8 | 6.0 |
| France | 65.4 | 5.0 |
| Italy | 62.9 | 4.8 |
| Netherlands | 46.6 | 3.6 |
| Canada | 35.2 | 2.7 |
| Benelux | 33.9 | 2.6 |
| Austria | 30.1 | 2.3 |

Source: WTO.

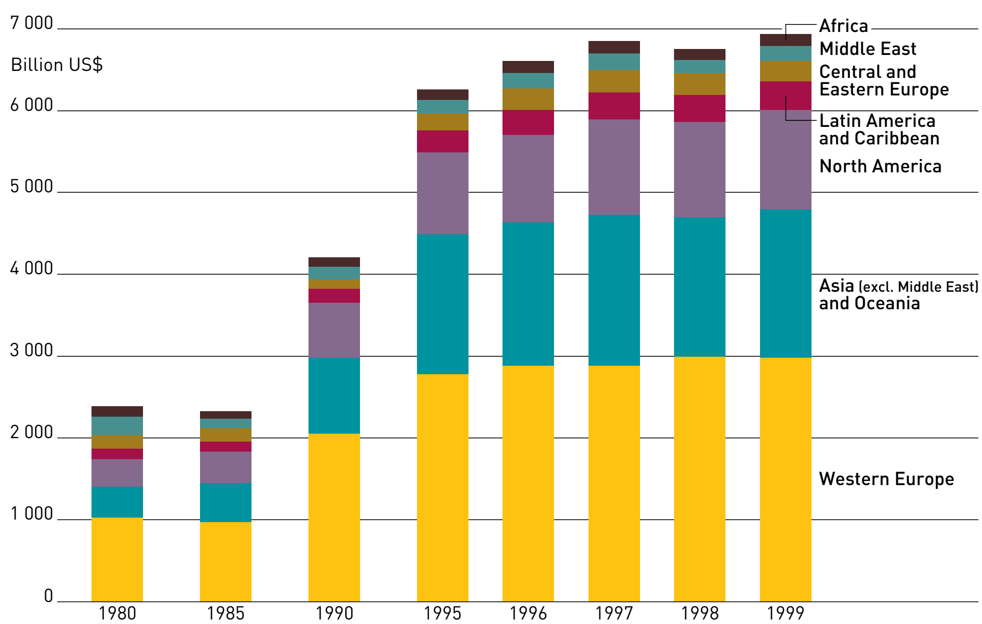
## MAJOR TRADE FLOWS IN OIL, 1999
### Million metric tons




Source: BP.

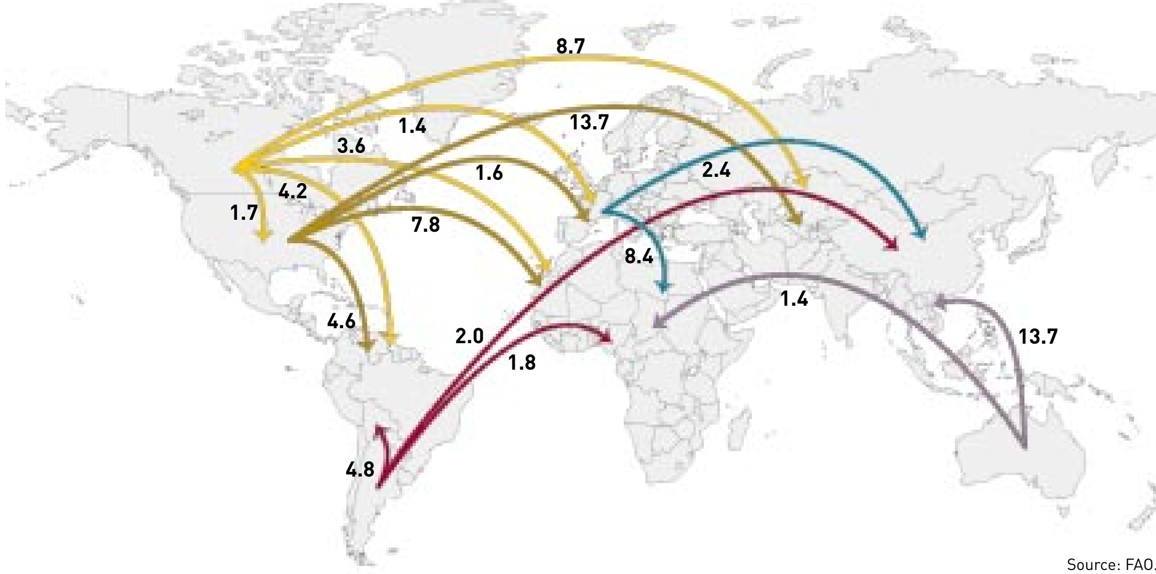
**Canada** (to USA)
**Mexico** (to USA)
**Venezuela** (to USA)
**North Sea** (to USA; Canada)
**North Africa** (to France)
**Nigeria** (to USA; UK; Malaysia)
**Middle East** (to USA; South/Central America; Northern Europe; East Africa; Japan; China; Singapore/Malaysia)
**CIS** (to South/Southeast Europe)
**Indonesia** (to Japan; Australia; China)

## GROWTH OF WORLD TRADE




Source: WTO.

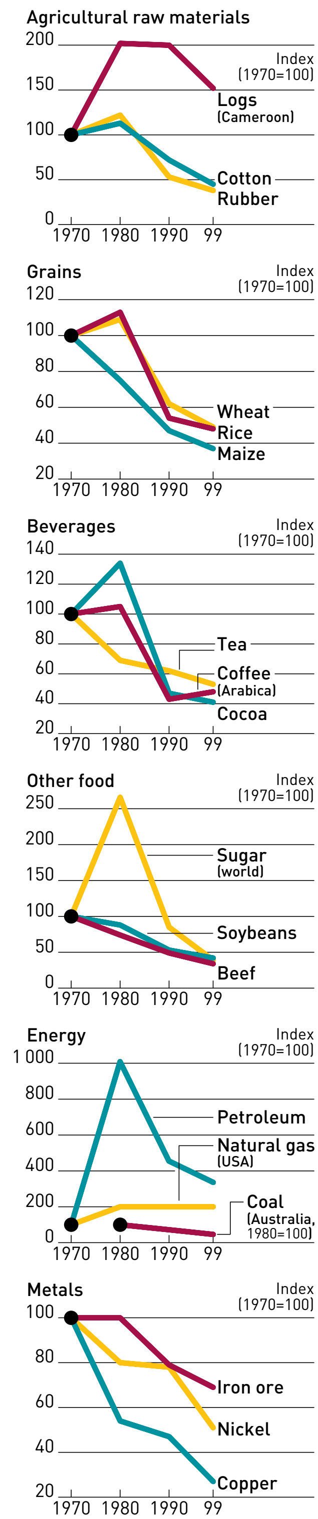
## MAJOR TRADE FLOWS IN WHEAT AND WHEAT FLOUR, 1997
**Million metric tons**




Source: FAO.

- **Canada** (to Africa; Asia; South/Central America; North America; Europe)
- **USA** (to Africa; Asia; South/Central America; Europe)
- **Argentina** (to Africa; Asia; South/Central America)
- **European Union** (to Africa; Asia)
- **Australia** (to Africa; Asia)

## COMMODITY PRICES




Source: WTO.

## TRADE FLOWS IN WOOD AND WOOD PRODUCTS, 1997
**Between selected producers and importers (US$ thousands)**

| From | To: Canada | China | France | Germany | Italy | Japan | UK | USA |
|---|---|---|---|---|---|---|---|---|
| Brazil | 15 202 | 92 259 | 136 785 | 102 717 | 91 478 | 210 854 | 208 198 | 616 707 |
| Canada | – | 632 571 | 221 999 | 624 768 | 436 431 | 2 633 646 | 459 665 | 17 744 929 |
| China | 1 444 | – | 249 | 1 649 | 1 421 | 279 775 | 5 170 | 20 037 |
| Finland | 47 493 | 213 473 | 753 657 | 1 956 913 | 341 561 | 346 636 | 1 467 817 | 574 507 |
| France | 37 488 | 147 947 | – | 767 392 | 524 446 | 18 710 | 449 700 | 142 688 |
| Germany | 45 299 | 263 845 | 1 158 327 | – | 810 763 | 62 978 | 1 481 371 | 575 841 |
| Indonesia | 11 620 | 1 336 311 | 36 139 | 62 357 | 71 835 | 1 471 700 | 110 066 | 385 175 |
| Malaysia | 8 961 | 878 757 | 33 176 | 58 840 | 25 300 | 1 816 419 | 85 293 | 143 418 |
| Russia | 3 297 | 210 620 | 43 022 | 110 755 | 100 462 | 617 660 | 113 967 | 60 704 |
| Sweden | 12 717 | 159 006 | 650 023 | 2 037 475 | 556 635 | 184 999 | 1 789 568 | 134 542 |
| USA | 3 146 159 | 1 319 397 | 325 170 | 722 209 | 671 410 | 2 513 838 | 672 982 | – |

**The flows between these countries represent 41% of world trade in roundwood, wood panels, sawnwood, pulp and paper.**

Source: FAO.

**Trade dependency**

The extent to which countries are dependent on international trade depends on many factors, including population and natural resources. Small, rich countries with few natural resources but high populations are generally the most dependent on trade. Thus the top ten countries for whom trade represents the highest proportion of GDP include Singapore (top at 93 percent), Panama, Bahrain and the Netherlands Antilles. The ten least trade-dependent nations are mostly those that are politically isolated (Iraq, Myanmar, Democratic People's Republic of Korea), poorest and most politically dislocated (Democratic Republic of Congo, Liberia, Haiti) or the richest with large internal markets (United States, Japan). The last two, though not trade-dependent, nevertheless occupy top places in volumes of trade by virtue of their economic size.

energy industries will benefit the environment. One test case concerns Western agriculture, where subsidies designed to maintain rural populations have encouraged more intensive farming, including heavy use of pesticides and fertilizers. The hidden environmental and human health costs of modern farming methods in Britain have been put at US$350 per hectare each year, approaching the value of European Union subsidies[4]. If future trade rules outlawed the subsidies, economists and environmentalists agree that these environmental costs would also fall as farming became less intensive.

Another test case is Chinese energy. State subsidies are a major cause of the overuse of fossil fuels, causing smogs and acid deposition and adding to climate change. During the late 1990s, while negotiating to join the WTO, China cut subsidies on coal by more than 50 percent. This resulted in real cuts in the use of coal at a time when its economy was growing by an average of 8 percent a year[5].

One important impact of international trade, particularly on fast-growing countries, is to increase the impetus for their economies to be based on specialization for export markets. In developing countries still heavily dependent on agriculture, this typically means a commodity crop such as coffee, cocoa or bananas. This can both encourage deforestation and the drainage of wetlands, and push once biodiverse farming areas into species-poor monocultures of varieties frequently alien to local ecosystems – with high inputs of toxic chemicals such as pesticides.

The WTO's charter, however, does require it to promote environmentally responsible trade and allows it to exempt conservation laws from its rules banning protectionism. The Organization formally recognizes some international environmental legislation as a legitimate constraint on trade, including the Montreal Protocol on Substances that Destroy the Ozone Layer. But a series of rulings in its first years appeared to back trade against the environment.

In 1998, for example, it ruled against the United States, which had banned imports of shrimps worth US$2.5 billion a year from four Asian countries – Thailand, Pakistan, Malaysia and the Philippines – because fishermen in these countries used nets that captured up to 20 000 endangered Olive Ridley turtles. Such nets were illegal under United States law. The WTO invoked the rule that it is generally illegal to discriminate, either through labelling or outright bans, between identical products on the basis of how they are produced.

The shadow of the WTO has also hung over negotiations for future environmental laws. These include proposed controls on persistent organic pollutants (POPs) such as pesticides, and on genetically modified (GM) products. Talks on a Biosafety Protocol under the Convention on Biological Diversity broke down in early 1999 because of fears that it could become a protectionist device, but agreement was nevertheless reached early in 2000, setting rules for controlling trade in GM products. The Protocol explicitly allows countries to respond to fears about health or environmental dangers from GM by preventing trade, but also leaves them open to WTO sanctions.

Despite such concerns, the governments of industrialized countries have generally argued that the environment should play a bigger role in trade law. But some developing countries say this will undermine their economic development by imposing "Western" environmental laws more appropriate to richer economies.

Behind all this are cultural as well as economic and environmental concerns about the impact of globalization. The globalization of trade in agricultural goods is likely to intensify standardization of farming methods and crops, ensuring a further loss of species and genetic diversity on the farm. Moreover, current concepts of free trade are hard to reconcile with successful communal styles of ownership of land and resources that often underpin indigenous communities that live in greater harmony with their environment. A global standardization on Western lifestyles, it is argued, will promote air pollution through car ownership, meat-rich diets and a hundred other polluting and resource-depleting activities.