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# Global Governance and the Environment

MARTIN KHOR

**I**t has been more than a decade since the Rio Summit of 1992. At the time it was hailed as an achievement for placing the environment crisis at the top of the international agenda and for linking environment with development in a new paradigm of sustainable development. There was a hope that the “Spirit of Rio” would carry the paradigm forward into practical programs and policies that would deal with both the environment and development crises in a new North-South partnership.

Today it must be admitted that the process after Rio has largely failed to fulfill the promise and hopes of Rio. The Rio Plus Five Summit, United Nations General Assembly Special Session to review the United Nations Conference on the Environment and Development (UNCED), concluded in June 1997 without a political statement because the divide between North and South countries was too wide to bridge. The world’s environment had continued to deteriorate. For example, forests continue to disappear or be degraded at a rate of fourteen million hectares a year; greenhouse gases are still increasingly pumped in the atmosphere, but the United States has pulled out of the Kyoto Protocol and the present targets for emission reductions are clearly inadequate; and there is a looming crisis of water shortages around the world.

The reason is not to be found in the paradigm. Rather, the paradigm was not given the chance of being tested in implementation. Instead, the sustainable development paradigm came under competition from a rival, the paradigm of globalization. This rival had indeed already been gathering strength even before the UNCED process. But UNCED for a time gave globalization good competition, and UNCED was even given support by the Copenhagen Social Development Summit of 1995.

However, the globalization paradigm was given a great boost by the Marrakesh Agreement of 1994 that established the World Trade Organization (WTO). Globalization found a new institutional house with its many rooms in the

WTO's several agreements. Moreover, the WTO's dispute-settlement system, based on retaliation and sanctions, gave it a strong enforcement capability. The WTO agreements rivaled the chapters of Agenda 21 and the Rio Declaration. The UNCED did not have a compliance system or a strong agency for following up its agreements. As the 1990s drew on and the WTO agreements became more and more operational, the globalization paradigm far outstripped the sustainable development paradigm. Marrakesh 1994 overrode and undermined Rio 1992.

The competition between the two paradigms—with globalization undoubtedly running away as the winner and moreover a winner whose speed, direction, and effects seem to be uncontrollable—has resulted in a crisis of sustainable development, or rather a number of crises.

The environment crisis has not been checked. It is getting worse, including in the area of biodiversity loss, water depletion and scarcity, climate change, and deforestation. The effects are going to be devastating. The crisis of development has worsened. The plight of less developed countries (LDCs) continues, whilst many of the more successful emerging economies also fell into crisis and several development options have been diminishing in scope or possibility.

The conceptual, policy, and political link between environment and development that had apparently been made inextricable by the UNCED process seems to have broken all too easily, and “development” as a principle or right seems to be disappearing in the Northern establishment. Even on the narrower arena of environment, there is a backlash from commerce-backed forces, which has resulted in a weakening of multilateral partnership (as witness a small group of countries almost succeeding in scuttling the Biosafety Protocol and the United States rejecting the Kyoto Protocol).

In short, in the years after the Rio Summit, the environment has dropped many notches down the global and national agendas, while “development” is also fast vanishing as a principle and an agenda item in the countries of the North and thus in the international agenda. The process of globalization has gained so much force that it has undermined and is undermining the sustainable-development agenda. Commerce and the perceived need to remain competitive in a globalizing market and to cater to the demands of companies and the rich have become the top priority of governments in the North and some in the South. Correspondingly, partnership for environment and development concerns has been downgraded.

The most glaring weakness at Rio was the failure to include the regulation of business, financial institutions, and transnational corporations (TNCs) in Agenda 21 as well as other important decisions. These institutions are responsible for generating much of the pollution and resource extraction in the world, as well as greatly contributing to the generation of unsustainable consumption patterns and a consumer culture. UNCED, the Commission on Sustainable Development, the UN system as a whole, and individual governments have collectively failed to create

international mechanisms to monitor and regulate these companies. Instead their power and outreach have spread much more, and this has been facilitated by the implementation of the WTO's rules.

However, while sustainable development is at low ebb, there are also signs of its revival as a paradigm. The limitations and failures of globalization have caused a major public backlash that may eventually result in some policy changes. Pro-sustainability forces within governments in developing countries are becoming more aware of their right or responsibility to try to rectify the present problems, including changing some of the rules in the WTO. The World Summit on Sustainable Development (2002) provides a good opportunity to refocus attention of the establishment and the public not only on the problems, but also on the need to shift paradigms.

Given the unequal economic effects of the present process of globalization and its adverse social and environmental costs, there is a need for fundamental reforms of policy and practice at both the international and national levels. The following are suggestions for changes to enable conditions for sustainable development.

### **Need for Appropriate and Democratic Global Governance**

In order to have a favorable international environment for sustainable development, it is vital for the democratization of international relations and institutions so that the South can have an active role in decision making whilst civil society can also have its concerns taken into account. The role of the UN should be strengthened while the International Monetary Fund (IMF), World Bank, and WTO should be made more accountable to the public and to the poor. Democratization in global governance structures is a prerequisite to reforms in content of policies, which can then result in more equitable sharing of benefits and costs.

The major global economic actors are the TNCs, the international banks, the World Bank, IMF, and the WTO. The operations of the corporations and financial institutions should be made much more accountable to the public, and indeed to the governments. The decision-making processes in the Bretton Woods institutions and the WTO are mainly controlled by the industrialized countries. The procedural and legal aspects of decision making should be democratized so that developing countries can have their proper share of participation. These institutions must also be more open to public participation and scrutiny. See Yoshiko Kojo's *Further Thoughts*, "Globalization and International Economic Institutions," on page 166.

## Rebuilding the Role of the United Nations

The UN and its agencies, as the most universal and democratic international forum, should be given the opportunity and resources to maintain their identity, have their approach and development focus, as well as reaffirm and strengthen their programs and activities. The recent trend of removing the resources and authority of the UN in global economic and social issues in favor of the Bretton Woods institutions and the WTO should be reversed.

In particular, those Northern countries that have downgraded their commitment to the UN should reverse this attitude and instead affirm its indispensable and valuable role in advocating the social, equity, developmental, and environmental dimensions in the process of rapid global change. The UN could at least be a counterweight to the similar laissez-faire approach of the IMF, World Bank, and WTO.

Strengthening the UN will allow it to play its compensatory role more significantly and effectively. But of course a complementary “safety net” function is the minimum that should be set for the UN. The UN must be able to make the leap: from merely offsetting the social fallout of unequal structures and liberalization to fighting against the basic causes of poverty, inequities, social tensions, and unsustainable development. The more this is done, the more options and chances there are for developing countries and for sustainable development.

There is a danger that some UN agencies (and the Secretariat itself) may be influenced by conservative political forces to join in the laissez-faire approach or merely be content to play a second-fiddle role of taking care of the adverse social effects of laissez-faire policies promoted by other agencies. The UN should therefore keep true to its mission of promoting sustainable development and justice for the world’s people and to always advocate for policies and programs that promote this mission; otherwise, it would lose its credibility and its reason for existence.

## Reforming the Global Economic System to Benefit the South

Reforming the inequitable global economic system is needed as part of the battle for sustainable development. The substance of the demands for a new international economic order should be seriously addressed instead of being ignored or treated as extremist. Due to the imbalances, the outflow of real and financial resources from South to North far exceeds the flow of aid from North to South. The transfer of resources from the South makes it extremely difficult, if not impossible, for Third World countries to adequately implement sustainable development policies, even if they wanted to. Thus of major importance is the reversal of these South-to-North flows of resources.

A major area for reform is in the terms of trade between Northern and Southern exported products. The poor and deteriorating terms of trade for Third World commodity exports vis-à-vis Northern manufactured exports have been a major source of the lack of foreign exchange and income in the South. The low prices of raw materials have also contributed to the high volume of extraction and production (to maintain export earnings), and thus become a big factor in natural resource depletion. To rectify the unfair economic trade terms as well as reduce resource depletion, the prices of raw materials could be significantly raised to reflect their real and ecological costs. This may require a new round of commodity agreements or other mechanisms.

An enlarged role should be given to a revitalized United Nations Conference on Trade and Development (UNCTAD) and other UN agencies to assist developing countries in areas such as improving commodity prices and building supply capacity, as well as formulating trade, production, and development policies. Another area for reform is the resolution of the external debt burden of poor and middle-income developing countries. Debts of LDCs and other poor countries should be written off so that they can make a fresh start. The recent financial crisis involving high external debts in East Asian countries again highlights the need for countries of the South to guard against falling into a debt trap. A fair resolution to the existing debt problem that would not continue to squeeze Third World economies is important to widening the options of developing countries for the future.

In the area of investment and technology, the South and the UN had in earlier decades tried to establish codes of conduct for TNCs and for the transfer of technology, but eventually these efforts were abandoned in the early 1990s. Instead, the Northern countries are attempting to establish a multilateral agreement on investment rules under the WTO (since their efforts to create one under the Organization for Economic Cooperation and Development [OECD] failed). The investment policy rules sought by the North would largely prevent the developing countries from having meaningful options for policy making over strategic investment and development issues. Developing countries should therefore exercise their membership rights and not allow the WTO to negotiate investment rules. Instead, the right of Third World countries to determine their own economic policies and to have control over their natural resources should be recognized in practice as well as in principle. This would include the right to determine the terms under which foreign companies can invest in a country.

New efforts should be made for codes or arrangements to regulate TNCs and restrictive business practices, and to foster technology transfer to developing countries.

## **Reviewing the Bretton Wood Institutions and Their Policies**

The “globalization” of a particular set of macroeconomic policies was achieved through the structural adjustment programs (SAPs) that the World Bank and IMF designed and exported to more than eighty developing countries. The SAPs led to widespread public discontent, including street riots and demonstrations, in many countries undergoing adjustment, and led to opposition by several people’s organizations and NGOs in both the South and the North. The most important issues voiced by developing-country governments and especially by a wide range of Southern and Northern NGOs were the negative economic and social effects of SAPs, the non-accountability of the Bretton Woods institutions, and the need to resolve the South’s debt crisis. They have argued that debt and structural adjustment were the most important impediments to social and sustainable development in developing countries. A serious search for the elements of an appropriate approach to macroeconomic policies and development strategies, including the proper balance of roles between the state and the public and private sectors, is essential.

### **Reforming the World Trade Organization**

The WTO should be made more transparent and accountable to the larger international framework of cooperation and sustainable development. This is critical because the rapid developments in the WTO have such major ramifications for sustainable development, and yet there is a lack of information and participation from the public, from many sections of national governments and parliaments, and from other international institutions. There should also be greater internal transparency within the WTO. Developing-country members must have full participation rights in discussions and decision making.

There is a need to assess the implications of existing WTO agreements and to address the imbalances and deficiencies that lead to unequal outcomes at the expense of developing countries. The WTO agreements have on the whole benefited the stronger trading countries much more, and many weaker countries are likely to suffer net losses in many areas. The inequities should be redressed during the review of the agreements that is mandated to take place in the WTO in the next few years.

In particular, the WTO Agriculture Agreement has not taken into account the needs and interests of small farmers, especially the noncommercialized farmers in developing countries that form a large section of the population. The Agriculture Agreement should thus be reviewed and reformed to take into account its impact on small farmers and in the context of food security and sustainable

agriculture. See Sohail Inayatullah's Further Thoughts, "Food Politics: A Multi-layered Causal Analysis," on page 168.

A review and reform of Trade-Related Aspects of Intellectual Property Rights (TRIPS) is urgently needed. The problems of implementation facing developing countries should be dealt with as a matter of top priority, and a strengthened special mechanism should be set up to satisfactorily resolve the problems (including through amending agreements) as soon as possible.

The special and differential rights of developing countries should be strengthened and operationalized. In this context, the main operational principle of the WTO, which is liberalization and "national treatment" for foreign products, should be reviewed in light of the experiences of many developing countries, which have suffered adverse effects from liberalizing their imports too rapidly whilst not being able to increase their export capability, access, and earnings. Conversely, the main goal of the WTO is sustainable development, while liberalization is only a means (and should be done appropriately), and this central theme should be operationalized in the workings of the WTO. Developing countries that encounter problems arising from liberalization should be able, in practice, to make use of their right to special and differential treatment so that they can have the option of having the right balance between opening to the world market and promoting the interests of local firms and farms.

Finally, the WTO should not take up issues that are not trade related. The attempts by some countries to introduce such new issues as investment rules, competition policy, government procurement, and labor standards should not be accepted, as developing countries will be disadvantaged by the way the WTO is likely to treat such issues. Moreover, the WTO would be seriously overloaded with such an expanded portfolio when most developing countries are already unable to cope with the current set of agreements and with the present volume of negotiations.

### **Trade and the Environment**

Discussions within the WTO entailing the environmental effects of WTO rules can be beneficial, provided the environment is viewed within the context of sustainable development and the critical component of development is given adequate weight. The principle of "common but differentiated responsibility" derived from UNCED should guide discussions on trade and environment in the WTO and elsewhere.

The Committee on Trade and Environment should orient its work to the more complex but appropriate concept and principles of sustainable development. But there should not be any move to initiate an "environment agreement" in the WTO that involves concepts such as Political Process Models (PPMs) and



eco-dumping. Thus there should not be the linking of environmental standards (and the related issues of PPMs and eco-dumping) to trade measures.

### **Reforming the Global Finance System**

Reforms are needed in the global finance system. There should be regulation of capital flows to prevent the disruptive effects and avoid financial crises. Countries that face debt default should be able to have access to debt standstill and debt workout under an international debt arbitration institution. A more democratic system of governance and decision making on international financial matters is also needed.

### **Technology Assessment and the Precautionary Principle**

UNCED did not deal with the theme of assessment and regulation of environmentally unsound technology in a systemic manner. What is required is a competent international center or agency, under the UN, that carries out sustainable-development assessments of technologies, especially new and emerging technologies. The center should establish systems for governing and regulating technologies. The precautionary principle should be applied in technology policy. See Walt Anderson's *Further Thoughts*, "Biotechnology and Fairness," on page 171.

### **International Environmental Governance**

There are many gaps in the current system of international environmental governance (IEG). There should be better coordination and rationalization among the various multilateral environmental agreements and between these and the United Nations Environment Program (UNEP) as well as the Commission on Sustainable Development (CSD). Future initiatives on environment regulation and on IEG must place the environmental issues within the context of sustainable development so that the development dimension is streamed into environmental policy.

### **The Search for Alternative Development Strategies**

As the UNCED process realized, a reconceptualization of development strategies is required. For example, the recent Asian financial crisis makes it crucial to reflect on the dangers to a country of excessive openness to foreign funds and investors. An important issue is whether developing countries will be allowed to learn lessons from and adopt key aspects of these alternative approaches. For

this to happen, the policy conditions imposed through structural adjustment have to be loosened, and some of the multilateral disciplines on developing countries through the WTO Agreements have to be reexamined.

In the search for alternative options for developing countries, approaches based on the principles of sustainable development should be given high priority. The integration of environment with economics, and in a socially equitable manner, is perhaps the most important challenge for developing countries and for the world as a whole in the next few decades. So far there has been a recognition that something should be done, but the real work has only now to begin.

It is crucial that the research in this area be increased. It would be very useful if economic arguments could be put forward to show policy makers that it makes better economic and financial sense to take care of the environment now, even as the country progresses, rather than later. More work needs to be done, including at regional and national levels in developing countries, to produce evidence and to make both the public and policy makers aware that environmental damage is economically harmful and that environmental protection and eco-friendly technology and practices are themselves economically efficient ways of conducting development. It would also be very useful to highlight and draw lessons from examples of successful implementation of sustainable and human development policies and approaches. The emerging "sustainable and human development" paradigm could then contribute to the debate on appropriate macroeconomic policies; the appropriate relations between state, markets, and people; and appropriate development styles and models.

In the ecological sphere, the series of negotiations initiated by UNCED is an opportunity for all countries to cooperate by creating a global framework conducive to the reduction of environment problems and the promotion of sustainable economic models. However, international discussions on the environment can reach a satisfactory conclusion only if they are conducted within an agreed equitable framework. The North, with its indisputable power, should not make the environmental issue a new instrument of domination over the South. It should be accepted by all that the North should carry the bulk of the burden and responsibility for adjustment toward more ecological forms of production. This is because most of the present global environmental problems are due mainly to the North, which also possesses the financial resources and the economic capacity to reduce its output and consumption levels.

There should be much more focus on changing economic policies and behavior in order that the patterns of consumption and production can be changed to become environmentally sound. What needs to be discussed is not only the development model of the South, but even much more the economic model of the North, and of course the international economic order. Key issues to resolve include the following:

1. How to change structurally the Northern model of production and consumption or lifestyles.
2. How to promote ecologically sound and socially just development models in the South.
3. How to structurally adjust the world economic institutions so as to promote fairer terms of trade and reverse the South-North flow of financial resources.
4. How to come toward a fair distribution of the sharing of the burden of adjustment necessitated by ecological imperatives, as between countries and as within countries.

Whilst the international elements of a fair and sustainable global order are obviously crucial, there must also be substantial changes to the national order as a complement. In both North and South, the wide disparities in wealth and income within countries have to be narrowed. In a situation of improved equity, it would be more possible to plan and implement strategies of economic adjustment to ecological and social goals.

In the South, the policy option can be taken to adopt more equitable and ecological models of development. With more equitable distribution of resources, such as land, and greater access to utilities and housing, the highest priorities of the economy should be shifted to the production of basic goods and services to meet the needs of the people. Investments (including government projects) should be channeled toward basic infrastructure and production, in contrast to the current bias for luxury projects and status symbols of progress. Social investment in primary health care, education, housing for people, public transport, and popular cultural activities should also be emphasized, rather than the high-level luxury services that now absorb a large portion of national expenditure. In this social context, changes also have to be made to make the economy follow the principles of ecology. There should generally be a reduction in the extraction and production of primary commodities: this would reduce the problem of depletion of natural resources, such as forests and minerals.

The decline in output and export volume could be offset if commodity prices were to rise, thereby providing a fair value of export earnings. In agriculture, the ecological methods of soil conservation, seed and crop diversity, water harnessing, and pest control should replace the modern, non-ecological methods. With a reduction in production of agricultural raw materials, more land can also be allocated for food crops. There should be as much conservation of primary forests as possible, and the destructive methods of trawler fishing should be rapidly phased out whilst fishery resources are rehabilitated and the environmentally sound fishing methods of small fisherfolk are promoted. In industry and construction, ecologically appropriate forms of production should be given prior-

ity. There should be strict limits on the use of toxic substances or hazardous technologies, a ban on toxic products, and the minimization of the volume of toxic waste and pollution. Of course, to make this move toward a better global order possible, there must be people's participation, because the radical changes being called for can be realized only when there is popular will. It is crucial that information be provided to the people through the media and popular education methods and that the people are given the freedom to make their views known to the policy makers and to others.

It should be stressed that the elements proposed here for a fair and sustainable global order have to be taken together, as a package. Social justice, equity, ecological sustainability, and public participation are all necessary conditions for this order, and the change must apply at both national and international levels. Policies that promote equity alone would not necessarily result in a more environmentally sound world. On the other hand, measures to solve the ecological crisis without being accompanied by a more equitable distribution of resources could lead to even greater inequity and injustice.

## FURTHER THOUGHTS

### **Globalization and International Economic Institutions**

*Yoshiko Kojima*

GLOBALIZATION HAS LOTS of meanings depending on people's perspectives. Definitions cover a wide range of today's international phenomena from trade and capital mobility to organized crime and pop culture. Rapid economic flow is one of the most important characteristics of today's globalization.

In the era of today's economic globalization, international institutions have gotten lots of attention. Partly due to the end of the Cold War, the number of international institutions has increased since the late 1980s. Some were newly created, like the North-American Free Trade Agreement (NAFTA) and Asia-Pacific Economic Cooperation (APEC), while some were developed further, such as the WTO. When we observe such increases of international institutions both at global and regional levels, we are wondering how economic globalization has been related to such increases.

Economic globalization has been related to international institutions in two different ways. First, international economic institutions have facilitated economic globalization. After World War II, the Bretton Woods institutions such as the General Agreement on Tariffs and Trade (GATT) and IMF were founded to achieve a "free, open, and multilateral" international economic system. The GATT succeeded in lowering tariffs and facilitated reducing nontariff barriers. After the mid-1980s, the Organization for Economic Cooperation and Develop-