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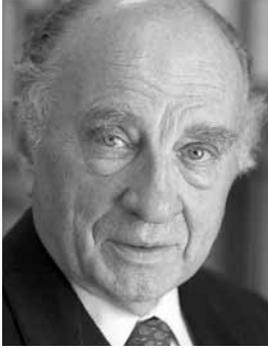
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Will *Environmentalism* Become The New *Protectionism?*

In an increasingly globalized world, opponents of free trade—whether seeking to restrict wage erosion and the loss of jobs on behalf of labor or to guard markets from competition on behalf of business—are starting to see environmentalism as a valuable protectionist tool. For example, if the Kyoto Protocol forces carbon-intensive industries to move to the less-developed countries, will developed world policymakers be tempted to impose carbon standards on

imports from those countries in an effort to level the playing field? How would such restrictions affect economies such as China and India that are making a conscious trade-off between higher economic living standards for their citizens at the cost of an increasingly degraded environment? As a related issue, to what extent will public and private environmental spending become for the industrialized economies an economic hedge—a new source of domestic demand?

Twenty-three experts weigh in.



Yes, protectionism is a promising tool for domestic producers to safeguard their margins.

OTTO GRAF LAMBSDORFF

Former German Federal Minister of Economics

Beyond doubt, environmentalism is gaining momentum—not only in politics, but also in business. Customers are increasingly willing to pay extra for environment-friendly goods in the light of noticeable climate change. Of course, companies want to take advantage of the market's readiness to pay higher prices.

In this context, protectionism is a promising tool for domestic producers to safeguard high margins by excluding international rivals. For instance, instead of competing for cheaper and better products, European manufacturers of electronics achieved in 2002 surcharges on imports of energy-efficient bulbs from China. The 66 percent duty is more than dubious as Europe's leaders are at the same time urging households to make use of exactly these energy-efficient light bulbs. If the duty ended, market prices of energy-efficient bulbs would equal those of conventional ones.

The consequences of this kind of protectionism are two-fold: first, domestic manufacturers are not forced to produce more cost-efficiently; and second, many customers who cannot afford the artificial high prices continue to purchase conventional bulbs. The European Commission acts Janus-faced: While defending unnecessary high prices for energy-efficient bulbs due to successful lobbying, it is striving for a significant reduction of carbon dioxide emissions.

Obviously, the attractive international market for environment-friendly goods must stay free of protectionism for our planet's sake. Only if premium energy-efficient products become affordable for the majority can a pivotal contribution to environmental protection be made. By the way, Australia has just decided to ban incandescent bulbs. Instead of intervening, governments should more often trust and release market forces to boost environmentalism. The promotion of free trade would be a sufficient first step toward lowering the energy-efficient bulbs' pricing and as a consequence changing consumer habits. If the Chinese can offer eco-friendly products under more favorable conditions, let them do the business.



No, not if Kyoto is revised.

JAGDISH BHAGWATI

University Professor, Columbia University, and Senior Fellow for International Economics, Council on Foreign Relations

One needs to distinguish between domestic environmental phenomena (for example, polluting a lake entirely within your own jurisdiction or disturbing the peace through noisemaking in a library) and international ones where environmental spillovers occur, the latter being multilateral (such as global warming) or plurilateral or bilateral (such as acid rain).

I have long made the point (see volume one of *Fair Trade and Harmonization* with Robert Hudec from MIT Press) that there is absolutely no logic in arguing that the "polluter pay" tax rates for domestic pollution must be identical everywhere, and hence the demands for countervailing any difference in tax rates by pretending that those with lower rates are indulging in "social dumping" merit a riposte and a rebuff. The same logic applies to the agitation for raising labor standards in the poor countries in the direction of our standards.

In both cases, the proponents of harmonization of foreign nations' standards with ours are afraid of competition. Fearful of competition, they wish to "level the playing field," to "flatten the earth" (the absurd metaphor of Thomas Friedman), to raise the cost of production as far as is politically possible to make our lives comfortable. This is what trade economists call "export protectionism."

On global warming, there is a good logic to saying that the carbon tax everywhere should be identical. Yet if India and China are to be taxed equally with the United States and the European Union on the carbon dioxide they emit currently (the "flow" aspect), there must also be a Superfund where the rich countries who polluted in the past pay for the damage imposed (the "stock" aspect). The 1997 Kyoto Protocol to the Framework Convention on Climate Change has to be revised; it is a conceptually muddled set of political compromises mixing up the stock and the flow aspects—see my August 2006 *Financial Times* article on the subject. The question of protectionism would not arise in such a revised Kyoto.



No. Environmental standards are useful components to trade agreements.

ROGER M. KUBARYCH

Chief U.S. Economist, Unicredit Markets and Investment Banking, and Kaufman Adjunct Senior Fellow for International Economics and Finance, Council on Foreign Relations

Some of the most avid, and effective, ecologists are also committed free traders. That's why efforts to raise environmental standards globally need not lead to greater protectionism in trade—so long as drafters of trade agreements are vigilant against those who try to sneak in provisions with protectionist intent.

One example is provided by the fierce debate that preceded Congressional approval of NAFTA. Back in 1991–93, some environmentalists opposed it, claiming that Mexico would become a worse polluter. But prominent advocates, including NAFTA's spiritual father, Rodman Rockefeller (then U.S. co-chairman of the Mexico-U.S. Business Committee), thought differently. Rockefeller was a dedicated environmentalist like his father, Nelson Rockefeller.

In a 1991 speech entitled "North American Free Trade: Economic Growth and Ecological Enhancement," the younger Rockefeller gave a stirring reminder of how a growing economy provides the resources to achieve ambitious ecological goals:

"Our nation has won the capability to be environmentally responsible. We have been through the development process of industrialization, environmental degradation, wealth creation, and ecological enhancement. Today the Hudson River is swimmable and the striped bass and shad are breeding again—why? Because in 1965 the citizens of New York State decided to dedicate the resources needed to clean up the Hudson."

He went on to predict that "Mexicans will demand that a portion of the newly created resources be utilized to meet the same standards to which the American people have now become accustomed." That will take time, but there is progress.

Sound environmental standards are useful complements to trade agreements, not least because they empower concerned citizens in emerging market countries frustrated by the unwillingness of their governments to enforce their own laws. To the extent trade agreements can provide

another tool to prod governments to implement environmental safeguards, they are a big plus.



No, environmentalism will not lead to rampant protectionism.

JEFFREY E. GARTEN

Juan Trippe Professor of International Trade and Finance, Yale School of Management

I don't think so. Although no one can predict how environmental regulation will ultimately turn out, I believe that the world is on a path where a number of protocols and standards common to advanced industrial and big emerging-market societies will evolve. In addition, major global companies are unlikely to take the risk of pursuing laxer policies in countries where environmental standards are especially lax, due to the reputational risk involved. I would be surprised, as well, if there will not emerge some prohibitions in the World Trade Organization against environmental protectionism. So on the whole, I am optimistic that environmentalism will not lead to rampant protectionism.



Yes, and the effects on China and India would be adverse, leading to retaliation.

CHARLES WOLF, JR.

Senior Economic Adviser and Corporate Fellow in International Economics, RAND

It would indeed be surprising if those favoring protectionism for any of many possible reasons were to forgo advocacy of imposing carbon standards on imports from

less-developed countries that (like the United States) have not signed on to Kyoto and do not apply caps on carbon emissions. Were such impositions to be invoked, their likely economic effects on China and India would be adverse, probably leading to retaliatory tariff or non-tariff barriers by these countries on U.S. exports to them at a time when the latter have been growing more rapidly than our imports from them. Such a sequence would, among other things, further diminish prospects for resurrecting the Doha Round.

I doubt that public and private environmental spending will (or should) become a consequential “new source of domestic demand” in the United States. If and when proposals for appreciable increases in public spending for environmental purposes come into competition with public spending for health or education, it’s likely that environmental spending will receive the short end of the stick. With regard to private environmental spending, a case in point may lie in General Motors’ highly publicized efforts to become known as the auto industry’s “greenest company” through large research and development outlays for advances in fuel-economy and alternative-fuel technologies. In considering whether to add to holdings of GM stock, I would not be impressed by such outlays as promising to relieve GM’s more urgent problems of legacy costs, lagging innovative design, and until recently at least, management inefficiency.



No, and the question should be turned upside down.

JAMES K. GALBRAITH

Lloyd M. Bentsen, Jr., Chair in Government/Business Relations, Lyndon B. Johnson School of Public Affairs, University of Texas at Austin, and Senior Scholar, Levy Economic Institute

What a question! Why not instead ask whether dogmatic free trade-ism will prevent us from dealing with the climate crisis? Or, to put it bluntly, has economics become the new face of global warming denial?

The reality is that only a small share of first world greenhouse gas emissions can be shifted to the third world. About a quarter is power generation; geography and the

grid limit how much of that can be moved. Transportation is around 14 percent, and you can’t import that daily commute. Eighteen percent is deforestation, which happens where the forests are. Industry is only 14 percent, and only a small part of that is globally mobile.

The most urgent climate change priority right now is to end deforestation, especially in the major carbon sinks that exist presently in Indonesia and Brazil. This will require global cooperation to end logging, the smuggling of tropical hardwoods, and the clear-cutting that presently fuels palm oil and ethanol production, among other things. But this is no more “protectionist” than, say, the ban on import of ivory from endangered elephants.

As we move toward saving the planet, we will need to raise fuel economy standards and switch to hybrid, electric, and eventually hydrogen cars. Will that mean restricting the import of gas-powered SUVs (say) made in Korea? Of course. But that’s not protectionism either. The Koreans will meet our new standards at least as well as anyone else. Objections will be much louder from Detroit.

China and India have severe greenhouse gas problems, but they are not closely related to their export trades. What they need is rapid technical improvements, enabling them to move toward lower emissions as quickly as possible. We should be leading in this area, and yes, that will create jobs here if done properly and soon.



The world may be reaching a tipping point on the environmental issue.

WILLIAM CLINE

Senior Fellow, Peterson Institute for International Economics

After long refusing to join the Kyoto Protocol on climate change on grounds of scientific uncertainty and inefficacy without similar restraints on China and other developing countries, President Bush has now called for international negotiations to set goals for curbing carbon dioxide emissions. The Supreme Court has identified carbon dioxide as a pollutant to be regulated by the Environmental Protection Agency. Several U.S. states and numerous cities have set their own goals for emissions restraints. Hurricane Katrina has revealed some of the likely stakes. Al Gore’s documentary has proselytized millions,

and Sir Nicholas Stern's review for the UK Treasury has begun to shift the terms of the economic debate. So it is just possible that a tipping point has been reached in which even the United States may participate in serious international action in a post-Kyoto regime after 2012.

The cleanest system would be an internationally agreed but nationally collected and used carbon tax, for example \$100 per ton of carbon (about \$13 per barrel of oil or \$60 per ton of coal), applicable to both industrial and developing countries. That would set a uniform global price on the "external" damages from carbon dioxide emissions. Most developing country treasuries could benefit from the domestic revenue. Some additional income transfer to these countries from rich countries would be appropriate considering the much higher per capita emissions in industrial than in developing countries and the opportunity cost of shifting to non-carbon energy. It would then be reasonable enforcement of the international initiative, not disguised protectionism, to impose on non-participants countervailing duties compensating for the under-priced carbon content of their exports. The Montreal Protocol to halt depletion of the ozone layer provides a precedent for trade penalties in the case of chlorofluorocarbons, and especially with a new international climate treaty, such trade measures would likely be WTO-compatible.



It could, particularly if the G7/G8 is not expanded.

JIM O'NEILL
*Head of Global Economic Research,
Goldman Sachs International*

Will environmentalism become the new protectionism? It could! The intense focus on the environment and climate change is yet another obvious reason why the G7/G8 global governance structure needs an immediate overhaul. As with many other critical global economic (and social) issues, without the large emerging economies at the same table as the G3, it is highly unlikely that we all see the potential optimal solutions from the same vantage point. It will be difficult anyhow, but unless we introduce modern governance structures, the chances are vastly reduced. Protectionism related to environmental issues will

creep higher as will protectionism more broadly unless China in particular joins the G7/G8 processes as an equal partner to the likes of the United States, Japan, and some European countries. The case for India is not quite yet fully established, but within a few years it is highly likely.

The way the question has been posed to us to answer, especially the statement that China and India are making a "conscious" trade-off between raising their living standards at the cost of an increasingly "degraded" environment, sums it up. The prime goal for most countries is to raise the living standards of their citizens. If we in the so-called Developed West think we can persuade them, there might be a better balance to achieve it. Let's join them as an equal partner to regularly discuss these and many other issues.



Not if new enhanced environmental technologies are deployed.

GUSTAV HORN
*Director, Macroeconomic Policy Institute
of the Hans Böckler Foundation*

Recent debates in the wake of the G8 summit leave the impression that environmental standards are to be used as an excuse for protectionist policies. The strategy of the U.S. president who refused to make any clear-cut commitments without the inclusion of China contributed to this line of thinking. Nevertheless, it would be very unwise to restrict trade with countries that have problems meeting environmental standards. The first and obvious reason is that these kinds of trade limitations would impair growth and employment. After all, trade is a source of wealth.

Moreover, it is likely that global environmental standards will not be raised by protectionist behavior. Trade limitations on one side incite retaliations on the other. As a result trade becomes more expensive and the price level increases. Why should countries that are made poorer by protectionism be more ready to improve their environmental standards?

There is a more positive strategy. Economies should enhance trade in environmental technologies. Sophisticated machinery that allows sustainable production without polluting the environment should be in high demand, especially in countries that face environmental problems. The

same applies to technologies that clean up an already polluted environment. Economies supplying these technologies benefit from higher growth and those buying them benefit from an improved environment.

What will happen? There are good reasons to believe that the latter strategy has at least a fair chance. Even in China, politicians are well aware of their environmental problems. Chinese economic growth will only become sustainable if environmental standards are raised. There are firms in the United States and Europe that could help China achieve this aim. Trade pays.



No way, because of the role of the WTO.

SUSAN ARIEL AARONSON

Professor, George Washington University School of Business, and author (with Jamie Zimmerman) of Trade Imbalance: The Struggle to Weigh Human Rights in Trade Policymaking (Cambridge University Press)

Environmentalism is not the new protectionism. Instead, policymakers are developing a new equilibrium that allows them to work toward sustainable development without distorting trade. The WTO system is playing a helpful role, by showing how WTO member states can balance their trade and environmental objectives. For example, on June 12, 2007, the WTO dispute settlement body ruled in favor of the European challenge to Brazil's ban on used and retreaded tires. Brazil had banned the import of these tires, because these tires could not be safely disposed of. These used tires had been dumped throughout Brazil and, in turn, became breeding grounds for disease-carrying mosquitoes. The WTO panel found that Brazil's ban on imported tires could be justified based on public health concerns; however, Brazil had not done so in a non-trade distorting manner. Brazil expressed satisfaction with the decision and then agreed to alter its policies so as not to distort trade. That response signaled to me that countries are gradually finding ways to reconcile their trade and environmental objectives. In a world where policy choices are rarely black and white, green need not be discordant.

At the same time, however, nations are competing to ensure that their environmental standards become the global environmental standards. For example, the European Union has worked to ensure that its voluntary forest management, chemical, car emission, and food safety standards become the global standards. The United States also pushes for its environmental standards to become the yardstick with which policy is made. This competition could impose costs on the losers, but in the long run, such competition may be good for the world—hopefully such regulatory competition will result in more effective regulation at both the national and international level.

Nonetheless, policymakers need to think more coherently about the relationship between trade and environmental policies. The United States provides a good cautionary tale. In the rush to lower our energy costs, we have over-invested in corn-based ethanol, making a wide range of downstream corn food products more expensive to U.S. and foreign consumers. The United States and other leading economies need to do a better job of weighing the trade implications of our environmental decisions as well as the environmental implications of our trade decisions. And we need to be sensitive to the impact of carbon standards on developing countries such as China and India that fear sacrificing growth for immediate improvements in human welfare.



I suspect the world will resort to some carbon tax.

RICHARD N. COOPER

Maurits C. Boas Professor of International Economics

Most environmental issues, such as water pollution, are local or at most regional in their impacts. They must be dealt with locally, or by countries of the region working together. There is no reason for outsiders to get involved, positively or negatively, beyond providing information on the possible long-run consequences of the damaging activity and offering guidance about measures to avoid or mitigate the environmental damage. Measures affecting exports from those countries are inappropriate.

A few environmental issues, such as ozone depletion, greenhouse gas emissions, and arguably some endangered

species, are global in impact and need to be addressed globally. In the context of global agreement on a need for action and the appropriate remedy, trade restrictions proportionate to the assessed damage may be appropriate for exports from countries that are not complying with the agreed regime. Concretely, if as I suspect we move eventually toward a global carbon tax (revenues to be kept by each country), in effect acknowledging that carbon dioxide emissions need to be charged an estimate of their social cost which will be global in scope, then countries that decline to impose the tax might appropriately find their exports subject to the equivalent of that tax upon being imported into countries that do comply with the internationally agreed arrangements. This procedure would be the equivalent of countervailing a subsidy, and legitimate in the stated context.

Unfortunately, once this possibility is allowed, some people will find “subsidies” everywhere, and want to countervail them. Distinctions need to be made. Strong discipline is required, supported by international agreement and by a respected mechanism for settling disputes.



Yes, there is a limited danger.

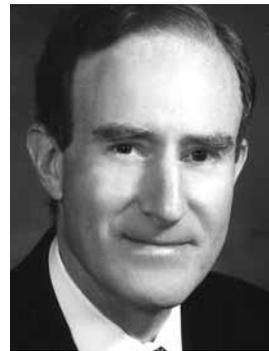
NORBERT WALTER
Chief Economist, Deutsche Bank Group

For the next few years environmental legislation and regulation will continue to be a great deal more stringent in the industrial nations—especially those of the European Union—than in the emerging markets. So for the foreseeable future there is unlikely to be a level playing field as far as energy taxes or environmental regulation is concerned. Of course the resulting danger is that energy-intensive sectors will relocate their production facilities to countries with lower energy taxes and lower environmental standards. Energy-intensive companies that fail to relocate will see their international competitiveness suffer. At the same time, relocating production does not benefit the climate or the environment.

In this situation it cannot be ruled out that countries with high energy taxes will try to either push up the prices of imports from nations with lower taxes by levying customs duties or stifle such imports by imposing onerous

environmental standards on imported products or services. In order to preclude this risk of a new protectionism, the countries with higher energy taxes must take into account sector-specific characteristics when drawing up their environmental legislation. At the same time greater environmental awareness and a gradual increase in energy prices at the international level should be advocated during the rounds of political negotiations with emerging markets. After all, using energy sparingly also makes economic and ecological sense for developing countries and emerging nations.

When all is said and done, the danger that environmentalism develops into a new protectionism is limited to just a few business segments. In most sectors the energy efficiency of products and production processes is becoming a key factor for medium- and long-term success and competitiveness and it is thereby becoming a market-opening instrument. Increasingly customers and rating agencies punish businesses that overlook this trend.



No, combatting global climate change will be a growth industry.

BENJAMIN M. FRIEDMAN
William Joseph Maier Professor of Political Economy, Harvard University

A generation and a half ago, many investors and members of the business community in the United States feared that the project of cleaning up the nation’s air and water would stunt economic growth. Stack scrubbers to remove sulfur from utility plants’ airborne emissions, and effluent controls on what factories dumped into the rivers, would cost money. The American public might enjoy the cleaner air and water, but would it be willing to pay for them? And if so, how?

It turned out that containing emissions was affordable. It also turned out that if stack scrubbers and other devices were going to be used, somebody had to manufacture them, somebody had to install them, and (usually a smaller task) somebody had to maintain them. Like any new technology, environmental protection opened up new business opportunities. The fact that the “good” being provided—clean air and water—was a “public good” so that demand

for it arose through the collective decision-making apparatus of public policy, rather than through the individual choices of consumers and business firms, didn't obviate the need for manufacture, installation, and maintenance.

The challenge of containing greenhouse gas emissions is both larger and more complicated. It's larger because so many more entities, in the course of their ordinary daily activities, generate carbon dioxide. It's more complicated because while the externality involved is truly global (it doesn't matter whether the carbon dioxide is emitted in Chicago or Chongqing) and therefore the solution to the problem needs to be global (for example, not omitting the developing countries, as under the Kyoto agreement), global political institutions are hardly one of the world's major strengths.

But the emergence of new, environmentally directed activities as a source of profits and jobs is likely to be similar. Equipment for carbon recapture and sequestration, more advanced and therefore more efficient photovoltaic cells, and many other devices to help minimize the amount of warming gases emitted into the atmosphere will again require research, manufacture, installation, and maintenance. To be sure, somebody will have to pay, and that's what most of the arguing will be about. But the implication of somebody's having to pay is that someone else will be paid. In time, combatting global climate change will probably turn out to be a significant growth industry in the developed economies, with major opportunities for firms that are deft enough to seize them.



No, sound environmental policies need not be protectionist.

PETER MORICI
Professor of International Business, University of Maryland, and former Chief Economist, U.S. International Trade Commission

Sound environmental policies, equally applied to developed and developing countries, need not be the new protectionism. The global warming challenge best illustrates this.

By 2008, China will be the largest global source of greenhouse gas emissions. Every two years, China's emis-

sions grow enough to contribute another Japan to the global warming equation. No solution to the global warming problem is possible without the full participation of China and other major sources of greenhouse gases among developing countries.

Several international environmental agreements, such as the Montreal Protocol for protection of the Ozone Layer and Convention on International Trade in Endangered Species, establish both standards for national economic activity and restrictions on trade when those standards are violated. Those agreements and trade measures are recognized by WTO law to be consistent with WTO goals and not to be protectionist. This has been upheld by the WTO Appellate Body.

U.S. multinational corporations have embraced the idea of greenhouse gas emission reduction goals in part out of concern that in the future their exports will be regulated in a WTO-consistent manner by the further implementation of the Kyoto Protocol outside the United States,

Multilateral standards for the production and use of products in ways that emit greenhouse gases and restrictions on trade in those products that do not meet those standards would be wholly consistent with WTO law and other international legal precedents, contribute to the most efficient use of economic resources, most effectively protect the global commons, and hardly be protectionist.

Consequently, prudent, well-conceived standards, applied equally to all major sources of greenhouse gas emissions, would raise living standards, defined in the broadest and most appropriate sense, in both industrialized and developing countries such as China and India.



Yes, and the potential for error is huge.

WILLIAM E. BROCK III
Former U.S. Trade Representative and Secretary of Labor

Over the past few decades, demands for egregious acts of protectionism have been faced with a slow but increasing reluctance in Washington, in part because most Americans have realized that in many cases the affected firm's competitive weakness was largely self-imposed. The result has been a growing reliance on a rules-

based world trading system, a slow but steady improvement in more open markets, and a rapid, even dramatic, growth in world trade

In sum, the forces of protectionism were being hard pressed, thus the need for new and more acceptable arguments to justify governmental intervention. Yet just as the demands and “justifications” for protectionism seem endless, so too are the methods and tactics employed by those who prefer market intervention to competition. Environmentalism to the rescue!

There is no question that there is broad and deep public support for actions to improve the environment and address hot topics such as global warming. Thus the opportunity presents itself. One has only to witness the intensity of efforts to hold hostage every currently negotiated free trade agreement, no matter how small the beneficiary nation, to force the U.S. Trade Representative to incorporate enforceable labor and environmental standards before it can pass muster in the U.S. Congress.

The task for our economic and trade leadership is to find a way to craft approaches which satisfy the public demand for environmental progress, and that will require global as well as bilateral agreements, without allowing those agreements to become a subterfuge for protectionism.

The potential for error is large, and the potential consequences enormous.



*Stricter
environmental
standards could help
slow China.*

TADASHI NAKAMAE
President, Nakamae International Economic Research

Stricter environmental standards for trade should be used to offset the harmful side effects of rampant growth in emerging economies. Done properly, this should not be construed as protectionism.

Developing economies, especially China, need to slow economic growth. Take the steel industry. In 2000, the world's three leading steel producers—Japan, America, and China—each had annual outputs of just under 100 million tons. China, however, has since stepped up its output, and now produces 400 million tons a year, while Japanese and U.S. output has barely changed. China's goal, to double its

per capita GDP in the next ten years, has led to forecasts that steel production will reach an alarming 800 million tons by then. The car industry reflects this quandary. China's total output of cars in 2000 was about two million units, yet it currently makes new cars at an annual pace of more than seven million. By 2010, Chinese car production is expected to top ten million units per year, which is close to current annual production rates of eleven million in both the United States and Japan.

China's furious growth is bad for both itself and the rest of the world. Most deadly would be damage to the environment, especially air pollution. West-blowing spring winds in recent years have sent toxic “yellow dust” from China to Japan, the result of industrial pollution which pollutes and drains water from Chinese soil. South Korea suffers even more. At home, China faces a serious human rights issue in terms of contaminated water. Nearly 700 million Chinese lack access to safe water and three-quarters of the rivers flowing through Chinese cities are unsuitable for drinking or fishing, according to several estimates, leaving most people no choice but to drink unclean water.

Another danger involves the strain on natural resources. China's natural resource demands have soared, yet global growth in supply has failed to keep up, causing prices for natural resources to soar. Given China's current growth target (to double GDP in ten years), supply constraints will push up prices further and could eventually cause natural resource supply shocks, similar to oil shock in the 1970s.

Rapid expansion of capital expenditure has fueled China's frantic growth. Manufacturing capacity is ballooning not only in the steel and car industries, but also in cement, textiles, and electrical appliances, among others. The extreme growth has created huge excess supply that affects both the domestic economy and the global market. Excess supply capacity is forcing prices of manufactured goods down. With input costs rising, manufacturers' profit margins are falling. Nevertheless, as wage costs in China and other developing economies are still relatively cheap, there continues to be a shift in capital expenditure from developed economies to developing ones.

True, China and other developing nations should strive for economic growth. However, the current rate of expansion is too big for the world to absorb. The most effective way to ensure the necessary slowdown is to raise environmental standards. Stricter standards would curb the growth of manufacturers who cause high levels of pollution, thus easing excess supply and improving profit margins for those who maintain higher standards of practice. Developed economies could then aggressively invest in environment-friendly production facilities, a field in which they still lead, and sell their improved equipment to developing economies, enabling the latter to produce more goods in a way that reduces environmental hazards. Such moves should not be considered protectionism. Rather, they are a way for the

global economy to shift from an environmentally destructive production model to one that is ecologically sound.

Developed countries will be looking for new ways to shake up their economies if and when the current liquidity bubble bursts. The goal will be to balance supply and demand by eliminating excess supply and creating fresh demand. It will be hard to raise the level of consumer spending, already high and currently fueling America's bubble economy. Thus, fresh capital expenditure will stimulate new demand, while replacing environmentally unfriendly machines and tools that help make up today's supply capacity.

Meanwhile, developing countries need to raise domestic consumption. The introduction of stricter environmental standards may hamper their rate of growth for a short time, but will be better for themselves and the world in the long term. This sort of initiative will inevitably be subject to cries of protectionism by critics. However, they may eventually look back and see it as the remedy that it is sure to be when the current global bubble bursts and the global economy starts turning down.



No, environmental protectionism is a futile task.

RICHARD KATZ
Co-editor, *Oriental Economist Report* and *TOE Alert*

T rue, there are some who wave the banner of environmental and labor concerns in order to obstruct trade. But there are also plenty of people who genuinely want to reconcile legitimate concerns about the environment and labor with expanded trade. Such concerns no more contradict free trade than does concern about the trademark on Mickey Mouse or the patent on a life-saving drug. On the contrary, embracing legitimate concerns about labor and the environment will make the world politically safer for free trade. Business leaders and free traders scorn such concerns at their own peril.

That being said, those who would use "environmental protectionism" to restrict trade will find it a futile task.

First, protectionism is bad for the environment. World Bank data shows that, while global warming gases per dollar of GDP initially rise as poor countries industrialize to

the per capita income of a country like South Africa or Chile, they tend to fall back again as countries grow richer. How about organic wastes that factories emit into the water supply? As measured by pollution per worker, factories in middle-income countries tend to be cleaner than in poor ones, and cleaner still in rich countries. Not only does environmental awareness grow once people have a full belly and a solid roof, but rich countries can better afford environmental safeguards.

And it is trade that helps transform poor countries into rich ones. Globalization underpinned the economic miracles that have lifted hundreds of millions of Chinese and Indians from hunger, infant mortality, and illiteracy. Not coincidentally, China's rapid development has also engendered a public outcry within China about the sinking water table, and the air pollution that kills hundreds of thousands each year.

Secondly, the protectionists imitate King Canute in their efforts to resist the upward momentum of global trade. At most, they can delay or obstruct new formal trade agreements. But with or without such agreements, countries are becoming more interdependent with every passing year. According to the World Bank, trade doubled from 24 percent of global GDP in 1960 to 38 percent in 1990 to 52 percent in 2004. In the United States during the same period, the trade-to-GDP ratio more than doubled from 10 percent to 20 percent to 25 percent. In India, trade slowly rose from 12 percent of GDP in 1960, to 16 percent in 1990, and then it tripled to 45 percent by 2005.



The key is that any import duties or carbon levies based on environmental considerations must be WTO-consistent.

DANIEL H. ROSEN
Principal, *China Strategic Advisory*, Visiting Fellow, *Peterson Institute for International Economics*, and Adjunct Professor, *Columbia University*

Reticence toward reasonable environmental protection is an element of competition policy for some economies, so it is little surprise that environmentalism is an element of new protectionism. Few proponents of import duties or carbon levies based on environmental considerations have considered, however, that to be WTO-

consistent these fees will have to be imposed on a national treatment basis—that is, on domestic producers equally!

To be effective, any global climate agreement will have to come to terms with the global nature of production. Done unilaterally, carbon tariffs would do little to protect local industry or compel the developing world to reduce emissions. Only 1 percent of Chinese steel production, for example, is exported to the United States. Unilateral tariffs would only redirect that steel to Asian markets, then show up in imports from Korea or Japan. The competitiveness concerns associated with capping carbon must be tackled in a multilateral setting, whether through the United Nations Framework Convention on Climate Change or a grouping of mega-polluters like the fifteen nations President Bush is convening in Washington this fall. Collaborating with the developing world to discipline industrial emissions will extend the reach to all steel, aluminum, chemicals, cement, and glass production, not just the limited fraction that shows up in U.S. imports directly.

Once a global emissions regime is in place, putting a floor under the “race to the bottom,” not only will environmental spending in the United States increase thus lifting domestic demand, but foreign demand for U.S. exports will rise as well. The United States has massive “latent comparative advantage” in clean manufacturing capability and providing environmental remediation services, and as China starts enforcing environmental standards—for urgent domestic reasons even if there is no global tax regime on carbon—U.S. firms will realize this competitive potential.



Not if a border tax is installed.

ANDREW Z. SZAMOSSZEGI
Managing Consultant, Capital Trade Incorporated

Greenhouse emissions in Beijing are just as potent as emissions in Buffalo. Squelching economic activity in Buffalo only to have it reappear in Beijing would do nothing to ease climate change. Given China’s greater reliance on coal and generally lower levels of energy efficiency, the net impact on greenhouse gas emissions of a transfer of production to China would likely be to raise emissions, not lower them. According to the OECD,

China’s industrial sector already emits more than twice as much carbon dioxide as U.S. industry, and China’s carbon dioxide emissions per dollar of GDP are five times higher than U.S. levels. Thus, if advanced economies are truly serious about halting climate change, a border tax that eliminates the advantage of shifting production abroad and encourages import suppliers to reduce emissions is a necessary adjunct to carbon taxes, cap-and-trade, or any other policy that raises domestic energy input costs in order to reduce global greenhouse gas emissions. This is common sense, not protectionism.

A greenhouse equalization tax at the border would have the same impact as a tariff. It would reduce imports of manufactures from countries that favor growth over greenhouse reduction. The impact on countries like China and India would depend on the level of the tax and how it is applied. To be fair, the burden on imports should be not exceed the burden on domestic industries.

As the impact of the ethanol stampede on U.S. food prices demonstrates, there can be unintended consequences to policy-directed spending. Environmental spending can offset the consequences of higher energy prices resulting from mitigation efforts. The key is not whether such spending provides a short-term stimulus, like the wasteful U.S. housing bubble did, but whether it leads to long-term productivity gains that enable firms to produce more with less.



Yes, carbon emissions trading will represent disguised protectionism, but that’s not the worst of it.

BERNARD CONNOLLY
Global Strategist, Banque AIG

Yes, there can be little doubt that carbon-emissions trading will represent disguised protectionism. But that is not the worst of it. “Saving the planet” is a new political religion (and, as Cardinal Biffi emphasized in this year’s Lenten sermon in the Vatican, is idolatrous). The purpose of this new political religion is to indoctrinate electorates into accepting elements of nightmarish world government. Unsurprisingly, its most enthusiastic priests include disciples of that sinister figure, Armand Hammer, the Bilderberg Group, and the New Soviet Union, the European Union. Just as in 1996 the EU Commission’s Forward Planning

Unit wrote that political union (in Europe) required the perception of an external threat, which a terrorist outrage would help create, so the advocates of world government have now seized on “global warming” to justify a form of global political union. President Václav Klaus warns that “ambitious environmentalism,” not overt communism, is now the greatest threat to freedom and democracy in the world. His warning was borne out in the G8, where the techniques of the New Soviet Union and its ally, Russia, were used to try to bypass U.S. representative institutions.

In economic terms the ambition of world government, just like that of the New Soviet Union, is to safeguard established economic interests. The “creative destruction” inherent in so-called Anglo-Saxon capitalism is anathema to corporatist, “Rhenish,” capitalism, in which economic positions are maintained not by responding innovatively to competition and change but through a symbiotic rent-seeking relationship between economic interest groups and bureaucracies. Globalization threatens this dressed-up form of crony capitalism. The owners of established interests and their bureaucratic/political patrons want to respond by extending their control to the global level through the unaccountable and fundamentally illiberal techniques of the New Soviet Union, and protectionism disguised as environmentalism will be integral to that. When the U.S. Senate voted 95 to 0 to protest the imposition of the Kyoto Treaty, it was asserting the truth that only an order of self-governing national states is compatible not just with freedom and democracy but also with a liberal, free-market global capitalist system. Such national states can and sometimes should make global agreements—but never under the coercive pressure of a new political religion erected to advance the aim of world government.



KEVIN G. NEALER
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With China about to eclipse the United States as the world’s largest “exporter” of carbon emissions, there are good reasons to look at environmental

*The issue will be
food and drugs.*

standards as a way of encouraging better behavior while addressing the \$233 billion bilateral trade deficit. Holding steel producers in Wuhan to the same standards as those in West Virginia makes economic sense. But the idea of imposing a carbon tax of some kind has been kicking around the halls of Congress for over two decades. For any trade measures to meet WTO standards, we would need to develop the political will to apply a carbon-intensity tax to U.S. production too—not just imports. We lack the political will to take that step.

Because of domestic politics, environmental concerns are less likely to be the new face of regulatory protection than are broader health and safety issues. Food and drugs are the obvious starting point. Chinese and Indian exports of food and food additives, generic drugs, and over-the-counter medicine have made consistent headlines. U.S. imports of food products alone now top \$60 billion a year—double the volume of just five years ago. India and China produce about a third of U.S. drug ingredients. China controls some 80 percent of the world’s supply of the ubiquitous food preservative ascorbic acid. U.S. inspections of these foreign food and drug products—at the border or in foreign factories—are in the low single digits. Fraud and adulteration are common, with Chinese products topping the list. More high-profile cases are a certainty. Expect a fresh wave of legislative activism that would make Upton Sinclair proud.



GABRIEL STEIN
Chief International Economist,
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*The best way to help
the environment is
to help countries
grow rich through
free trade.*

The case for free trade was conclusively proven more than two hundred years ago. Yet simple though it is, it seems to constantly need to be restated. The temptation for politicians, trade unionists, and business leaders to blame “the other” for their own shortcomings, and their inability to grasp that trade and growth are not zero-sum games, means that they are always ready to resort to at least threatening protectionism. True, the experience of the 1930s and the undoubted benefits of the post-1945 freer

trade environment mean that very few advocate trade barriers as such. Instead, we get pious appeals to “level playing fields” or “decent standards for workers.” But we know that this often is rubbish. The alternative to low-paid work in an emerging economy is not full trade union rights and an American standard of living; rather, it can all too often be unemployment, crime, or prostitution.

Add to this the new mantra of climate change. For protectionists, it is a God-send. “I am not in favor of protectionism—I only want to save the planet.”

Insisting on imposing environmental standards as a condition for trade will have one of two effects. Either it will create substantial tension with emerging economies, who rightly claim that today’s advanced economies ignored the environment when they grew rich. In this case the efforts will be unsuccessful and the political consequences harmful. Or else the efforts will be successful, but at the cost of condemning billions of people in emerging economies to continued poverty. But that would be self-defeating, since history shows that people care more about the environment the richer they are.

Ultimately, the best way to improve the world’s environment is to help poor countries grow rich. An easy way to do that is to practice free trade.



No, because the world trading system will evolve.

LAEL BRAINARD

Vice President and Director, Brookings Global Economy and Development, and Bernard L. Schwartz Chair in International Economics

Environmentalism is not the new protectionism. As demands for environmental stewardship grow, the world trading system will either evolve to support the preservation of global public goods or risk irrelevance.

As fashion magazines pronounce green the new black, and Al Gore approaches rock star status, environmental protection—and protectionism—are back in the headlines. Nowhere is international collaboration more critical or more elusive than on climate change.

While some environmental concerns are local, many of the most dangerous threats do not respect borders. On these challenges—classically termed global public goods—any meaningful solution requires engagement by most members of the international community regardless of their incomes and historical contribution to the problem.

In a three-speed world—with the European Union committed to action based on strong domestic interests, the United States in the midst of a fundamental political shift, and China and India singularly focused on attaining middle-class lifestyles for their large populations—how do we reconcile national policies on climate? The world trading system will not long be able to remain aloof from the clash of national policies when the global climate is at stake. While border adjustment taxes may be decried as disguised protectionism by some—and might indeed be abused in this manner—policymakers committed to incorporating carbon prices throughout their economies have a legitimate concern that national policies can be at least partially unwound through imports from economies where the carbon price remains zero. While unilaterally imposed measures are likely to be greeted with outrage by some countries and face an uncertain verdict under current WTO jurisprudence and rules, insistence that a pristine WTO should not be dragged into global environmental concerns is equally untenable.

Like it or not, the world trading system is a dynamic reflection of an evolving and often uneasy balance between the social demands and policies of nations at different levels of development with widely varying values and interests. As nations move forward at different speeds to take on the challenge of climate change, the world trading system will find itself yet again on the fault lines.