



Trade and Climate Change

An Asian Perspective on Global Europe's Trade and Climate Policy

IBON Foundation

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Outline

1. Asia's role in Global Trade
2. Asia's contribution to world GHG emissions
3. Trade and Climate change linkages in Asia
4. Trade and Climate Policies (WTO & EU)
5. Conclusions
6. Recommendations

Asia's Trade Profile

- Asia accounts for **29% of global exports and 26% of global imports**
- **heavily represented by just a handful of countries** (China, Japan & the NIEs account for around 80% of Asian exports and imports)
- **concentrated in labor-intensive manufactured goods, particularly electronics and garments.**
 - 54.9 % of global exports of office & telecom equipment from Asia.
 - 2/3 of all exported semiconductors or ICs come from Asia, particularly EA & SEA.
 - Nearly half of all garments and textiles exports in the world also originate in Asia, 1/4 from China.
 - East Asia's leading exports are also its leading imports: IT-related parts and equipment.
- **heavily concentrated towards the triad of the most advanced industrialized economies** (19.7% of Asia's exports are destined for the US, 16.8% for the EU-25, and 8.8% for Japan.)

Asia's Role in Global Trade

- This profile is determined by the fact that developing Asia, particularly China and the NIEs, is being used as an assembly platform for the labor-intensive stages in the international supply chain of TNCs. In order to reduce costs and boost profits, Japanese, US and European TNCs have invested heavily in the region transforming it into a production and processing center for many manufactured goods, with a special focus in IT-related goods.

Figure 4. Distribution of Global GDP

As Asia's share of global production increases, so does its share of global GHG emissions.

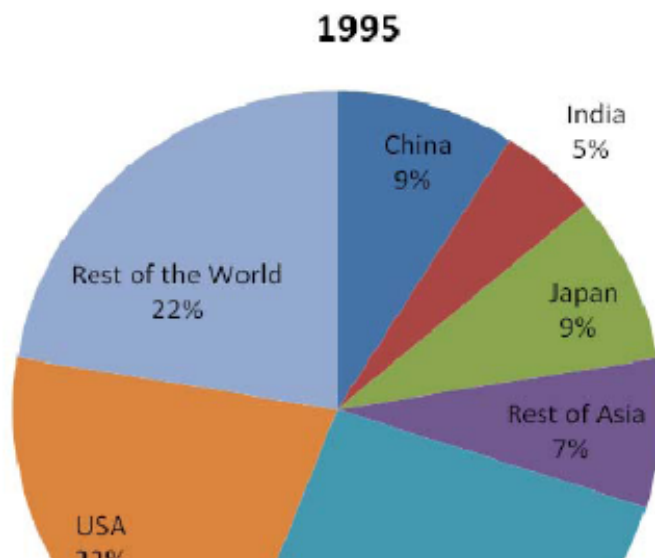
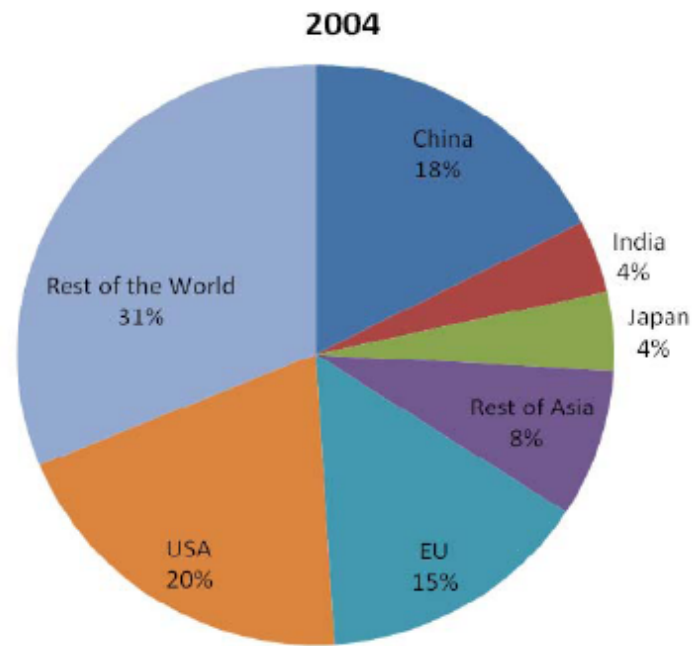
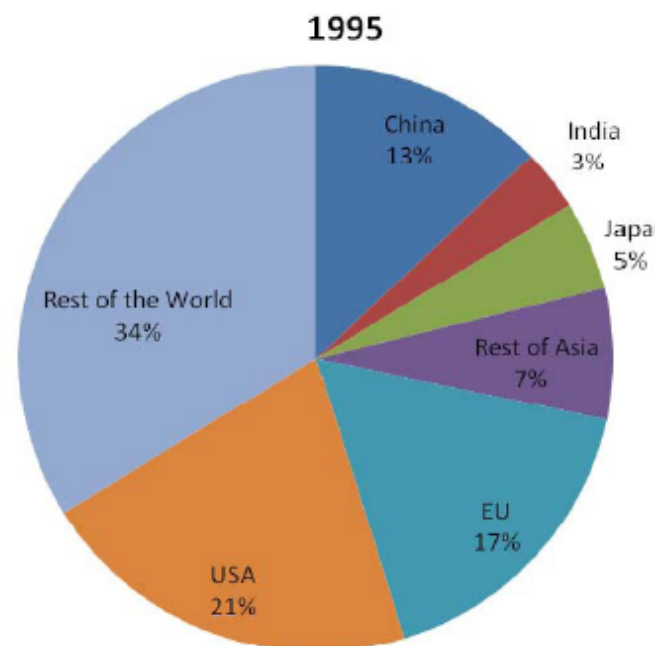
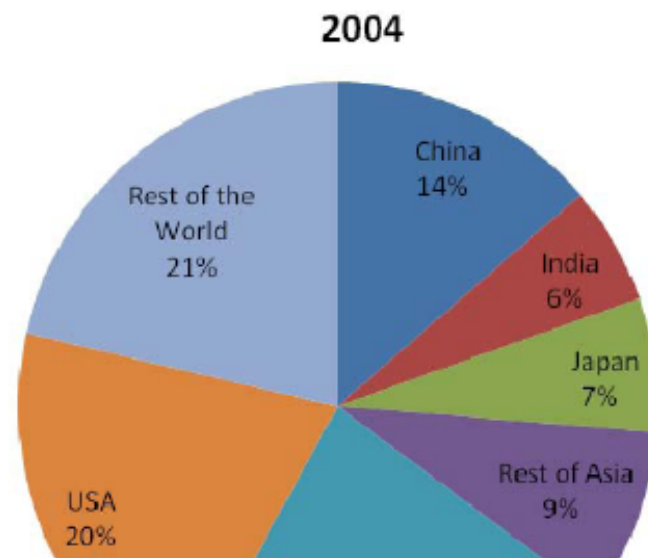


Figure 5. Distribution of World GHG emissions



Main sources of GHG emissions in Asia: energy-use, deforestation & agriculture

- Asia is **particularly dependent on coal** – the most GHG-intensive of fossil fuels -- for its energy needs because it is “cheapest” (at market prices)
- Southeast Asia experienced the **largest decline in forest area**, with an annual net loss of forests of more than 2.8 million hectares per year, primarily due to logging, mining and agriculture.
- Forest lands in Asia are being **converted to agriculture** at the rate of 30,900 km²/yr. over the past two decades, more than in any other region in the world

Trade & Climate Change Linkages in China

- 1/3 China's total GHG emissions in 2005 was from its export sector (1.7 billion metric tonnes of CO₂, equal to combined CO₂ emissions of Germany, France & UK)
- China's export-related CO₂ emissions has risen by 230% between 1987-2002, and by 124% between 2002-05.
- If these export-related CO₂ emissions were apportioned according to where these goods were consumed, then approximately 27 % would be due to the US, 19 % to the EU-27, and 14 % to the remaining Annex B countries
- producing the same quantity of audio and video equipment in the US as it had actually imported from China in 2003 would have reduced global CO₂ emissions by 6.2 million metric tons

Trade & Climate Change Linkages in East & Southeast Asia

- 9 East and SEAsian countries plus US emitted approximately 2,136 Mt of CO₂ in 2000 in order to meet overseas demand – equivalent to 18 % of their total combined emissions.
- 31% of the increase in these countries' combined CO₂ emissions load from 1985 to 2000 was due to overseas demand for their exports.
- between 1985-2000, Indonesia increased its land area under agricultural use by 5 million hectares – 74 % of this expansion was for agricultural exports → Vast tracts of forest lands are being logged-over to make way for palm oil plantations and other cash crops for export. Deforestation alone accounts for more than 3/4 of Indonesia's GHG emissions
- Among the ten countries covered in the study, the biggest agricultural exporters were the USA and China with 69 million and 52.6 million hectares of their respective agricultural lands devoted to exports – these are also among the heaviest users of fertilizers

Global Europe

- In a nutshell, the Global Europe strategy targets the full relaxation of the overall regulatory environment in its partner countries including government procurement systems and services.
- Internal agenda – “an open market with high quality internal rules, effectively enforced, in areas such as competition, innovation, education, research and development, employment, social and cohesion policy is essential in helping European companies compete globally.”
- External agenda – “an ambitious, balanced and just multilateral agreement to liberalize international trade further, opening markets in which European companies can compete and providing new opportunities for growth and development.”

Global Europe

- In the home front – further dismantling of the European Social Model in favor of the US model with its meager social and environmental regulations. “The greater the consistency in rules and practices with our main partners, the better for EU business... This is not about downgrading our rules. It is about taking an open and flexible approach in setting our rules and seeking to prevent future trade friction – and so support European business – where possible”
- Global Europe adopts an active approach to obtaining new market opportunities for European exporters and investors, not just through the WTO’s Doha Round but especially by means of a new generation of bilateral or regional trade agreements.

Global Europe

- Of particular significance to climate change is the desire of European capital for unimpeded access to energy and raw material resources from the developing world. → With renewable energy sources unlikely to meet this demand anytime soon, the EU's energy requirements will mean more extraction, processing and transportation of fossil fuels, as well as biofuels.
- Global Europe's demand for stricter IPR enforcement especially in "emerging economies" such as China and India in order to protect the revenues of European patent holders runs counter to the urgent need to enable the transfer of more energy-efficient and climate-friendly technologies to developing countries at the shortest possible time and at the least possible cost to the latter.

EU-ASEAN FTA

- For the ASEAN, manufacturing production will decline while agricultural production will increase. (de-industrialization)
- ASEAN countries increasingly specializing in primary products and steadily withdrawing from industrial production – leading to a reversal of whatever gains these countries may have achieved in expanding the share of manufacturing in their economies.

EU-ASEAN FTA

- Three-fourths of ASEAN gains are associated with the liberalization of services. Demand for skilled and unskilled labour would increase in the business services sector, jobs will be lost in industrial production
- Benefits the EU more than the ASEAN – 70% of overall gain to accrue to the EU
- ASEAN agriculture at a disadvantage as EU maintains subsidies to its agriculture sector. Agriculture shall account for 60% of EU benefits.

Can EGS Trade and EU ETS make trade climate-friendly?

- at less than 5% of world merchandise trade, the international trade in environmental goods (EG) is hardly enough to alter the overall impacts of trade on the climate.
- Asia and Oceania exported US\$ 55.8 billion worth of EG, and imported over US\$ 86 billion worth in 2003. This were 15 % and 23 % of global EG exports and imports, respectively, and a mere 0.7 % of world merchandise exports and 1.1 % of world merchandise imports that year.
- European companies find it cheaper to buy carbon credits (CERs) from China or other developing countries rather than cut their own emissions.
- They can even make windfall profits from this by selling carbon credits to finance capitalists. At the other end of the deal, some of the heaviest GHG emitters in developing countries earn more from selling CERs to foreign investors than they do from selling their actual GHG-laden products.



To sum up

- While trade itself is not the sole or principal factor behind the environmental outcomes that the world is experiencing today, the international flow of goods and services certainly influences the scale, content and techniques of production and consumption in different countries throughout the world.
- Asia's participation in the current international trading system – in its present mode and pattern – has generally been unfavorable to the global climate. The rapid increase in the scale of economic activity in the region, particularly the export sectors of China and the so-called East Asian tigers, is raising Asia's output of GHG emissions. Developing Asia's increasing share of global trade and global GDP means a greater part of global output is being produced using more carbon-intensive techniques and less efficient technologies, though at lower costs for TNCs who are relocating their labour-intensive manufacturing to the less developed regions of the world.



To sum up

- Global Europe is not geared to maximize trade policy in pursuit of climate policy objectives because the mercantilist interests of European capital dominate the European Union's (EU) trade agenda, with not much room for the pursuit of lesser concerns such as saving the planet.
- The positive potential of EGS trade has so far been limited because the drive for monopoly profits discourages the transfer of more climate-friendly technology from the North.
- The EU and the Northern elites prefer market-oriented instruments such as the EU Emissions Trading Scheme (ETS) which has granted windfall profits to Europe's biggest corporate polluters and created new incentives for even more GHG emissions from Europe and the developing countries, including those in Asia.

Some recommendations

- The North, particularly the most pollutive TNCs, must shoulder the cost of freely propagating climate-friendly technologies and techniques to the South if so demanded and without prejudice to the long-term development of domestic capacity to supply similar technologies.
- Developed countries must end subsidies and other forms of support provided to oil companies, food companies, agro-chemical corporations, automobile giants and other TNCs, especially the most GHG-intensive ones. Instead they should be taxed more, the proceeds of which should go to climate change adaptation funding for the underdeveloped countries. Adaptation funds must benefit the most vulnerable groups most of all, such as indigenous communities, poor coastal communities, fishers, landless peasants, rural women and children.

Some recommendations

- Developing countries must retain the option of using subsidies, government procurement rules, regulations for foreign investments, and other forms of state support for nurturing domestic renewable energy development, sustainable organic farming, and climate-friendly technologies.
- Developing countries must retain the flexibility to use tariffs, quotas and other non-tariff measures including taxes to discourage or, if necessary, ban the importation of GHG-intensive or pollutive goods such as fertilizers and agro-chemicals. The same flexibility must be available to developing countries who wish to discourage or limit their exports oil, gas, timber and other natural resources in order to conserve them or to reserve their use for local populations most dependent on such resources.

Some recommendations

- Countries must retain the flexibility to use labelling, mandatory energy-related standards or technical regulations as instruments for reducing GHG emissions, whether these pertain to products or PPMs;
- Discard all WTO and FTA rules and provisions that go against all of the above.
- Discard policies and practices such as carbon trading that privatize the global commons.
- Overall, encourage local production for local consumption especially of food and energy
- All these must be combined with massive public investments, regulatory measures and social planning with real and effective popular participation at every level.
- Fundamental transformations in the economy, political institutions and cultural norms would have to be realized if humanity is to face up to the enormity of the challenge posed by climate change on our generation.