CHAPTER IX
CHAPTER-IX
WTO AND INDIAN ENVIRONMENT

9.1 INTRODUCTION

In recent years, there have been intense discussions in the academia as well as policy circles regarding the second generation of economic reforms in our country. While there are several nuances in these debates, and the ramifications of what else remains to be done assume serious proportions, certain essential features of this discourse need a careful scrutiny. In the first place, it must be recognized that while the first generation of economic reforms in July 1991 was initiated as per the conditionalities of the IMF loan that we took at that time to salvage India's credibility in the world financial market, the second generation of economic reforms at the turn of the 21st century has been guided by our compulsions to conform to the norms set by the WTO in matters of trade policy, to which India committed herself at the conclusion of the Uruguay Round of GATT negotiations. Many of the changes that are now contemplated in the functioning of the Indian economy are basically the offshoots of the standards and norms prescribed by the WTO, inter alia, the adherence of labour and environment standards in the name of safeguarding the human rights. Secondly, what we could not accomplish during the first phase of economic reforms due to several factors, including political compulsions, are also included in the agenda for the second-
generation economic reforms. The most significant example is the need to initiate and complete social sector reforms to give a human face to the process of globalization.

In the present research, we look at the implications of adhering to the norms of environmental standards, as directed by the WTO for the Indian economy. This will be discussed against the backdrop of the interface of the relations between international trade and environmental quality and the implications of the globalization process for international trade and environmental quality, and the emerging policy choices for the developing countries in the current world trading scenario, dictated by WTO regulations and obligations.

9.2 ENVIRONMENT AND TRADE

Although the issue of trade and environment was not directly included in the Uruguay Round of negotiations, yet certain environmental conclusions were addressed. In the Uruguay Round, a Ministerial Decision on Trade and Environment was adopted (April 1994), calling for the establishment of a Committee on Trade and Environment (CTE). A broad based mandate was agreed upon for the CTE, consisting of identifying the relationship between trade measures and environmental measures in order to promote sustainable development, and of making appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required. The work programme of the CTE's is contained in the Decision and consists of a large
number of issues than those previously addressed by the EMIT group.

In the Uruguay Round, two sets of agreements were formulated: (1) Agreements on Technical Barriers to Trade; (2) Agreements on Sanitary and Phyto-Sanitary Measures (SPS). These Agreements deal with the measures to be taken by governments to protect human, animal and plant life along with domestic environment and health. Besides, agreements on the following had undergone some alterations having save bearing on environment and trade:

(i) **Agreement on Agriculture**: Under this agreement, WTO members are exempted from direct payments under environmental programmes (to reduce domestic support for agricultural production, subject to certain conditions,)

(ii) **Agreement on Subsidies and Countervailing Measures**: These are being treated as non-actionable subsidy or government assistance to industry covering upto 20% of the cost of adapting existing facilities to new environmental legislation.

Thus, we find that, whilst developed countries were subjected to increased pressure from vocal environmental interest groups to reconcile what they perceived as 'incompatibilities' between trade and environmental policies, developing counties feared that environmental concerns would be addressed at the expense of international trade. In particular, fears that a new 'green'
conditionality would be attached to market access opportunities emerged. Within this context, certain parameters that have guided trade and environment discussion in the WTO are:

(1) that the WTO is not an environmental protection agency, and that its competence for policy coordination in this area is limited to trade policies, and those trade-related aspects of environmental policies which may result in a significant effect on trade;

(2) that GATT/WTO Agreements already provide significant scope for national environmental protection policies, provided these are non-discriminatory;

(3) that secure market access opportunities are essential to help developing countries work towards sustainable development; and

(4) that increased national coordination as well as multilateral cooperation is necessary to adequately address trade-related environmental concerns.

To address the complementarily between trade and environment, the WTO's role is to continue to liberalize trade, as also to ensure that environmental policies do not act as obstacles to trade, and that trade rules do not stand in the way of adequate domestic environmental protection. WTO members believe that GATT/WTO rules already provide significant scope for members to adopt national environmental protection policies. GATT rules impose only one requirement in this respect, which is that of non-
discrimination. WTO members are free to adopt national environmental protection policies provided that they do not discriminate between imported and domestically produced products (national treatment clause), and between products imported from different trading partners (most favoured nation clause). Non-discrimination is one of the main principles on which multilateral trading system has been founded. It is a principle, which guarantees secure and predictable access to markets, protects the economically weak from the more powerful, and guarantee consumer choice. The conclusion that we have drawn from the questionnaire is from the point of view of the developing countries, where poverty is the number one policy preoccupation and the most important obstacle to environmental protection, the opening up of world markets to their exports is extremely essential. WTO members recognize that trade liberalization for developing country exports, along with financial and technology transfers, is necessary for helping developing countries generate the resources they need to protect the environment and work towards their sustainable development. As many developing and least-developed countries are heavily dependent on the export of natural resources for foreign exchange earnings, trade liberalization (consisting of tariff reductions, reductions of tariff escalation and of non-tariff barriers) is expected to contribute towards their improved allocation and more efficient use of resources, as also to enhanced export opportunities for their manufactured goods.
9.3 THE INDIAN ECONOMY

The implications of WTO's environmental standards for the Indian economy could be discussed from two angles: (1) effect of trade reforms on environment, policies on international trade. On the first account, it is argued that recent trade policies like liberalization in the form of drastic reduction in tariff rates and subsidies are likely to have adverse consequences on environmental standards in industries like leather and leather products, pharmaceuticals and drugs, etc. But such an environmental degradation can possibly be avoided through the use of appropriate economic instruments. In this regard, certain factors are worth noting. First of all, more stricter environmental regulations might lead to higher costs to producers, which, in turn, may affect their comparative advantage in international markets, especially in the leather sector.

Similarly, India has expressed concern about the German packaging orders which are not readily available in India. The other industries which are likely to be adversely affected are motor vehicles and pharmaceuticals. The main reason is that Indian industry's competitiveness in the export market depends on the difference between the domestic price of the good and the export price. Domestic price reflects the opportunity cost of exports. An industry, which has the ability to cater to both the export and domestic demand, will naturally take the decision to export only if the export price is higher than both the cost of production and the
domestic demand price. Pollution abatement by firms would enhance their costs of production. Therefore, protection of environmental degradation would lead to reduction in the difference between export price and costs of production, leading to a decline in the competitiveness of the industry in the export market. The official position in India has been that such environmental regulations by the advanced countries are basically plays to introduce non-tariff barriers to Indian exports, which would diminish India's market access to their economies, and therefore anti-thetical to the WTO's own norms of non-discrimination in the sphere of foreign trade. It is believed by Indian policy makers that regulatory international regimes could be useful in the areas such as ozone depletion and climatic change provided situations of developing countries are fully addressed. However, in the case of forestry, reduction of international economic and commercial pressures to prevent exploitation is needed above all policies.

For major foreign exchange earning agro-based items like tea and coffee, production depend completely on various pesticides and fungicides, and western countries do not permit pesticide residues in edible articles beyond a specified level. Although WHO/FAO CODES determine the safe limits of international food standards, the Environment Protection Agency of USA had adopted a different specification in this context. Germany had even more stringent requirements. All these are likely to affect India's exports of these articles. In general, the production conditions of Indian agriculture
may be dubbed as unhygienic and pollutive by international standards, and adherence to such norms would nullify much of our comparative advantage in these products, so that liberalization of agricultural trade, as per the WTO directions, could be counterproductive to the Indian economy.

However, the awareness to produce eco-friendly goods among Indians should be raised through proper campaigning of eco-labelling programmes. Indian industry has to go for higher level of environmental standards in future to meet the domestic environmental needs and the importing partner's demand. Moreover, CTE's stand for free-trade will support Indian economy's dependence on foreign trade for its continued growth and prosperity. Through the GATT provisions of prohibiting transboundary movements of hazardous materials, Indian environment can also be protected by the prohibition of transboundary movements of such materials into India. The TRIPS provides access to and transfer of environmentally-sound technologies which could help the Indian economy to maintain the global environment as part of the globalization process.

The conclusions that have been drawn on the basis of questionnaire is that the challenges faced by the Indian economy in the globalization process are intricate and numerous. Of these, the domestic factors could be marshalled by the design of appropriate socio-economic policies for the country's development. But the external factors like the environmental standards of WTO, impose
restrictions, which are outside the domain of domestic policy experiments, and the scope for international cooperation and coordination seems extremely difficult and time consuming in the present day context of global political economy. The positive aspects of trade liberalization under the WTO regime have to be counterbalanced against the stupendous task of enhancing the market access problem for Indian exports, which are facing numerous non-tariff barriers in the garb of environmental protection. The adverse consequences of distorted trade liberalization in a globalised world on the Indian economy, however, pose fresh challenges to our analysts and policy makers to find solutions to the new challenges to which the economy is getting exposed. The fundamental problem facing the Indian economy is to improve the living conditions of millions of its poor people. But the market friendly (in the name of eco-friendly) measures initiated by the WTO would threaten the human face of our reform experiments-unemployment, retarded growth, and growing trade deficit are the likely results of our unguarded adventure towards the WTO arrangements, which now appears to be fait accompli in nature.