

EEP 131

Globalization and the Natural Environment

List of topics and readings

September 28, 2005

Key: The abbreviation before each reading tells you how to find the article/reading. LOL means “link on line” (on the course webpage); LR means “Library reserve”; EN means "the book by Eric Neumayer"; R means the Reader.

Both the Reader and Neumayer’s book Greening Trade and Investment are available in the Campus bookstore.

Topic 1: The state of the global environment

A recent UN publication surveys the state of the global environment and estimates the likely environmental effects of different political and development scenarios.

*(LOL) The Millennium Ecosystem Assessment, pages 1-40

Topic 2: Setting the stage

This material presents some of the arguments for and against globalization in general and liberalized trade in particular.

*(LOL) A critical view of globalization: (Susan George):

*(LOL) A moderate view of globalization: "Globalization" by Tina Rosenberg, NY Times, August 18, 2002

*(LOL) Forging a consensus: Kanbur (2001)

*(LOL) The "Development perspective", pages 5-18:Oxfam (2002)

Topic 3: Basic information on institutions

A basic knowledge of the important global institutions/agreements is essential for understanding their role in the globalization-environment debate. What are the stated objectives

of these institutions, what is their involvement with environmental issues, and how do they operate?

* (LOL) UN Environment and Trade— a Handbook (hereafter, simply "Handbook") pages 1 - 11 and pages 21 - 34. United Nations Environmental Programme (1999)

* (EN) Pages 3 - 33.

(LOL) The WTO provisions that relate to Trade and Environment are at the link on the webpage. WTO's home webpage is <http://www.wto.org>.

Topic 4: Criticisms of globalization/WTO/NAFTA

Global Exchange (<http://www.globalexchange.org>) and International Forum for Globalization (<http://www.ifg.org>) are two of the many groups that oppose the WTO and NAFTA. It is worth knowing about their websites and seeing the kind of information they contain. Later in the course we return to many of the criticisms raised in these websites (e.g., concerning investment rules, trade and environment disputes, lack of democracy). At that point you should look over the information contained in these webpages and read some of their criticisms of globalism.

* (LOL) Go to <http://www.globalexchange.org/campaigns/wto/background.html> and select some of the topics, particularly “Top 10 reasons to oppose the WTO” and “Free trade, the environment and biotech”

* (LOL) http://www.ifg.org/analysis/wto/inv_govt.htm.

Topic 5: The Link between trade, the environment, and policy

This section describes some benefits of trade, the interaction between trade and the environment, and legal and policy issues related to trade and the environment.

* (EN) Chapter 7.

* (LOL) Handbook Chapter 4; .and pages 41 – 57 of Chapter 5.

* (LOL) A rationale for Article III of GATT: Read introduction and conclusion of Ederington (2001)

Topic 6: Trade-Environment disputes

Specific trade-and-environment disputes are sometimes invoked to illustrate the harmful effects of globalization in general, and specifically the WTO or NAFTA. What were the disputes really about, what was the role of the WTO or NAFTA, and what are the arguments for the various positions?

*(EN) Chapter8

* (LR) Irwin (2002), (Chapter 6, especially pages 184-209)

* (LOL) Summaries: Vogel (2000)

* (LR and R) Trebilcock and Howse (1999), Chapter 15

(LOL) Shrimp and Turtles: Cone (2002)

(LR) A Mexican perspective on Tuna disputes: Deere and Esty (2002), chapter 3

(LR) Political Economy and Dolphins, Korber (2000), chapter 5

(LOL) The WTO's summary of disputes:

http://www.wto.org/english/tratop_e/envir_e/edis00_e.htm

(LOL) An online journal that collects information on trade and environment disputes: TED (<http://www.american.edu/TED/class/all.htm>)

Topic 7: Foreign investment and the environment

Trade liberalization may encourage dirty industries to move to countries with weaker environmental protection. This section considers reasons why this movement might or might not occur, and reviews the empirical literature.

* (EN) Pages 33 - 38 of Chapter 2; Chapters 3 and 4

* (LOL) Discussion of empirical literature on pollution havens. Copeland and Taylor (2004) section 3.4 (pages 34 - 54)

(LOL) WTO's Literature survey on Pollution Havens: Nordstrom and Vaughan (1999) , chapter 4, pages 35 - 46

(LOL) An overview of the pollution haven hypothesis: Wheeler (2001)

(LOL) The UN report of six case studies: http://www.unep.ch/etu/publications/CSII_Synth.htm

Topic 8: The environmental effect of Investor to State dispute settlement agreements

Chapter 11 of NAFTA and most Bilateral Investment Treaties allow foreign investors to have their disputes with host governments heard at international tribunals, rather than in the host's domestic court system. This section examines the environmental effect of these provisions.

*(EN) Chapter 5

*(LOL) Private Rights, Public Problems, pages 1 - 62 IISD (2001)

*(R) Defense of Chapter 11, Gaines (2002)

*(LOL) Background of "theory of takings", article from The Nation, Greider (2001)

(R) Article by Julie Soloway

(LOL) Public Citizen's view of Chapter 11, especially pages i – xi and 1 –7

(LR) Investment provisions and their environmental effects: Chapter 9 Deere and Esty (2002):

(LOL) Institute for International Economics working paper, Mann and von Moltke (2002)

(LOL) Do host governments treat multinationals worse than domestic firms? Huang (2005)

Topic 9: Linking trade and the environment in international institutions

The immediate objective of the WTO is to reduce trade barriers. Some people argue these objectives should be broadened to include environmental goals.

*(LOL) The basic idea of linked bargains (Pages 185 - 192) Horstmann, Markusen, and Robles (2005)

* (LOL) Should the WTO be expanded to balance “non-trade” interests? (Especially pages 1 - 15): Guzman (2002)

* (LOL) A justification for the current separation of trade and environmental issues.(JEP article) Bagwell and Staiger (2001b)

(LOL) A more technical justification: (read introduction and conclusion) (QJE article) Bagwell and Staiger (2001a)

Topic 10: The relation between Multilateral Environmental Agreements (MEAs) and the WTO

Some environmentalists are concerned that the rules of various MEAs and the WTO might conflict. The desire to avoid this possibility might have a chilling effect on the creation of MEAs. This section provides an overview of existing MEAs and explains their relation to the WTO. The trade implications of the Kyoto agreement are emphasized.

* (LOL) Handbook pages 11 - 21

* (LR) Chapter 6 Barrett (2003)

* (LOL) A political economy perspective of the WTO and Kyoto: Eckersley (2004)

* (LOL) Policy coherence between MEAs and the WTO: Sampson (2002)

(LOL) Kyoto and the WTO – an overview from economists: Zhang and Asuncao (2004)

(not yet online) A legal perspective of Kyoto and the WTO: Green (2003)

Topic 11:

MEAs attempt to improve environmental outcomes by inducing sovereign nations to make sacrifices that benefit other countries. The formation of a successful MEA therefore requires at least a partial solution to the problem of "free riding". This section discusses a case study and introduces the theory of MEAs

*(LR) The case study: Chapter 2 of Barrett (2003)

*(LOL) An introduction to the theory of coalition formation: Chapter 7 of Barrett (2003).

* (LOL) The relation between public goods and the Coase Theorem: Introduction and conclusion of Dixit and Olson (2000)

(LOL) See how complicated things get: Introduction and conclusion of Ray and Vohra (2001)

Topic 12: NAFTA and the environment

Environmentalists were among the most vocal opponents of NAFTA. Deere and Esty have collected a group of papers that examine the environmental effects of NAFTA and that describe the politics of the "side-agreements".

* (LR) Chapters 5 -7 from Deere and Esty (2002):

(Assessment of economic effects, on Mexico, of environmental agreements: Chapter 5

US politics and the environmental side-agreements: Chapter 6

Pollution changes following NAFTA: Chapter 7)

Topic 13: Agriculture

Western agricultural subsidies and trade barriers encourage intensive production in the West, resulting in high input use and low world prices. These policies have direct environmental effects in Western countries, due to increased input use. Since these policies lower world prices for agricultural goods, they also lower the income of agricultural producers in developing countries. There is concern that agricultural trade might result in the loss of genetic diversity if imports “crowd out” local varieties; the spread of genetically modified products might lead to environmental damage.

* (LOL) Oxfam’s view of the effects on poor countries of OECD subsidies (chapter 4):

<http://www.maketradefair.com/> (then click “trade report”)

* (LOL) Estimates of the effects of agricultural reform (especially pp 3- 13 and 29 - 31), Beghin, Roland-Holst, and van der Mensbrugge (2002)

(not yet online) Agroindustrialization and globalization: Barrett, Barbier, and Reardon (2001)

(LOL) US-Mexico corn trade: Ackerman, Ney, Gallagher, and Flores (2002)

(LR) NAFTA and the Mexican corn sector, and environmental linkages (chapter 8): Deere and Esty (2002)

(LOL) OECD Policy Review

(LOL) OECD Review of Ag policies and environmental effects

(LOL) IATRC report

(LOL) Cost of protection (Anderson et al.) ?

Topic 14: The Resource Curse

There is a negative correlation between economic growth and the economic importance of the resource-intensive sector. Why do countries that are relatively well endowed with natural resources appear to grow relatively slowly?

* (LOL) Overview and critique of economic and political explanations: Ross (1999)

* (LOL) The importance of the type of resource: Isham, Pritchett, Woolcock, and Busby (2002) (Read pages 1 - 19; read section IV, pages 29 - 41.)

* (LOL) Using a measure of "real income growth" Neumayer (2003)

(LOL) The case of Nigeria: Sala-i-Martin and Subramanian (2003) (Read pages 1 -7; skim pages 8 - 11; read summary of results on page 12; skim section III; read section IV

(LOL) Resources and the big push: (pages 43 - 52) Sachs and Warner (1999)

Topic 15: The effect of International trade on forests and endangered species

International trade can help promote the preservation of endangered species, or contribute to their extinction. CITES limits international trade in an effort to protect species.

*(LOL) Case studies of CITES, pp 71-90 Jha and Hoffman (2002)

*(R) Timber and Elephants, a comparison: Barbier (1995)

(LOL) An econometric study of trade and deforestation, especially pages 145 - 149 and 158 - 164: Lopez (2005)

See also pages 11-20 of the Handbook

Topic 16: Trade and Hazardous Waste

If markets were “perfect”, then trade in hazardous waste would be like trade in any other commodity – it would be beneficial. In the real world, there are many reasons to restrict this trade. This section reviews the attempts that have been made to control trade in hazardous waste.

* (LR) A summary of the issues (especially chapters 1-3) Clapp (2001)

* (LOL) Case studies of Basel Convention, pages 92 -114 Jha and Hoffman (2002)

(LOL) Effect of NAFTA on trade in hazardous waste, pp 161 - 212 of North American Symposium Jacott, Reed, and Winfield (2002)

There will not be enough time in this semester to discuss the topics listed below. However, these topics are closely related to the subject of this course. I provide a suggested reading list for anyone interested in exploring these issues.

Topic 17: Growth and the Environment: the theory and empirical evidence

If economic growth tends to increase environmental problems, then increased create might harm the environment simply because it increases economic activity. These readings explain why the environment might suffer when a poor country increases economic activity, whereas economic growth in a middle income country might improve the environment. This non-monotonic relation is known as the Environmental Kuznets' Curve (EKC).

*(LOL) A framework for understanding the Kuznet's curve, and a review of empirical evidence: Copeland and Taylor (2004) pages 7 - 23.

(LOL) WTO's literature review of Environmental Kuznets Curve: Nordstrom and Vaughan (1999), Chapter 5

http://www.wto.org/english/tratop_e/envir_e/environment.pdf

(LOL) Another general discussion of EKC Dasgupta, Laplante, Wan, and Wheeler (2002)

(LOL) An example of the EKC with water pollution: Hettige, Mani, and Wheeler (2000)

Topic 18: : Trade and Growth: Econometric Evidence

For theoretical reasons, economists think that trade is likely to promote growth. There is disagreement regarding the statistical evidence for this proposition. This section provides a glimpse of the evidence and the surrounding disagreement. Although this issue may appear only tangentially related to the globalization and environment debate, it is important for two reasons: First, if we are not "reasonably confident" that trade promotes growth, the argument against the anti-globalizers loses some of its force. Second, if we have difficulty finding clear statistical evidence that supports a proposition that many economists regard as almost self-evident (viz, trade is good for growth), then we have to interpret cautiously the failure to find clear statistical evidence in support of a proposition that many anti-globalizers regard as self-evident (viz, trade is bad for the environment). These readings are quite technical and are not on the webpage. I list them here for future reference. They are not part of required reading.

Panel data using different measures of openness: Harrison (1996)

Uses “gravity model” as instrument: Frankel and Romer (1999)
Tests robustness of different specifications: Sala-i-Martin (1997)
A skeptical view of evidence: Rodriguez and Rodrik (2001)
An even more skeptical view: Milanovic (2003)

Topic 19: Political Economy and US trade protection

An important reason for opposing the use of trade policy to protect the environment is the danger that these measures might be co-opted by protectionists. In order to assess the merit of this objection, it is helpful to review how existing U.S. trade laws have been used to protect special interests, rather than for their stated purposes (such as to protection against “unfair competition”).

*(LR) Examples of the role of special interests Irwin (2002), chapters 4 and 5

(LOL) Politics and strange bed-fellows. The New Republic Lizza (Jan 10 2000)

References

- ACKERMAN, F., L. NEY, K. GALLAGHER, AND R. FLORES (2002): "Environmental impacts of the changes in US-Mexico Corn Trade under NAFTA," *Tufts University Working Paper*.
- BAGWELL, K., AND R. STAIGER (2001a): "Domestic Policies, National Sovereignty and International Economic Institutions," *Quarterly Journal of Economics*, pp. 519–62.
- (2001b): "The WTO as a mechanism for securing market access property rights: implications for global labor and environmental issues," *Journal of Economic Perspectives*, 15(3), 69–88.
- BARBIER, E. (1995): "Elephant Ivory and Tropical Timber: the role of trade interventions in sustainable management," *Journal of Environment and Development*, 4, 1–32.
- BARRETT, C., E. BARBIER, AND T. REARDON (2001): "Agroindustrialization, globalization and international development: the environmental implications," *Environment and Development Economics*, 6, 419–433.
- BARRETT, S. (2003): *Environment and Statecraft*. Oxford University Press.
- BEGHIN, J., D. ROLAND-HOLST, AND D. VAN DER MENSBRUGGHE (2002): "Agricultural Trade and the Doha Round," .
- CLAPP, J. (2001): *Toxic Exports*. Cornell University Press, Ithaca NY.
- CONE, S. M. (2002): "The Environment and the World Trade Organization," *New York Law School working paper*.
- COPELAND, B., AND M. TAYLOR (2004): "Trade, Growth and the Environment," *Journal of Economic Literature*, XLI(1), 7–71.
- DASGUPTA, S., B. LAPLANTE, H. WAN, AND D. WHEELER (2002): "Confronting the environmental Kuznets curve," *Journal of Economic Perspectives*, 16, 147–168.
- DEERE, C., AND D. ESTY (2002): *Greening the Americas: NAFTA's Lessons for Hemispheric Trade*. MIT Press, Cambridge MA.

- DIXIT, A., AND M. OLSON (2000): “Does Voluntary Participation undermine the Coase Theorem,” *Journal of Public Economics*, 76, 309 – 335.
- ECKERSLEY, R. (2004): “The Big Chill: The WTO and multilateral Environmental Agreements,” *Global Environmental Politics*, 4(2), 24 – 50.
- EDERINGTON, J. (2001): “International coordination of trade and domestic policies,” *American Economic Review*, 91(5).
- FRANKEL, J., AND D. ROMER (1999): “Does Trade Cause Growth,” *American Economic Review*, 89, 379–99.
- GAINES, S. (2002): “The Masked Ball of NAFTA, Chapter 11,” in *Linking Trade, Environment and Social Cohesion*, ed. by J. Kirton, and V. Maclaren. Ashgate.
- GREEN, A. (2003): “Climate Change, Regulatory Policy and the WTO,” *Journal International Economic Law*, 8, 143 – 189.
- GREIDER, W. (2001): “The Right and US Trade Law,” *The Nation*, October 15.
- GUZMAN, A. (2002): “Global Governance and the WTO,” *UC Berkeley School of Law Research Paper No. 89*.
- HARRISON, A. (1996): “Openness and Growth: A time series, cross-country analysis for developing countries,” *Journal of Development Economics*, 48, 419–47.
- HETTIGE, H., M. MANI, AND D. WHEELER (2000): “Industrial Pollution in Economic Development: the environmental Kuznets curve revisited,” *Journal of Development Economics*, 62, 445–76.
- HORSTMANN, I. J., J. R. MARKUSEN, AND J. ROBLES (2005): “Issue linking in trade negotiations: Ricardo Revisited or No Pain No Gain,” *Review of International Economics*, 13, 185– 204.
- HUANG, Y. (2005): “Are foreign firms privileged by their host governments?,” MIT Sloan School of Management Working Paper No 4538-04.
- IISD (2001): *Private Rights, Public Problems* International Institute of Sustainable Development, <http://www.iisd.org/publications/orderform.asp>.

- IRWIN, D. A. (2002): *Free Trade under Fire*. Princeton University Press, Princeton.
- ISHAM, J., L. PRITCHETT, M. WOOLCOCK, AND G. BUSBY (2002): “The varieties of Rentier Experience: How natural resource endowments affect the political economy of economic growth,” World Bank Working Paper.
- JACOTT, M., C. REED, AND M. WINFIELD (2002): “The generation and management of hazardous wastes between Mexico, Canada and the US,” Commission for Environmental Cooperation of North America.
- JHA, V., AND U. HOFFMAN (2002): “Achieving objectives of multilateral environmental agreements,” United Nations Environmental Programme.
- KANBUR, R. (2001): “Economic Policy, Distribution and Poverty: the Nature of Disagreements,” *World Development*, 29, 1083–1094.
- KORBER, A. (2000): *The Political Economy of Environmental Protectionism*. Edward Elgar, Cheltenham, UK.
- LIZZA, R. (Jan 10 2000): “The man behind the anti-free-trade revolt,” *The New Republic*.
- LOPEZ, R. (2005): “Trade policies, economic growth, and the direct causes of deforestation,” *Land Economics*, 81, 145–69.
- MANN, H., AND K. VON MOLTKE (2002): “Protecting Investor Rights and the Public Good,” .
- MILANOVIC, B. (2003): “The two faces of globalization: against globalization as we know it,” *World Development*, 31, 667–684.
- NEUMAYER, E. (2003): “Does the Resource Curse hold for growth in genuine income as well?,” London School of Economics Working Paper.
- NORDSTROM, H., AND S. VAUGHAN (1999): *Trade and the Environment*. World Trade Organization.
- OXFAM (2002): “Rigged rules and double standards: trade, globalization and the fight against poverty,” www.maketradefair.com.

- RAY, D., AND R. VOHRA (2001): “Coalitional Power and Public Goods,” *Journal of Political Economy*, 109(6), 1355 – 1382.
- RODRIGUEZ, F., AND D. RODRIK (2001): “Trade policy and economic growth: a skeptic’s guide to cross-national evidence,” in *NBER Macroeconomic Annual, 2000*. Cambridge: MIT Press.
- ROSS, M. L. (1999): “The political economy of the resource curse,” *World Politics*, 51(2), 297–322.
- SACHS, J., AND A. WARNER (1999): “The big push, natural resource booms and growth,” *Journal of Development Economics*, 59, 43–76.
- SALA-I-MARTIN, X. (1997): “I just ran two million regressions,” *American Economic Review*, 87, 178–83.
- SALA-I-MARTIN, X., AND A. SUBRAMANIAN (2003): “Addressing the Natural Resource Curse: an Illustration from Nigeria,” NBER Working Paper 9804.
- SAMPSON, G. (2002): “WTO Rules and Climate Change,” .
- TREBILCOCK, M., AND R. HOWSE (1999): *The Regulation of International Trade, 2nd edition*. Routledge, London.
- UNITED NATIONS ENVIRONMENTAL PROGRAMME (1999): *Environment and Trade – a Handbook*. United Nations, <http://www.unip.ch.etu>.
- VOGEL, D. (2000): “The environment and international trade,” *Journal of Policy History*, 12, 72–100.
- WHEELER, D. (2001): “Racing to the Bottom: Foreign investment and air pollution in developing countries,” *Journal of environment and development*, 10, 225–245.
- ZHANG, Z., AND L. ASUNCAO (2004): “Domestic Climate Policies and the WTO,” *The World Economy*, 27(3), 359 – 386.