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Trade and the environment: A critical assessment and some suggestions for reconciliation

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Classification **1540:** *Pollution control***Codes:** **1300:** *International trade & foreign investment***9130:** *Experimental/theoretical***1300:** *International trade & foreign investment***9180:** *International***Companies:** [World Trade Organization](#) Sic:928120**Abstract:**

Three ways in which trade might harm the environment are critically assessed. First, trade liberalization might exacerbate existing levels of resource depletion and environmental pollution. Second, open borders might allow companies to migrate to pollution havens, thus undermining high environmental standards in host countries. Third,

the dispute settlement system of the World Trade Organization (WTO) might favor trade over environmental interests in case of conflict. It is shown that although trade liberalization can lead to an increase in environmental degradation, pollution havens are not a statistically significant phenomenon. As concerns aimed measures at domestic environmental protection, the dispute settlement system in the WTO is not biased against environmental interests. The relationship is more complicated with respect to measures aimed at extrajurisdictional environmental protection and with respect to trade restrictions for health reasons under the Agreement on Sanitary and Phytosanitary Measures.

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[Headnote]

This article critically assesses three ways in which trade might harm the environment. First, trade liberalization might exacerbate existing levels of resource depletion and environmental pollution. Second, open borders might allow companies to migrate to "pollution havens," thus undermining high environmental standards in host countries. Third, the dispute settlement system of the World Trade Organization (WTO) might favor trade over environmental interests in case of conflict. It is shown that although trade liberalization can lead to an increase in environmental degradation, pollution havens are not a statistically significant phenomenon. As concerns aimed measures at domestic environmental protection, the dispute settlement system in the WTO is not biased against environmental interests. The relationship is more complicated with respect to measures aimed at extrajurisdictional environmental protection and with respect to trade restrictions for health reasons under the Agreement on Sanitary and Phytosanitary Measures. The article concludes with some constructive suggestions on how trade and the environment can be reconciled in future trade negotiations.

Many environmentalists are critical of trade liberalization. In their view, free trade is responsible for many aspects of environmental degradation and for the failure of policy makers to protect the environment adequately. This critique cannot leave unconcerned those who both care for the environment and believe in a liberal world trading order. This article attempts to demonstrate that although there is, indeed, reason to be concerned about the environmental consequences of free trade, environmental protection and trade liberalization need not clash with each other. It provides some suggestions on how trade and environmental protection can be reconciled in future rounds of trade negotiations.

The criticism of environmental activists and ecologically oriented academics about trade liberalization can be summarized in three points (see, e.g., Daly, 1993; Friends of the Earth [FoE], 1999b; Greenpeace, 1997; Lang & Hines, 1993; McGinn, 1998; Morris, 1990; World Wide Fund [WWF], 1999b; WWF, Oxfam, Center for International Environmental Law, & Community Nutrition Institute, 1998):

The liberalization of trade is likely to exacerbate the existing high levels of environmental degradation.