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Trade Agreements, Competition, and the Environment: Gridlock at the Crossroads: Discussion

Emily A. McClain*

Seale and Fairchild cover an ambitious array of issues in their paper on "Trade Agreements, Competition, and the Environment". Perhaps it is this ambition that leads their discussion to be too generalized in some areas. Their paper is organized into several sections: (1) a review of trade theory and generalizations about resource use ("GATT or NAFTA, Does it matter?"); (2) issues that link trade and environmental policy; (3) observations on shifts in U.S. trade policy behavior; and (4) perspectives on the changes and adjustment facing southern agriculture. I would like to challenge some of their assertions about regional trading blocs, and the environment and resource use.

The authors provide a "traditionalist approach" in tackling the links between environmental quality and trade liberalization. This discussion provides a sound review of theory, with the conclusion that multi-lateral agreements (such as GATT) lead to more "efficient" resource allocation, and thus are better for environmental quality. While this argument has great intuitive appeal, it is erroneous to link efficient resource use with environmental quality without stringent disclaimers.

Arguments about efficient resource use are fraught with the problems of lumping resources with a disregard to characteristics such as renewability, sustainability, and multi-generational allocations of stock resources. For example, Shane and won Witcke took an interesting approach to this issue of links between resource use and the environment and explored the implications of whether that link is

linear or non-linear. "Environmental quality" often takes the guise of a public good. This means that environmental quality will not necessarily be provided, secured, or enhanced through a market outcome -- be that solution one that "optimally" allocates resources or a solution that is perhaps "second best", such as regional free trade agreements (FTA's).

In arguing for multilateralism over regionalization, several "positives" relating to emerging customs unions and free trade areas were overlooked. First of all -- regional blocks can decrease the level of domestic market distortions and increase resource efficiency. One need only consider the comprehensive policy changes that Mexico has made to accommodate NAFTA policy adjustments to see that this is true.

Seale and Fairchild suggests that FTA's slow the process towards world wide free trade and cite by example, increased protectionism under the European Community (now European Union) and the stagnancy of the EFTA (European Free Trade Association). However, more recent events suggest that sub-regional and regional agreements can increase the pace of trade liberalization and enhance efforts to liberalize trade in a global fashion. Consider the revival of the integration movement in Latin America and the Caribbean (LAC).

Forsythe and Neff (1993) catalog numerous trade agreements in LAC including the Central American Common Market (CACM) reestablished

*Emily A. McClain is an Atlanta-based private consultant.

in 1991; the revival of the Andean Pact (Venezuela, Colombia, Ecuador, Peru, Bolivia, and Chile); MERCOSUR, or Common Market of the South (Argentina, Brazil, Uruguay, and Paraguay); and the G3 -- Mexico, Venezuela, and Colombia, whose goal is to have a free trade zone this year. These subregional agreements have led to a proliferation of bilateral agreements such as between Venezuela and Colombia, Chile and each of the G3, Venezuela and Argentina, Venezuela and El Salvador, etc.

Most Latin American countries view sub-regional integration as a step in the process of opening their long-protected domestic markets to foreign competition in a global sense. By opening borders between neighboring countries they hope to inject enough competition to (1) give inefficient industries a chance to adapt to increased competition in a sequential fashion, (2) expand markets, and (3) attract foreign investment. An equivalent level of multi-lateral liberalization would be a large shock to industries that are already facing much domestic adjustment and economic reform. Tariff reform in some cases has occurred much more rapidly than would ever be likely under a GATT-type reform.

Take for example the MERCOSUR. From the signing of the Treaty of Asuncion early 1991 until the end of 1992, the four MERCOSUR countries had successfully lowered tariffs on most goods traded within the sub-region by 68%. Today, tariffs are even lower. MERCOSUR will likely be a free trade area by 1995, achieving a 100% tariff reduction in less than four years. By comparison, negotiations for GATT 1994 lasted almost eight years, and will only cut tariffs by 36% over a six to ten-year period.

Since the current pace of regionalization appears to be more rapid than we can document, much less research, it is important to ask the value debating the merits of multilateralism versus regionalism. Many have generalized that the evolution of FTA's under most circumstances leads to increased trade and efficiency; they do not try to extend their generalization to the environment. The popularity of regional trade agreements and their apparent negotiating ease (vis a vis, multilateral agreements) suggest that they are here to stay. Seale and Fairchild do conclude with a valid

observation that "proximity and bilateralism might make environmental agreements more feasible".

In their section "Trade, Growth and the Environment", the authors make a good point that environmental quality is a luxury good such that countries desire different levels of environmental quality. Such arguments have been made by The World Bank and other international development institutions who point out that trade leads to growth, prosperity, and a demand for environmental quality. For developing countries, this means that the demand for basic services and social programs has to be met before environmental protection and regulation will have a large share of a government's budget. Remember that free markets do allow poor countries to import more efficient technology that is perhaps less polluting (thus, environment-saving).

The remainder of their paper discusses various issues related to externalities, the distortionary pitfalls of various policies used to address such externalities. The closing section of the paper highlights reasons why changing trade policy and increased environmental regulation (with or without links to trade negotiation) pose threats to southern agriculture. In closing, I would like to refer to the authors' opening quote: "Nothing is certain but Change itself".

In preparing for these changes, it seems that an informed Southern Agriculture will be best positioned for adjustment. In order to help the private sector understand these changes and to provide input into the policy making process (either to influence the process, or argue for adjustment assistance) it is important to remain objective to maintain credibility. I, like many market and trade economists, feel uncomfortable addressing many of the resource and environmental issues that may play an increased role in the policy making process. This means that cooperation between resource economists and market economists will become much more important in understanding and describing the impacts of any proposed policy change.

The acceleration of trade agreements and associated changes in trade policy make it more important that international, federal, state, and private research institutions cooperate to share information and coordinate research efforts. This

need is more acute in a research environment characterized by shrinking funding. Perhaps by working together, we can better identify policy options that lead to market outcomes that can enhance both economic and environmental efficiency.

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