Analyzing the Linkages between Economic Integration and Sustainable Development in the Americas

ECONOMIC INTEGRATION IN THE AMERICAS

For the past fifteen years numerous economic integration and free trade agreements (FTAs) have been signed and negotiated in the Americas, including:
- the North American Free Trade Agreement (NAFTA),
- the Mexico - Northern Triangle Agreement (El Salvador-Guatemala-Honduras),
- the Canada - Costa Rica FTA,
- the Canada - Chile FTA,
- the United States - Dominican Republic - Central America FTA (DR - CAFTA),
- the current US Andean FTA, and
- the Free Trade Area of the Americas (FTAA).

Trading blocs such as the Central and South American Common Markets (MCAs and MERCOSUR), are key examples of advances in economic integration. The Central American region alone has negotiated 5 free trade agreements in less than 6 years, as a result, tariffs in the region have been reduced from an average of 54 percent at the beginning of the 1980s to less than 7 percent to date.2 In the case of MERCOSUR, 11 trade agreements of different nature were signed in less than 7 years, with a current average for tariffs in the region ranging between 11 and 14.3 percent.

In the last decade these efforts in the economic front have coincided with initiatives within the region to strengthen existing national environmental regulations and standards, such as expanding protected areas to safeguard the hemisphere’s rich endowment of biological diversity, as well as to introduce new commitments at the national, regional, and global levels.

At the 1992 UN Conference on Environment and Development held in Rio de Janeiro, leaders of the Americas recognized that a key challenge for development is to ensure that trade liberalization and sustainable development are mutually supportive. This challenge has been strongly echoed in the context of the Summits of the Americas process, as Heads of State and Government have committed to the integration of economic prosperity, poverty reduction, rural development, equitable income, and sustainable use of natural resources. A number of organizations, including the OAS, the United Nations Environment Programme (UNEP), the World Bank and the Inter-American Development Bank (IDB), continue to work with countries at the national and regional level to translate that broad goal of policy coherence between trade and sustainable development into concrete, meaningful action on the ground.

1. 9. de Windt, Claudia S., “The Program is intended to strengthen the capacities of those countries seeking assistance to participate in the negotiations, implement their trade commitments, and address the challenges and maximize the benefits of hemispheric integration, including productive capacity and competitiveness in the region.” Paragraph 18, Quito Ministerial Declaration, November 2002.

HEMISPHERIC COOPERATION PROGRAM (HCP)

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MERCOSUR also included environmental cooperation in its environmental framework agreement2 signed in 2001. Discussions in this area are actively taking place in the context of its working group 6 on environment (SGT 6).

The cooperation agenda places the environment in a beneficial position compared to other sectors. In regards to the Environmental Cooperation Agreement between the US and Central America, the priority areas for cooperation are listed in the agreement and include improvement of environmental management systems, enforcement of environmental law, development of environmental goods and services, biodiversity conservation, and exchange of information concerning the implementation of multilateral environmental agreements. All these areas are highly important, especially for countries where environmental institutions are relatively new.

However, some of the remaining key challenges are to improve institutional capacities and information for decision-making, to anticipate changes in industrial and other pollution emissions, to put in place robust environmental regulations, and to improve the ability to anticipate other challenges such as how trade creates new pathways to alien invasive species, among others. Hence, it is crucial to take advantage of the cooperation opportunities arising in different trade forums to begin working in concrete areas: improving access to information for decision making related to sustainable trade policy and directing the new opportunities of economic integration towards sustainability and environmental benefits in the hemisphere.

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- Biodiversity Conservation
- Water Resources Management
- Transboundary Aquifers
- Natural Hazards Management
- Renewable Energy
- Public Participation in Environmental Governance.

The relationship between trade and environment is dynamic and complex; a straightforward approach to understanding this relationship is to look at the basics: the physical and the policy-to-policy linkages.

Economic activities, including trade, are often dependent on the environment and natural resources. In the Western Hemisphere this is particularly relevant given the share of agriculture in the Gross Domestic Product (GDP) of countries ranging between 11 and 14.3 percent.

1. This agreement has not been executed to date.
2. Acuerdo Marco sobre Medio Ambiente del MERCOSUR, Decisión N°2/01

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THE TRADE AND ENVIRONMENT RELATIONSHIP

1. By Claudia S. de Windt (Policy Officer, OAS) with collaboration from Oscar Cano, Subdirector, Office of Sustainable Development and Environment, Organization of American States (OAS)
Product (GDP) of the region. The trade-environment nexus has been shown to empirically create new challenges in several ways. Trade-related production specialization, linked to the reallocation of production toward additional environmental externalities, raises trade-related pressures associated with scale effects. At the same time, scale effects are offset or mitigated by a number of other variables, including the compositional effects that trade liberalization brings about in a national economy for instance, from agriculture to industrial goods to the services sector, as well as increased capital turn-over with increased trade in technologies.

In addition to direct environmental effects, a great deal of attention during the past decade continues to focus on the policy-to-policy effects of trade and environment. Both trends are regulated by different and complex structures of law: trade, managed by the World Trade Organization (WTO) and regional trade agreements; and environment, by different multilateral, regional environmental agreements and by national laws and regulations. Policies defined within both structures interact in different ways, for example, trade and market access are influenced by environmental standards and concerns whereas trade measures can affect environmental quality in terms of direct effects and degrees of conservation when trade obligations are imposed with a conservationist objective. Moreover, international trade law often helps shape how domestic environmental laws are designed, given the need to comply with the non-discriminatory nature of the multilateral trading system.

It is important to highlight the opportunities that open economies and economics gain derived from free trade provide for the environment, including increased capacity to afford and provide higher levels of environmental protection. One such example is how the decrease in tariffs and non-tariff measures affecting sanitation and wastewater treatment technologies has a measurable impact on lowering prices and making life-saving technologies affordable for importing countries. Furthermore, recent negotiations for cooperation in trade have supported cooperation in other areas, including cleaner technologies and management practices and systems.

However, for trade to become a driver of sustainable development, it is necessary to consciously integrate the social and environmental components of sustainability into the economic agenda. Trade-Tourism and and Environment (TTO) within their respective mandates, each act as a forum to identify and debate developmental and environmental aspects of the negotiations, in order to help achieve the goals of the agreements or conventions they represent.

The main objective of these multidisciplinary assessments is to provide policy makers and regulators with the tools and required information to anticipate the trade-related environmental pressures. For example, if economic forecasts suggest that a country will have a comparative advantage in higher-value-added fruits and vegetables, then it is important to anticipate how free trade may create new challenges in the following areas:

- increased pesticide use and related environmental health challenges;
- increased use of nutrients in fertilizers and associated non-point source pollution runoff that is emerging as the number one pollutant in the hemisphere;
- the effects of increased irrigation and impacts of rapid freshwater and ground-water depletion; and
- the effects of increased transportation.

These examples show that increased trade can and does lead to different kinds of environmental pressures. However, the purpose of this analysis is not to halt or condition trade liberalization, but rather to ensure that trade and environmental policies work in tandem, given the cross-cutting nature of both areas and their interaction.

The assessments (available for review and comments at http://www.oas.org/usde/fidala/) have been developed in a participatory and cooperative way between the governments, civil society and key stakeholders at the national level. In particular, they have been useful for identifying policies and regulations for water resources management in order to assure availability for other uses. Other concerns related to production of the crops include the use of pesticides and burning practices in the case of sugar cane production, a source of pollution that carries many health consequences to surrounding populations.

In the case of Southern Cone countries the OAS assessments indicated a macro increase in soy production, becoming a monoculture crop, in the case of Paraguay. Due to the severe effect of soy production, the OAS study highlights the need to promote agricultural diversification, along with mechanisms that prevent the replacement of sustainable crops and the expansion of the agricultural frontier, protecting biodiversity.

Although progress continues to be made in understanding the linkages between trade and environment, a decade of empirical evidence and policy analysis shows that environmental effects of trade are complex, largely indirect and difficult to isolate (for example from other economic variables such as monetary changes, fiscal imbalances, endogenous variables). However, two lessons are clear: first, the exposure of all countries to free trade creates new challenges on environmental laws, regulations and institutions. At the same time, free trade creates new opportunities in such high-growth market segments as sustainable coffee, and other “green” markers that globally exceed $550 billion per year. Second, the process of looking at the effects of trade on the environment is futile if not done together with national counterparts in each country and incorporating participation public.