

Multilateralism vs. Unilateralism: The International Political Economy of the Trade/Environment Nexus

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Abstract

The relationship between trade and environmental policy has become a contentious issue in the 1990s. The purpose of the paper is to present an exposition of the international political economy of the trade/environment nexus with a view to elucidating the influence of economic and political forces. The rules of the GATT/WTO system and its relationship to multilateral environmental agreements with trade stipulations are outlined, together with regional arrangements in Europe and North America (the Europe Agreements and the NAFTA package). Special attention is paid to the multilateralism/ unilateralism continuum in handling couplings between trade and environmental protection. On the global level, a major dividing line runs between developing countries who oppose some developed countries' proclivity to unilateral couplings of trade issues and environmental issues. On the regional level the arrangements show interesting differences between Europe and North America, suggesting how broader political transformations, rather than specific trade and environmental issues, shape international agreements on the trade/environment nexus between countries with very different income and pollution levels. Lastly, the importance of different environmental priorities in different parts of the world, and multilateral/unilateral choice, is stressed.

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I. Introduction

The relationship between trade and environmental protection has been a political issue since the early 1990s. While trade is an old issue in international politics, environmental problems have traditionally been of secondary importance in international relations. This state of affairs has changed as the transboundary character of environmental problems became more obvious during the 1970s and the 1980s. The United Nations Conference on the Human Environment (UNCHE) in 1972 in Stockholm manifested this new interest, and subsequently environmental issues acquired a more prominent place on the political agenda, particularly in affluent countries. However, during these years, the relation between trade and environment was seldom questioned in the public arena, and only a few scholarly works closely considered the subject (Blackhurst, 1977; Rubin and Graham (eds.), 1982; Siebert et al, 1980). A symptom of its lack of importance was that when a “Working Party on Trade and Environment” was set up within the General Agreement on Tariffs and Trade (GATT) in 1971, it took twenty years before it first met.

The changed character of barriers to trade and the increasing concern for protecting the environment form *a general backdrop to the rise of trade and environment as a contentious issue*. Through eight rounds of negotiations within the framework of GATT, between 1947 and 1994, tariffs have been abolished or dramatically lowered. In fact, average tariffs have been reduced from about 40% in the late 1940s to around 5% fifty years later. Now the major barriers to free trade are non-tariffs barriers, i.e., technical regulations and government policies implemented for various social purposes. The virtual demise of tariffs has therefore increased the international significance of a country’s regulatory system and widened the trade policy agenda by giving rise to various “trade-and-...” issues. Among the social issues requiring regulations, environmental protection has become the most prominent with the consequence that overlaps between trade rules and environmental regulations easily cause conflicts.

The triggering event, turning trade and environment as a minor issue into a hot political topic, was a GATT panel’s recommendation to the GATT Council in August 1991 that an American ban on tuna imports from Mexico should be declared a violation of GATT rules (the famous tuna-dolphin dispute).¹ Since neither Mexico nor the United States wished to spoil the then ongoing negotiations for a North American Free Trade Agreement (NAFTA) (especially the possibility for getting approval by the American Congress), the GATT Council never formally adopted the panel’s decision. The European Union, however, was discontented with Mexico’s caution and brought its own challenge, focusing on the unilateral nature rather than the extraterritorial aspects of the American action. In June 1994, the new GATT panel found the American ban illegal, now stressing its unilateral character. In the GATT Council the EU, together with Japan, and Southeast Asian and Latin American countries, demanded that the United States implement the panel’s ruling, but the United States blocked the adoption of the report (Petersmann, 1996: 122-123; Porter and Brown, 1996: 134).²

The tuna-dolphin I case was not the first time a dispute on trade and environment had been considered by a GATT panel or another international judicial institution,³ and neither was it the first time a panel declared an environmental regulation a violation of GATT rules. But it was the first time that a GATT position: gave rise to a strong public debate, that began in the United States (McCloskey, 1993) but was mainly confined to high-income countries in Europe and North America; and in which prominent traits of the dispute had a lasting impact on the contours of trade and environment as a political issue.

¹ The American Marine Mammal Protection Act (1972) required the government to curtail the incidental killing of marine mammals, both in the United States and in other countries. Specifically, the Act required trade embargoes of tuna fish from any nation whose average catch of dolphin incidental to tuna harvesting exceeded a limit set by American catches. In 1988, a Californian environmental group sued to enforce the Act, and a federal court ordered Mexican tuna banned from the United States. Mexico challenged the ban as a violation of GATT stipulations (Esty, 1994: 29-32 and 268-69; Runge et al, 1994: 71-80; Vogel, 1997: 103-115). The GATT panel’s report is reprinted in Cameron et al, Vol. II, 1994: 83-119. The report (termed tuna-dolphin I) is reviewed in Thaggert (1994).

²This so-called tuna-dolphin II case is reprinted in Cameron et al, Vol. II, 1994: 163-217. The report is reviewed in Cameron et al, Vol. I, 1994: 15f.

³ Since 1982, there have been at least 9 other cases (Trade and Environment, 1992: 81-90).

People who censured the panel's recommendation, took an early offensive with withering attacks using derogatory and suggestive phrases like 'GATTzilla' (Esty, 1994: 35) while backers of the panel report were on the defensive. This situation strengthened as the issue was presented as part of the broader relation between trade and 'social issues,' which also includes labour standards and labour rights, human rights, and democratic reforms. Another critical feature of the public debate was that the censure of the panel report received strong support from a variety of interest groups and politicians who had earlier displayed little interest in environmental affairs.

The new debate on trade and environment created what has been termed an "intellectual firestorm among international policy wonks" (McAlpine and LeDonne, 1993: 203) in which policy objective should be paramount. Combined with contending views on the trade-off between free trade and environmental protection, the debate turns on the value of institutional governance of the trade/environment nexus and concerns *economic and political questions* such as (Charnovitz, 1994: 462-471; Pearce, 1995: 74-105; Porter and Brown, 1996: 129-141):

- should free trade agreements include stipulations on environmental protection?
- do free trade agreements between countries with diverging environmental regulations result in a "race to the bottom"?
- should free trade agreements allow member countries to put restraints on trade for environmental purposes?
- should international environmental agreements be implemented through the use of trade sanctions?
- are free trade and environmental protection opposites?

In public debate, responses have tended to group around two markedly divergent sets of attitudes or cultures that may be termed the environmental perspective and the free trade perspective: censors of the GATT panel advocate the former approach while backers of the panel advocate the latter (Esty, 1994: 36; Jerome, 1991; Smith, 1996; Williams, 1993: 87).

The environmental perspective sees a contrast between free trade and environmental values. Protecting the environment is always the superior goal. Therefore, free trade agreements should include stipulations establishing the sovereign right of countries and subnational communities to unilaterally adopt, implement, and enforce stricter rules for environmental protection than trading partners. The right should include the use of Trade-Related Environmental Measures (TREM). If free trade is not restricted in that way, a "race to the bottom" will be the result. *The free trade perspective* emphasizes that free trade is a prerequisite for economic growth which renders more resources available for protecting the environment. However, free trade rules and agreements are ever vulnerable to special interests, and it is therefore vital to constrain the obvious danger of unilateral political dynamics which entail the abuse of environmental problems for protectionist purposes. Hence the use of economic rather than administrative instruments is advocated for combating environmental problems. Any unilateral use of TREMs is highly pernicious.

It follows that the two perspectives disagree on empirical as well as normative aspects of the interrelationship between trade and environment.⁴ As environmentalists, or greens, maintain that there is a contrast between free trade and the protection of the environment, they advocate an institutional coupling of the two which presumes that states and local communities will opt for advancing environmental protection over economic prosperity. In contrast to free traders, they tend to view environmental problems in an apocalyptic light, stressing the overall global danger at hand. Environmentalists' normative project can be encapsulated in the phrase "act locally, think globally" (Helleiner, 1996: 69-70). Free traders tend to stress the local nature of environmental problems and maintain a congruence between free trade and environmental protection, since a world free trade system is the most likely route to supply the resources and will to tackle environmental degradation (Brenton, 1994:

⁴ Two economists' distinct presentations in terms resembling the two perspectives are: Daly (1995/1993), presenting an environmental perspective, and Bhagwati (1995/1993), presenting a free trade perspective.

263-266). However, as they see a built-in vulnerability in free trade rules, they advocate an institutional decoupling of free trade and environmental measures. As liberal free traders, their normative project can be encapsulated as “free markets” strengthened by multilateral rules.

Considered in a broad societal context, the questions touch on highly contentious issues which are characterised by the fact that all policies interfere with a number of economic and political interests and ideas held by rather different groupings. Thus, affirmative answers to the five questions posed above are advocated by heterogeneous coalitions consisting of, on the one hand, environmental groups seeking to export high environmental standards to other countries and, on the other hand, industries concerned about their competitiveness *vis-à-vis* firms located in countries with lower environmental standards and therefore eager for protectionist measures (Anderson, Folke and Nyström, 1995: 70; Hoekman and Kostecki, 1996: 248). Less conspicuous is another type of heterogeneous coalition, between other environmental groups and internationally oriented business groups eager for free trade, that works as a counter to environmentalist-protectionist coalitions (Beukel, 1998).

Based on such observations concerning the composite character of economic and political interests, beliefs, and actions, *the purpose of this paper* is to present an exposition of the political economy of the trade/environment issue area with a view to elucidating the influence of economic and political forces. “Trade” is delimited to trade between countries, i.e., international trade, while the environmental problems in question may have various geographical characteristics. The central point is that with the changed character of barriers to trade and increasing environmental concerns, both local, national, transnational, and global environmental problems may give rise to different political dynamics and unusual alliances between economic and political groupings.

In terms of institutions, the trade/environment nexus refers to two types of systems: (1) multilateral trade regimes bearing on environmental policies or directly including environmental provisions; and (2) Multilateral Environmental Agreements (MEAs) with trade provisions. Regimes and agreements are examined at the global level and the regional level in Europe and North America. Questions to be examined include: what are the rules and stipulations of the systems? how do the positions of countries and other actors impact on coupling? and, which economic and political forces influence the rules and positions?⁵

Specifically the paper will consider *the role of multilateralism and unilateralism* in governing the trade/environment nexus. The distinctive feature of multilateralism is the practice of coordinating states’ policies in groups of three or more on the basis of certain principles of ordering relations among those states, that is, norms exhorting general modes of relating to other states by specifying appropriate conduct for classes of actions or issue areas (Ruggie, 1998/1992). In contrast, unilateralism emphasizes the sovereign right of a country to select policies on a case-by-case basis, determined by individual preferences or situational exigencies. Applying that definition, I will consider the role of economic, social, and political forces that work toward or away from a multilateral framework.

One reason for this focus is that the multilateralism vs. unilateralism continuum reveals something important about an international system in that a system marked by states’ unilateral actions tends to be more dominated by states’ strength in terms of material power sources (economic and military) than a rule-based system. To be sure, there is no one-to-one relationship between multilateralism and the weight of rule governance, as no multilateral system operates on the basis of purely egalitarian decision-making rules.⁶ Still, as an overall working hypothesis it can be assumed that the multilateralism-unilateralism continuum reflects a situation where a position or a move closer to the unilateral extremity means a move toward a more power-based system.

⁵ It has to be noted that the paper does not aim at examining whether there is a trade-off between free trade and environmental protection. But, as the purpose is to elucidate how institutional and political patterns shape policy-makers’ handling of the trade/ environment nexus, perceptions of the trade-off issue have to be considered, of course, cf. the two perspectives. A judicious evaluation of the trade-off issue is Pearce (1994: 23) who concludes: “Just as freer trade may in fact worsen environmental degradation if the ‘right’ policies are not pursued, so protection may worsen the environment as well.” See also Thompson and Strohm (1996).

⁶ Besides, the very term ‘egalitarian decision-making rules’ leads to an obvious question: equality between states or equality between citizens/human beings? Theories on international relations usually assume that ‘egalitarian’ refers to equality between states. See Ruggie (1998/1992: 129).

Expressed in terms of the realism vs. neo-liberal institutionalism debate on the critical characteristics of international politics, it means that this paper does not share the realist assumption or assertion that economic and military resources are supremely decisive in international relations.⁷ It is only assumed that multilateral institutions may, under certain conditions, be significant. Put differently, when I consider what transpires in multilateral institutions, it is also because it may indicate that the decisive political structures are to be found in other contexts.

Section two reviews regimes and agreements while section three considers political economy approaches that are useful for analysing the trade/environment nexus. On the basis of this, section four concentrates on how economic and political forces influence positions of institutions and actors on the multilateral/unilateral and coupling/decoupling axes. Lastly, I draw a number of conclusions.

II. Regimes and Agreements

On the global level, I consider the GATT/WTO system and multilateral environmental agreements with trade provisions, on the regional level the Europe Agreements (and the related 'pre-accession' strategy) and the NAFTA package.

GATT / WTO

The GATT regulatory system was initiated in 1947 when the first GATT treaty was signed in Geneva by 23 countries as a temporary agreement before the planned International Trade Organization (ITO) could enter into force. As the ITO failed to materialize, GATT served as a multilateral institution for discussing trade regulations and settling trade disputes over a 45 year period. Initially, the GATT negotiations focused on tariff reductions, but progressively GATT developed into a broad trade regime of great complexity which incorporated various non-tariff trade policies as well, among a growing number of countries (Finlayson and Zacher, 1981; Jackson, 1997). In 1995, a new World Trade Organization (WTO) was established as part of a set of agreements on trade and trade-related subjects that include GATT-1947 as amended by a large number of understandings and supplementary agreements negotiated in the Uruguay round, signed in 1994 in Marrakesh by more than 120 countries. While GATT was not formally an international organization, but an inter-governmental treaty between 'contracting parties,' the WTO is an international organization that administers multilateral agreements concerning trade in goods (GATT-1994) as well as trade in services (GATS) and Trade-Related Aspects of Intellectual Property Rights (TRIPs) (Hoekman and Kostecki, 1996: 12ff.).

Focusing on GATT/WTO as a regulator of government actions affecting trade, the GATT/WTO regime is less directed at realizing free trade or trade liberalization than on establishing a code of conduct, i.e., various substantive and procedural norms for making trade rules a multilateral issue. Thus, the WTO embodies *a multilateral rule-oriented, approach to international governance of trade matters*. The most important substantive principles and norms concern non-discrimination (also termed the unconditional Most-Favoured-Nation (MFN) rule), and reciprocity as to liberalization of trade. Even if many exceptions to the MFN rule have been accepted through the years, it has established a basis for considering countries' unilateral trade regulations a multilateral issue. In the same way, GATT's dispute settlement procedures have narrowed the scope for unilateral trade actions by powerful countries, and this has clearly been strengthened by WTO's rules on the establishment of panels and the adoption of panel reports which means that it is no longer possible for one of the parties to a dispute to block the adoption of a panel report (Hoekman and Kostecki, 1996: 44-50).

⁷ The literature on this is extensive. One important work is Charles W. Kegley (ed.), 1995.

Among the exceptions to these principles and norms, environmental regulations are not directly mentioned. However, Article XX, (a)-(j), enumerates 10 “*General Exceptions*” of which two bear on environmental problems. They read (Cameron et al, Vol. II, 1994: 16-17):

“Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures to: ...

- (b) necessary to protect human, animal or plant life or health; ...
- (g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption”

The 1979 Agreement on Technical Barriers to Trade (TBT), popularly called the Standards Code, which was adopted in the Tokyo Round, however, does deal explicitly with environmental standards as it states that one justification for a technical standard could be “protection for human health or safety, animal or plant life or health, or the environment.” It is added that the standards should not make “unnecessary obstacles to international trade” and it is required that a country notify other GATT members about a standard, give a justification, and (except in emergencies) allow other countries to raise questions before adopting a technical standard not agreed to internationally (Trade and Environment, 1992: 31-32).

The exceptions and the TBT clause contain several ambiguities, for instance “disguised,” “necessary to,” “health,” “safety,” exhaustible, “unnecessary,” or “relating to” (Pearce, 1995: 79f.; Petersmann, 1994: 154-164). Thus their exact meaning in relation to GATT’s principles and norms have been the subject of a number of environmental disputes settled by panels (among which the tuna-dolphin panel is the most prominent one) which have been strongly censured by environmentalists. The critical problem concerns *the distinction between the product and the production process*, in that GATT panels have interpreted the provisions as only allowing exceptions for a product if it is necessary to protect human health or safety as a consequence of the consumption of the product in the importing country (Petersmann, 1996: 22-34). Exceptions from GATT’s rules are not allowed on the basis of damages to the environment from Production and Process Methods (PPM) in the exporting country (Jackson, 1997: 235-238). Otherwise expressed, exceptions are only allowed for consumption externalities, not production externalities: externalities have to be “territorial” (Pearce, 1994: 26f. and 1995: 89f.).

Unlike GATT, in the agreement establishing the WTO *environmental concerns are mentioned*. It is stated in the preamble that the parties recognize that their relations in the field of trade should be conducted:

“allowing for the optimal use of the world’s resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development” (Cameron et al, Vol. II, 1994: 120).

When the agreement was signed in 1994 in Marrakesh, it was agreed that on the first meeting of the WTO General Council in January 1995 a Committee on Trade and Environment (CTE) should be established for continuing and expanding the work in the reinvigorated 1971/1991 working group, as stated above. At the same Ministerial Conference in Marrakesh, a preparatory sub-committee, pending the entry into force of the WTO, was established. CTE held its first meeting shortly after, in February 1995, and prepared a programme of work (Makuch, 1996: 98-100; Petersmann, 1996: 115-117; Trade and the Environment, PRESS/TE 001, 22 March 1995).

Altogether, it can be concluded that the principles, norms, and rules of the GATT regulatory framework and their actual interpretation by GATT panels represent a distinct multilateral factor in the

trade policy-making process. Establishing the WTO as an international organization has, if anything, strengthened such dynamics. However, disagreement on the prominence of environmental issues in trade negotiations and the interpretation of Article XX may curb the multilateral force of the GATT/WTO regime, as section four describes.

Three Multilateral Environmental Agreements

In the late 1990s, there are approximately 180 Multilateral Environmental Agreements (MEAs) that cover different geographical areas and types of environmental problems (Young, 1994). Of these, 20 to 25 include stipulations on trade, and among them provisions on trade have a prominent role in three: the 1973 Washington Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer (with later adjustments); and the 1989 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (Cameron et al, Vol. II, 1994: 220-234, 247-285, and 290-316).

As the stipulations on ***Trade-Related Environmental Measures*** in the three multilateral agreements are important to environmental goals, their relation to rules and concepts of free trade typify legal and political conflicts and problems that are critical in the trade/environment nexus (Demaret, 1994; Esty, 1994: 219-221; Petersman, 1996: 155-161).

The purpose of CITES is to protect certain species against overexploitation through international trade and so it classifies each regulated species by its degree of “endangeredness” in three appendices and establishes three different levels of trade restrictions for protecting both domestic and non-domestic species (Shih, 1996). The Montreal Protocol has stipulations that restrict parties from trading in CFCs and CFC-related products with countries not a party to the Protocol (Brack, 1996: 44-51). Finally, the Basel Convention puts restrictions or bans on parties’ trade with non-parties (Vogel, 1997: 140).

These distinctions between parties and non-parties in the realm of trade restrictions seem to ***fall outside the exceptions allowable in GATT’s Article XX*** (Brack, 1996: 72-81; Zaelke, Housman, and Stanley, 1993: 59ff.). However, GATT has never ruled a MEA-stipulation inconsistent with GATT. A conflict will not arise unless a GATT member brings an official complaint against another, and countries holding different views on trade and environment relations share an interest in avoiding an open conflict that would put them in the uncomfortable position of ignoring either the WTO obligation or the obligation to an environmental treaty (Makuch, 1996: 101f). Moreover, it seems that the extensive discussions in CTE on trade measures pursuant to multilateral environmental agreements have strengthened a common interest in finding solutions that accord with both the GATT/WTO multilateral trade system and MEAs.⁸ Still, a conflict may easily arise and the problem continues to have a central place on CTE’s work programme, which in 1998 includes an information session with secretariats of multinational environmental agreements (Press Release, PRESS/TE 022, WTO, 20 March 1998).

Developing countries are clearly more reluctant to accept the use of trade measures to implement MEAs than high-income countries, but while there is some, more or less extensive, agreement on trade restrictions in the cases of CITES and the Montreal Protocol, ***the role of trade restrictions has been much disputed among the parties to the Basel Convention***. The prevalent dividing line, from the mid-1980s, when trade in hazardous wastes became a prominent issue in the media, until the mid-1990s, was between developing and developed countries. Arguing that free trade in hazardous wastes was a traditional free trade issue, most industrialized countries, lead by the United States - even though it exports only one percent of its hazardous wastes (Porter and Brown, 1996: 84) - long succeeded in limiting several efforts to ban the export of hazardous wastes that was sought by developing countries, an export that is estimated to account for about one-fifth of the total annual global trade in such wastes (Miller, 1995: 87-107; Sanchez, 1994). Formerly, some developing countries were willing to import

⁸ See the CTE report to the WTO Ministerial Conference in Singapore in December, 1996, Trade and the Environment, PRESS/TE 014, 18 November 1996.

wastes, providing a sufficient compensation, but this has changed since the Basel Convention was first negotiated in the late 1980s.

Seeking a ban, developing countries got strong support from environmental groups in affluent countries, as well as UNEP which in some ways has been a prominent actor in this issue. And since the mid-1990s many industrialized countries have come to accept the argument for a ban on hazardous waste trade from rich to poor countries (Porter and Brown, 1996: 86-88). In 1994, the Convention was strengthened by placing a complete ban on the shipping of hazardous wastes from industrialized to non-industrialized nations, and now the main problem is more the illegal, than the legal, trade in those substances.

Europe and North America: Two Sets of Agreements

Both Europe and North America have seen entrance into regional trade liberalization agreements with environmental stipulations through the first half of the 1990s, and on both sides of the Atlantic Ocean the parties to the agreements are countries with rather different levels of income, namely high-income and middle-income countries. In Europe, the European Union (EU) and its fifteen member countries, which all are high-income countries, have entered into the Europe Agreements with ten Central and East European (CEE) countries, among which nine are middle-income countries with only one recent entrant (the Czech Republic) to the high-income group. In North America, Canada, the United States, and Mexico (the latter is the one middle-income country) have entered into NAFTA.

At the same time, the agreements *typify different ways of institutionalizing coupling* between trade and environment. The Europe Agreements are association agreements, with stipulations on trade liberalization being the most important part, and they have become part of a 'pre-accession' strategy for the CEE countries that also include comprehensive guidelines on environmental policy. The NAFTA package, including a side agreement on environmental cooperation, maintains extensive stipulations on environmental policy. Whereas the central feature of the environmental guidelines in the European case is that they entail the CEE countries' approximation to EU environmental regulations, the central feature of the environmental stipulations in the NAFTA package is an obligation that the three countries enforce their own environmental laws. Moreover, while the inclusion of trade and environment in the pre-accession strategy in Europe is part of the European Union's overall policy structure, the inclusion of environmental stipulations in the NAFTA package is due to both the strength of environmental groups in the United States and the widespread view that environmental regulations are a competitiveness issue, in that low environmental standards are advantageous to a trade partner (Beukel, 1998).

III. Political Economy Approaches

The term "political economy" is an ambiguous concept with multiple meanings. Here I use it simply as a generic term for an eclectic mixture of approaches, analytical methods, and theoretical perspectives that aim at describing and elaborating the interaction between economic and political activities (Gilpin, 1987: 8f.) in the realm of trade and environment issues. Reviewing political economy approaches that are useful for analysing the trade/environment nexus, it is worth noting that the two issue areas are dissimilar in the way that states' trade policy is an aspect of states' external sovereignty (as that concept refers to relations among states), while environmental policy is an aspect of internal sovereignty (as it refers to a regulatory function of public policy) (Reinicke, 1998). It means that while trade issues denote interdependence between states, environmental issues cut across the domestic-international dividing line in a far more radical way and may lead to public policies at any level from the local to the global.

With a special view to features which make the trade policy-making process and the environmental policy-making processes susceptible to influence from each other, I divide the review into so-called market failures and governance failures (Wolf, 1988).

Market Failures: Externalities and Public Goods

The central political economy feature of environmental issues is that environmental problems can be viewed as a market failure, that is, negative externalities which have not been included in price calculations, and the provision of environmental protection as an approximate public good (Baumol and Oates, 1988: 14ff.; Dasgupta, 1991; Tietenberg, 1994: 39f.; Weale, 1992: 38f.).⁹

Viewing environmental problems as *externalities*, one important differentiation concerns the distinction between local, national, transnational (transboundary), and global environmental problems, defined in terms of the geographical scope of negative spillovers that have not been included in price calculations. In practice, the dividing line is difficult to draw, and frequently any fixed line is inevitably arbitrary, but particularly when the focus is on linkages between environmental policies and trade policies, it is critical to note this distinction (Runge, 1994: 25-28; Trade and Environment, 1992: 47-48). Related to this, one may talk about psychological or social spillovers or externalities, meaning that an environmental problem physically delimited to another country or geographically defined unit, is perceived as a political or moral question by others. In fact, for people strongly committed to an environmental perspective, *all* environmental problems involve psychological or social spillovers (Blackhurst and Subramanian, 1992: 247-248).

Considering environmental protection as *public goods*, some forms of environmental protection approximate collective goods in the sense that no one can be excluded from sharing the good and one 'consumption' of the good does not diminish the amount available to others. For example, preventing depletion of the ozone layer shares attributes of a collective good on the global level (Beukel, 1996), while the provision of clean air is a collective good on the local or regional level. Differently, the provision of clean water or waste disposal can be excluded from the strict notion of collective good. This means that in case of environmental goals sharing attributes of collective goods, there may be a temptation for actors to free-ride upon the efforts of others in order to enjoy the benefits of environmental protection measures without paying the costs.

When environmental protection is considered a public good, it has to be noted that the distinction between different types of goods does not only depend on physical characteristics but also on which institutional rules are established. Actually, so-called *free market environmentalism* attributes any environmental degradation to the absence of markets with well-defined, well-established, and transferable property rights in relation to the environment, meaning that environmental protection has to be institutionalized as private goods and services in order to be realized (Anderson and Leal, 1991). There is no doubt that, from a technical point of view, the scope for applying property rights and market measures as a means to environmental protection is large (Kraan, 1991), even if the extent of the feasible privatization of environmental goods and services is a contested issue among researchers (Eckersley, 1993 and 1995; Jacobs, 1993). In this paper it is assumed that a full-scale institutionalization of all environmental goals as private goods and services is not feasible.

Governance Failures: Asymmetrical Decision-Making Processes

Asymmetries in political decision-making processes may occur in two contexts that bear on the politics of the trade/environment nexus: asymmetries in the trade policy-making process and asymmetries in the adoption and implementation of environmental policies.

Asymmetries in the trade policy-making process fill a central role in public choice studies of trade policies. The application of the public choice perspective for explaining trade policy has been

⁹ Extending the word usage, pollution problems may be termed public *bads*, cf. also Hardin, 1982: 61f.

developed especially by economists who are frustrated that economic theory's demonstration, based on the notion of comparative advantage, that free trade yields a net benefit for the society as a whole is not followed by political decision makers (Baldwin, 1989; Cohen, 1990). In order to explain this 'irrational' phenomenon, public choice analyses focus on asymmetries in the institutional transformation of different societal groups' preferences in the trade policy-making process: the advantages of free trade are diffused among many anonymous consumers who each obtain a small benefit, while the disadvantages are concentrated on a few import-competing producers who are easily identified and exposed to a marked loss. And conversely for protectionist measures: the benefits are concentrated on a few producers while the costs are diffused among many consumers.

Because of the highly unequal spread of the effects of free trade among winners and losers, the few producers have a much stronger motive for seeking information about their situation, and being organized to influence the trade policy-making process towards protectionism and away from free trade, than the many consumers have for influencing policy-makers towards a free trade policy and away from protectionism (Hoekman and Kostecki, 1996: 20-30; Krueger, 1990). In public debate, protectionist interests will be vociferous while free traders will be few and without a strong motive to commit themselves strongly in the debate. In the case of political leaders, they are primarily motivated by their desire for reelection and are therefore susceptible to vocal demands for protectionist measures. Bureaucrats in public agencies prefer keeping close to active and vociferous interest groups. Thus the public choice approach calls attention to the asymmetrical character of the trade policy-making process: there is a basic imbalance in political influence between the broad population who benefits from free trade and the few who pay the costs. The result is that there is a fertile 'political market' for protectionist measures and that may become even more fertile if protectionist economic interests can find allies which are viewed as more political legitimate by the public opinion.

Both general observations and specific empirical analyses suggest some limits to the validity of theories that stress the overall importance of political asymmetries biased against free trade. First of all, the very existence of free trade agreements indicate the significance of other forces. Next, it has been demonstrated that rising international economic interdependence means that internationally oriented industries have an interest in maintaining free trade, thus shaping the basis for countervailing asymmetrical forces in the trade policy-making process (Milner, 1987 and 1988). Another study pointing to the inadequacy of a general anti-free trade bias in the trade policy-making process emphasizes the importance of the distributional impact of trade among land, labour, and capital, in that advanced economies' increased exposure to trade influences owners of scarce factors of production to oppose free trade agreements with backward economies while abundant factors of production support free trade. As a consequence of this, labour in the United States opposes free trade while European labour supports it (Rogowski, 1989).

Altogether, while public choice perspectives provide a coherent - but often disputed - theoretical basis for an anti-free trade bias in trade policy-making processes, studies pointing to other conclusions are more dispersed and lack a theoretical simplicity.

Theories on *governance asymmetries apply to environmental policies* as well. Thus environmental policies illustrate a classic collective-action problem in that the benefits of a healthy environment tend to be long-term and spread out over many people while the costs of combating environmental problems are relatively short term and concentrated on fewer people. Hence, environmental policies may be difficult to adopt and implement, and may be marked by instability as they face opposition from affected and strongly motivated special interests (Oye and Maxwell, 1995: 207-219; van Mierlo and van Nispen, 1991). If side-payments are applied to accommodate opposition, it may increase the feasibility of implementing environmental regulations but, like other forms of public regulations, it may, in fact, mean that private benefits have been created at collective cost (Greve, 1992).

The adoption and implementation of environmental policies also involves a sensitive choice of governance measures that may give cause to political asymmetries (Hahn, 1990; Skou Andersen, 1994). In outlining the problem, it is expedient to distinguish between two types of measures which may be combined in different ways: (1) economic instruments; and (2) administrative instruments.

Economic instruments, or market-based policies, treat environmental problems as an instance of market imperfections and are an attempt to ‘internalize’ environmental externalities and include them in market prices, i.e., implementing ‘the polluter-pays’ principle. They affect estimates of costs and benefits of alternative options open to economic agents in the market and thus allow the agents’ freedom to respond to economic stimuli. Examples include taxes and charges on emissions or products, tradeable emission permits, and subsidies for developing new technologies, established by public authorities. The term administrative instruments is a catch-all term for policies relying on traditional administrative measures, sometimes named ‘command-and-control’ measures. It includes regulations like standards and quotas for emissions and levels of pollution, prohibitions and injunctions, established and controlled by public authorities (Managing the Environment, 1994: 17f.).

The choice of environmental policy instruments may be constrained for technical reasons, especially in the way that the use of economic instruments may not be feasible. But often there is a choice between types of regulations, and in order to explain the actors’ preference it may be fruitful to apply a public choice perspective, emphasizing that environmental instruments are not chosen as a simple and plain measure to correct an acknowledged market imperfection, but take shape through an engagement between interest groups, mediated by existing political institutions (Hoekman and Leidy, 1992; Petersmann, 1996: 11-7). Thus, producers may be more opposed to economic instruments than administrative instruments, particularly when administrative measures are implemented with close cooperation between public authorities and private business, a process that provides producer interests a better opportunity to influence the preparation and implementation of government measures. Otherwise expressed, administrative instruments may create rents that can be captured by industries affected by the regulations (Hoekman and Kostecki, 1996: 262; Leidy and Hoekman, 1994). Moreover, it can be reasoned that, in setting regulatory standards for new sources of pollution, avoiding high political costs ranks higher to regulatory authorities than avoiding high economic costs. Because both existing industry with existing pollution sources and environmentalists prefer stricter standards for new sources than for old sources, selecting that option is an attractive solution to regulatory authorities’ balancing problem (Hahn, 1990).

This means that administrative instruments may have an advantage compared to economic instruments in the environmental policy-making and implementation process. To the degree that administrative instruments are less effective than economic instruments, it strengthens underprovision of environmental protection as a public good. Moreover, in international society the problem is exacerbated by the multigovernment structure: there is simply no fit between the structure of the interstate system and the dispersion of pollutants around the globe. Tackling numerous transnational environmental problems in a world divided into a set of territorial states requires multiple forms of inter-state collaboration, meaning that there are barriers originating in the structure of international society to the provision of environmental protection (Johnston, 1996: 159-170; Rosenau, 1993).

To cope with the underprovision of environmental protection in international society, governments have agreed to establish environmental regimes which, however, are also susceptible to governance failures (Frey, 1984; Vaubel, 1991).

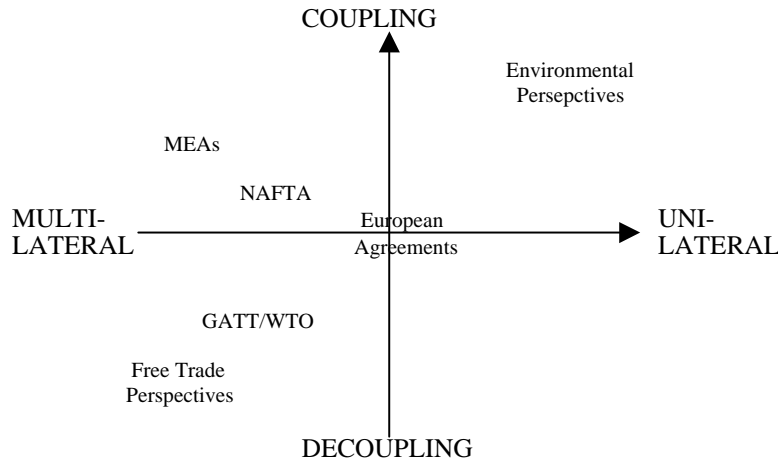
IV. The Multilateral/Unilateral and Coupling/Decoupling Axes

This section aims at evaluating the regimes and agreements reviewed in section two, in terms of the multilateral/unilateral and coupling/decoupling axes, and identifying economic and political forces influencing their positions on the axes. The tentative and preliminary character of this section must be emphasized, both because of basic methodical problems and because illustrative reviews of cases form the material.

Positions on the Axes

A combination of the two axes presents a rough yardstick which can be applied to compare regimes, agreements, and perspectives. Figure 1 displays the approximate positions of the GATT/WTO regime, the three multilateral environmental agreements (considered as a unit), the two regional sets of arrangements, and the two perspectives, on the two axes.

Figure 1. Positions of the Trade/Environment Nexus



In the introduction, the distinctive feature of multilateralism was defined as the practice of coordinating three or more states' policies according to general principles of conduct whereas unilateralism emphasizes the sovereign right for a country to select policies on a case-by-case basis according to situational preferences. Two other properties distinguish *multilateralism*: indivisibility and diffuse reciprocity (Caparaso, 1993/1992: 53-54; Ruggie, 1998/1992: 109-110). 'Indivisibility' refers to the broader range and scope over which costs and benefits of a given action is spread, in contrast to bilateralism's segmentation and compartmentalization of relations into multiple dyads.¹⁰ 'Diffuse reciprocity' refers to an expectation among countries that the arrangement in question will yield a rough equivalence of benefits in the aggregate and over time, in contrast to the specific reciprocity of bilateralism that requires specific quid pro quos by each party with every other at all times.

Applied to the GATT/WTO regime, this means that the nondiscrimination principle is the critical factor, not the actual amount of barriers to trade between members, if these barriers meet the nondiscriminatory norm. Concerning environmental agreements restraining trade, these are multilateral if both the environment and trade restraining components meet the criteria of 'generalized principles,' 'indivisibility,' and 'diffuse reciprocity.'

Given such features, multilateral arrangements are highly demanding forms of cooperation which are difficult to establish. At the same time, however, these features may enhance multilateral institutions' durability and ability to adapt to change once they have been set up. The point is that they are more predictable and have a greater perceived justness than other international institutions, in particular as

¹⁰ It is worth quoting Ruggie: "generalized organizing principles logically entail an indivisibility among the members of a collectivity with respect to the range of behavior in question. Depending on circumstances, that indivisibility can take markedly different forms.... But note that indivisibility here is a *social construction*, not a technical condition: in a collective security scheme, states behave *as if* peace were indivisible and thereby make it so. Similarly, in the case of trade, it is the GATT members' adherence to the MFN norm which makes the system of trade an indivisible whole, not some inherent attribute of trade itself." (p.110).

compared to bilateral relations between greater and smaller countries, which should elicit what is termed “a broader sense of ownership in the system” (Ruggie, 1998/1992: 128-130).

From a methodological point of view, the multilateral focus has a heuristic fruitfulness that springs from, amongst others, its interest for domestic-international linkages as to different principles of conduct (Kratochwill, 1993: 444 and 462f.), including principles of coupling or de-coupling different issues. Thus, the multilateral focus is not only a correction of one of the blind spots of traditional realist theory, but it also lead research in directions which should be more prominent in international studies as they may be a fruitful supplement to other non-realist approaches (Caporaso, 1993/1992: 51).

As to the *actual positions* in Figure 1, it applies first of all that, as they have been defined earlier, the two types of perspectives have to be placed in opposite corners: while environmental perspectives are close to the upper right-hand corner, free trade perspectives are close to the lower left-hand corner.

Concerning the GATT/WTO regime, it does not meet a pure multilateral criteria as its general principles of conduct are sometimes watered down, compartmentalized, and superseded by specific reciprocity. Neither does it meet a pure decoupling criterion as the WTO agreement establishes some kind of coupling, although in rather vague terms that could be realized either way. Altogether, the GATT/WTO regime is close to free trade perspectives, but it differs slightly on both axes.

The three multilateral environmental agreements (MEAs) with trade provisions can be placed close to the upper, left-hand corner: they establish general principles for environmental protection in the different issue areas, operate generally on the basis of indivisible costs and benefits, and diffuse reciprocity, and they express a coupling of trade and environment in specific areas. This is most evident in the case of the Montreal Protocol which aims at providing a collective good; the indivisibility criteria is less obvious as to the other MEAs. At the same time, the Multilateral Fund set up at the 1990 London meeting of the parties to help developing countries’ finance the phase-out CFCs, indicate that general principles on realizing an environmental goal that approximates a collective good has been coupled with general principles on economic development. Put differently, an environmental goal characterised as a collective good may have different places in states’ order of priorities.

The two regional arrangements are more difficult to characterize in terms of the two axes because their approaches to multilateralism and coupling are dissimilar. Yet, NAFTA is deemed more multilateral than the arrangement in Europe, primarily because of the stronger elements of specific reciprocity, segmentation, and compartmentalization in the Europe Agreements’ trade stipulations, especially among members of the EU. As to coupling, the formal ways of coupling are very different in that only in North America may one talk about a direct coupling of the two issue areas. However, considered in a broader context, both regional arrangements express an informal ‘reversed’ coupling in the way that middle-income countries strengthen their environmental regulations as a kind of anticipatory adaptation to free trade agreements with high-income neighbors who have strong environmental groups and political leaders showing concern for environmental protection (Beukel, 1997 and 1998).

Different attitudes to the multilateral/unilateral and coupling/decoupling issues can be further elaborated by considering divergent views in global negotiations.

In the realm of *environmental standards and unilateral measures on the global level*, aspects of coupling trade and environment cause disagreements that mainly follow the dividing lines between countries with different levels of income. The point here is that developing countries voice concern over high-income countries’ proclivity for using trade measures as an inducement or threat to realize stricter environmental regulations in less wealthy countries, in particular when it comes to unilaterally imposed measures. Two issues are important: environmental standards as a condition for trade liberalization and the use of unilateral TREMs.

Concerning *environmental standards as a condition for trade liberalization*, developing countries object to developed countries’ coupling of free trade and environmental protection, especially in isolation of commitments by affluent countries to provide additional assistance to developing countries. Led by countries like Brazil, India, and Mexico, developing countries have opposed the notion of a new trade policy agenda by including environmental issues in trade negotiations, rejecting the idea that trade liberalization should not occur in the absence of “full” internalization of environmental costs (Esty, 1994:

181f.; Trade and the Environment, PRESS/TE 005, 10 October 1995). During the Uruguay Round, some European countries (namely Austria, Sweden, and Switzerland) proposed amending GATT rules to protect the environment, but they were opposed by developing countries (Wathen, 1993).

When high-income countries advance the idea of coupling trade and environment, environmental organizations play a key role in pressing governments to demand a “greening” of trade rules. The idea is that in order to prevent what is termed “ecodumping,” free trade agreements should include stipulations that maintain a country’s right to set environmental standards for imported goods as it wishes. Another option for preventing ecodumping is “green countervailing duties,” meaning that duties are imposed on goods from countries whose environmental standards are deemed deficient. Developing countries fear that the idea will be used to disguise protectionist measures; their strongest supporters in this have been free trade advocates and officials in the GATT/WTO secretariat (Haggard, 1995: 116-121; Porter and Brown, 1996, 136-137; Vaughan, 1994).

Some high-income countries, often led by the United States (DeSombre, 1995), advocate *a country’s right to use trade measures for environmental purposes*, while other affluent countries, like Canada and New Zealand, warn against it (Trade and the Environment, PRESS/TE 006, 8 December 1995). In the debate, there is frequently a blurred dividing line between unilateral and multilateral measures when high-income countries justify the use of trade measures for realizing environmental goals. Anyway, developing countries in particular strongly oppose the idea of trade measures outside a multilateral framework as the three MEAs, because they are concerned it will be used by industrialized countries to protect their industries against competition from industrializing countries (Porter and Brown, 1996: 131-36). Especially big rapidly industrializing countries like Brazil and India object to this, and at UNCED in Rio de Janeiro in 1992, India led a group of developing countries attempting to get a ban on unilateral TREM adopted but had to settle on a compromise as displayed in Principle 12 of the Rio Declaration on Environment and Development:

“States should cooperate to promote a supportive and open international economic system that would lead to economic growth and sustainable development in all countries, to better address the problems of environmental degradation. Trade policy measures for environmental purposes should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. Unilateral actions to deal with environmental challenges outside the jurisdiction of the importing country should be avoided. Environmental measures addressing transboundary or global environmental problems should, *as far as possible*, be based on an international consensus.” (Cameron et al, Vol. II, 1994: 349, italics added).

This leads to considering the role of economic and political forces in influencing positions on the multilateral/unilateral and coupling/decoupling issues.

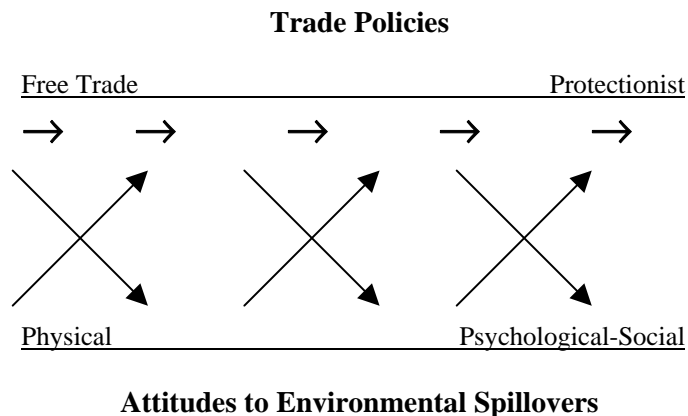
Dynamics: Coalitions and Political Transformations

A useful starting point for identifying and elaborating economic and political forces that influence positions and movements on the two axes is in rearranging and combining reasonings, observations, and conclusions presented in section three on political economy approaches. The most evident are theories that assert the potency of coalitions that can strengthen a movement toward the upper-right corner, i.e., a more prominent role for unilateral measures that stress a coupling of trade and environmental concerns. I will discuss the validity of *two theories on coalition politics pushing toward unilateralism*.

The first is based on the reasoning that there is a positive relationship between specific versions of the two continua: on the vertical dimension, attitudes paying more attention to psychological and social spillovers than physical when they advocate coupling, and, on the horizontal dimension, protectionist dynamics pushing toward unilateral measures. That is, by combining public choice dynamics of the trade policy continuum with a continuum of attitudes toward environmental spillovers (that range from emphasizing strictly physical damages to the environment to seeing spillovers in terms of

broad psychological and social consequences), we can reason a *mixed interest-and-idea based unilateral dynamics* as shown in Figure 2.

Figure 2. Unilateral Dynamics I



The horizontal arrows pointing to the right-hand end of the trade policy continuum represent public choice reasonings on dynamics of the trade policy making process. The slanted arrows indicate that protectionist demands and a tendency to define environmental spillovers in terms of broad conceptions of psychological, social, and political effects reinforce each other: demands for protectionist measures tend to embrace broad definitions of environmental spillovers because they can legitimize such measures, and environmental groups that see environmental spillovers from a perspective dominated by an ecological world view tend to demand strict limits to free trade.

The figure shows how one much-noted type of heterogeneous coalition, the so-called ‘baptist-and-bootlegger’ coalition, may influence trade/environment connections.¹¹ An example is the dispute about the product-process distinction: environmentalist demands that environmental standards as a condition for free trade should refer to the production process in countries with lower environmental standards may coincide with business interests in preventing competition from firms in other countries. In the United States, it would fit in perfectly with the kind of heterogeneous coalition politics in action to adopt a “Green 301” provision as an addition to the American Trade act, in particular if it is part of the “U.S. democratic leadership in the world ... to advance an environmental agenda” (Snape and Lefkovitz, 1994: 804f.).

The question is: how important is this specific type of coalition politics in framing the trade/environment nexus, and what are the conditions for its actual significance or insignificance? The following will give a first answer to that question by *comparing the American and the European processes* of preparing and adopting the respective regional arrangements.

The critical difference between the political processes leading to the Europe Agreements and the NAFTA package is that whereas ‘baptist-and-bootlegger’ coalitions did play a central role in the American process, they were absent in the European process (Beukel, 1998). In order to comprehend this, it first has to be noted that the dispute surrounding the NAFTA package was much stronger than the strife that accompanied the Europe Agreements. Actually, while the dispute on NAFTA was vehement and the final vote in Congress in doubt until the last few days before it took place in November 1993,

¹¹ Cf. Vogel (1992: 245): “The continued prohibition of the sale of alcohol in various counties in the southern United States has been supported by a coalition of Baptists -- who favor prohibition on religious grounds -- and bootleggers -- whose income rests on illegal sales.” Andersson, Folke and Nyström (1995: 70) state a similar notion: ‘Trade barriers and consideration for the environment can be said to represent an unholy alliance it may be difficult for those concerned with the environment to assert themselves against those who demand trade barriers for other reasons.’

there was never any real public conflict on the Europe Agreements or any doubt that they would be adopted. Related to that, whereas some environmental groups were spearheads in the opposition to NAFTA while others supported it, environmental groups in Europe did not oppose the Europe Agreements; on the contrary, in the European Parliament, the “Greens” supported them, even if they also warned that “unrestrained” free trade would damage the environment. Thus, as several specific interests in both the United States and Western Europe endeavoured to protect their interests in the specifics of the trade components of the two arrangements, only in the United States the ‘bootlegger’ part of the coalition in question had a ‘baptist’ partner. That is, only in the United States did the Figure 2 version of unilateral dynamics play a role, but - it must be noted - the American ‘baptist-and-bootlegger’ coalition did not succeed.

In explaining the difference between the two political processes, one has to look beyond the actual trade and environment components of the agreements and focus on the very dissimilar developments concerning political transformations in the less wealthy parts of Europe and North America. *In Europe*, the democratic transformations in Central and Eastern Europe in 1989 were spectacular, truly revolutionary, and had been closely followed and welcomed by all political groupings in Western Europe. *In North America*, the democratic changes in Mexico had been much slower and less conspicuous with never an exciting moment comparable to the fall of the Berlin Wall in November 1989. The consequence was that environmental movements in Western Europe were - expressed in terms of Figure 2 - predisposed not to apply any enhanced definition of environmental spillovers to Central and Eastern Europe, but to accept an arrangement containing trade and environment stipulations which they in other circumstances might have considered highly defective.

The conclusion is that the actual political process on a trade/environment nexus is far from determined by the actual stipulations on trade and environment in an international agreement, or by countries’ level of income or level of pollution, or by any inherent inclination of environmentalists to adopt a still broader definition of environmental spillovers. A ‘baptist-and-bootlegger’ coalition is not an automatic consequence when high-income countries enter free trade agreements with middle-income countries that also have more “serious” environmental problems. Broader structural and political transformations may supersede what look like powerful alliances between business interests and environmentalists.

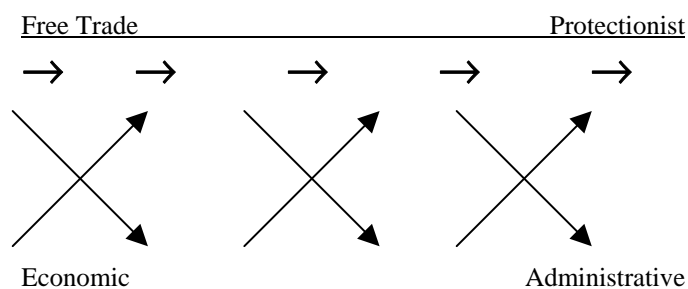
However, on the basis of this, one may point to another conclusion as well: as the 1989 democratic revolutions in Europe slowly disappear from the political memory in Western Europe, some European environmental groups will perceive environmental spillovers in broader psychological-social terms and approach free trade agreements in a less favourable way. A split between different kinds of environmental movements may appear in Europe as it has in the United States during the 1990s.

The second theory on coalition politics pushing toward unilateralism concerns governments decisions on environmental policy instruments and choices between economic (or market-oriented) and administrative (or command-and-control) instruments. Considering that context we may get *a bureaucratic-sectoral based unilateral dynamics*, as illustrated in Figure 3.

The two sets of horizontal arrows pointing to the right-hand end of the figure represent reasonings presented in section three, while the slanted arrows indicate a reasoning that the two political dynamics reinforce each other toward the protectionism/ administrative end of the figure. The idea, based on a governance ‘failure’ notion about organizational goals in public bureaucracies, is that there is a close relation between trade policies and the choice of environmental measures in the way that a movement toward protectionism and a movement toward administrative measures reinforce each other: increasing use of protectionist measures enhances the political and bureaucratic scope for administrative environmental measures, and increasing application of administrative measures for environmental purposes increases the political and bureaucratic scope for protectionist measures.

Figure 3. Unilateral Dynamics II

Trade Policies



Environmental Policy Instruments

Comparing the two figures, one point worth noting is that the relations shown in Figure 3 display a less heterogeneous coalition than the relations shown in Figure 2, one reason being that environmental groups increasingly seem to prefer economic instruments, wherefore public bureaucracies and connections between public authorities and private industries - or what might be termed 'bureaucrat-and-bootlegger' coalitions - often are the most influential forces in moving toward administrative instruments.

How important are these kinds of driving forces on the two sides of the Atlantic Ocean? In this paper only a tentative answer is suggested. Two reasons indicate that *the second version of unilateral dynamics is stronger in Europe than in North America* and will increase through the coming years.

First, as the economic process of integrating CEE countries in the European Union will require many changes in the present membership of the EU, with consequent problems for employment and income in business sectors, several new situations may appear where the EU is met by demands for helping or saving this or that sector which is endangered by 'unfair' competition (environmental and social 'dumping') from CEE countries. As the EU is eager to disprove accusations that it is too elitist and doesn't understand common peoples' problems, the use and strengthening of all kinds of existing administrative measures will be a natural means for proving that the EU is 'close' to common people. Central traits of the decision-making process, in particular the multitude of specialized Council of Ministers and preparatory working groups with close connections to interest groups, thus enhance the asymmetrical character of political processes bearing on the trade/environment nexus.

Second, as the political integration process will be much stronger in Europe than in North America, it means that the bureaucratic forces which shape the actual potency of Figure 3 dynamics will become stronger in Europe. The paradox is that when the European Union is going to broaden its membership, but maintain a basic intergovernmental structure where all states, as a symbol of national sovereignty, are given their 'just' number of offices in common institutions, it will be still more difficult to avoid a growing bureaucracy in search of something to work on to justify its existence. Federalist structures like majority voting and particularly a relaxation of the strict demand that *states* are the critical unit in the EU, offer no guarantee for solving this problem, of course, but do increase the chance of such a solution. Thus today, intergovernmental decision-making rules favour administrative measures because economic instruments, for instance environmental taxes, require unanimity, and so it has for years been impossible to adopt a proposal for a tax on carbon dioxide emissions.

V. Conclusions

Summarizing the exposition of the international political economy of trade/environment nexus, five conclusions are central.

Firstly, it is necessary to distinguish between different environmental problems in different parts of the world. This is most evident from less wealthy countries' opposition to affluent countries' proclivity for including environmental stipulations in trade liberalization agreements and the use of trade measures for environmental purposes, in particular unilateral trade measures. This opposition is due to the view that trade and economic growth can provide the means for combatting the most critical environmental problems in poor countries, like the lack of clean water and local air pollution.

Secondly, the distinction between different types of public goods is especially relevant for evaluating less wealthy countries' leverage in negotiations with high-income countries. Some high-income countries are more willing to enter environmental agreements and provide funds for poor countries' compliance when it concerns agreements on goals resembling collective goods, whereas a 'mere' transboundary environmental problem without a sense of shared vulnerability is a more cumbersome issue.

At the same time, the changes in the Basel Convention and the funding attached to the Montreal Protocol indicate that multiactor leadership coalitions of smaller countries, developing countries, environmental groups, and international organizations have possibilities for influencing the development of multilateral environmental agreements with trade regulations. Political entrepreneurship displayed by such coalitions can muster the necessary resources.

A third conclusion centres on the option for democratic high-income countries to prioritize environmental issues, demanding strict environmental conditions in trade agreements with less wealthy countries and a prominent role for trade restrictions in environmental policies, including an opening for unilateral restrictions. The domestic basis for that option is informal 'baptist-and-bootlegger' coalitions between environmentalist groups that manifest an ecological world view and protectionist oriented business interests, and such coalitions will be strengthened by widespread reactions against internationalization, globalization, and a need to demonstrate national identity.

Another, more cumbersome, option is less preoccupied with always putting the environment first and based on an alliance between environmentalist groups that realize the limits to trade restrictions in environmental policies and internationally oriented business groups that have an interest in free trade agreements, but realize a need for specific trade measures in multilateral environmental agreements. While the glue of the former coalition is the fear of a 'race to the bottom,' the second coalition - which might be termed a 'green-and-greedy' coalition (Beukel, 1998) - builds on a hope for a 'race to the top.' That option appeared in the American debate on NAFTA and will be supported by the many internationally oriented civil and political groupings which also play a prominent role in affluent countries.

In the fourth instance, the choice between unilateralism and multilateralism is obviously never simply a choice between vice and virtue. But the distinction between multilateral and unilateral measures for dealing with trade/environment problems is still important because it points to an essential feature of international politics: the role of rule-based regulations vs. unilateral state actions. It is also worth stressing that there may be a conflict between different multilateral obligations, and multilateral regimes differ as to type of leadership and background factors which may put some multilateral regimes closer to a power structured international institution. That is, a multilateral oriented governance of the trade/environment nexus will include power based and unilateral elements, but the fact that a pure multilateral rule-based system is an ever withdrawing vision on the horizon can never be an argument against a limited type of multilateralism.

Finally, political economy theories tell us that the choice between multilateral and unilateral options is biased due to prominent economic-political structures in democratic societies and the

multigovernment structure of international politics, with the result that there is ever a tendency toward strong unilateral elements in the trade/environment nexus.

One thing is that there is an obvious need for supplementing these theories with more thorough studies of the conditions for multilateralism. It is especially important to focus on if and why it is difficult - or not that difficult - to establish international cooperation without clear and measurable benefits to prominent groups in democratic societies in a situation where Western democracies no longer face a Soviet adversary and the United States is unable or unwilling to provide some form of leadership.

But whatever the outcome of such studies, theories are always conditional when it comes to explaining and predicting political-economic developments. Political economy approaches and theories indicate limitations and opportunities for different policies for handling the trade/environment nexus that should not be forgotten. But there is no structural determinism. In the end there is always a choice that may be more or less comfortable.

Acronyms

CEE	-	Central and Eastern Europe
CFCs	-	Chlorofluorocarbons
CITES	-	Convention on International Trade in Endangered Species
CTE	-	Committee on Trade and Environment
EU	-	The European Union
GATS	-	General Agreement on Trade in Services
GATT	-	General Agreement on Tariffs and Trade
ITO	-	International Trade Organization
MEAs	-	Multilateral Environmental Agreements
MFN	-	Most Favoured Nation
NAFTA	-	North American Free Trade Agreement
OECD	-	Organization for Economic Cooperation and Development
PPM	-	Production and process methods
TBT	-	The Agreement on Technical Barriers to Trade
TREMs	-	Trade-Related Environmental Measures
TRIPS	-	Trade-Related Aspects of Intellectual Property Rights
UNCHE	-	United Nations Conference on Human Environment, 1972
UNEP	-	United Nations Environment Program
WTO	-	World Trade Organization

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