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**FREE TRADE, PROTECTIONISM
& THE ENVIRONMENT: A
STUDY OF REGIONAL
TRADE REGIMES**

**NAGLAA SALAH EL DIN
AL SHAMY**

2000

THE AMERICAN UNIVERSITY IN CAIRO
SCHOOL OF HUMANITIES AND SOCIAL SCIENCES
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2

FREE TRADE, PROTECTIONISM AND THE ENVIRONMENT: A
STUDY OF REGIONAL TRADE REGIMES

NAGLAA SALAH EL DIN AL SHAMY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF ARTS IN
INTERNATIONAL RELATIONS

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2000/5

The American University in Cairo

**Free Trade, Protectionism, and the Environment: A Study of
Regional Trade Regimes**

A Thesis Submitted by
Naglaa Salah El Din Al Shamy

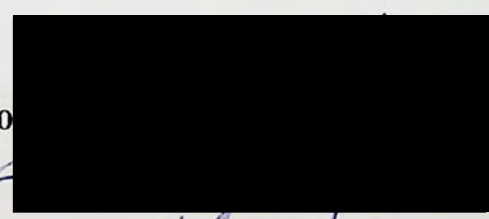
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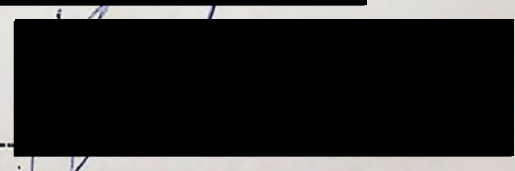
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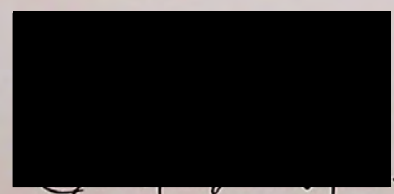
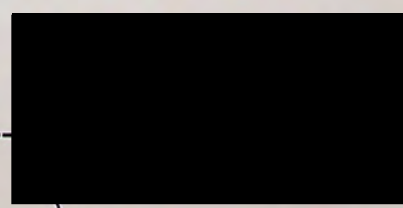
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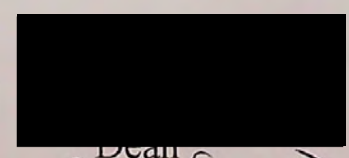


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The topic of this research presented to be a challenge to me concerning the available material and sources. The main problem that faced me in this research was that the study touched upon the new realities of this century, which is the relationship between trade and environment. During the course of my research, I found out the concerning the two case studies, there are not much literature that approached the correlation between free trade, environment and protectionism. As such, the use of Egypt and Mexico as case studies came as way through which I can add to the available literature on the topic, and provide an explanation an alternative explanation to the debate.

I appreciate the hard work of my supervisor and my readers who guided me throughout the research and helped me focus my ideas and present this thesis. I deeply acknowledge the support of the European Commission Delegation in Cairo who aided me with sources and ideas, and the Mexican Embassy in Cairo who helped me with supportive materials and references.

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THE AMERICAN UNIVERSITY IN CAIRO
FREE TRADE, PROTECTIONISM AND THE ENVIRONMENT: A
STUDY OF REGIONAL TRADE REGIMES

NAGLAA SALAH EL DIN AL SHAMY

UNDER THE SUPERVISION OF
DR. ANTHONY LANG

ABSTRACT

The use of trade as a medium of interaction among nation states has led the international community to embark on the initiation of international trade regimes. One of the main concepts of international trade amongst nations post-World War II is the concept of "free trade". Nevertheless, in the last two decades it has been recognized that there is an emerging trade protectionism that takes the form of non-tariff barriers (NTBs) to trade which can masquerade under different guises, such as environmental protection restrictions to trade imports coming from developing nations to nations of the North.

The use of environmental protection restrictions on imports has raised doubts about the credibility of the concept "free trade" under international trade regimes such as GATT, as well as in regional regimes such as NAFTA and the Euro-Mediterranean Partnership. Exports of nations of the South such as Egypt and Mexico have encountered problems in developed nations due to the accusation of their ineligibility with higher environmental standards.

The question which the thesis attempted to answer is the following: are forms of trade restrictions new means of protectionism or are they a legitimate expression of the Northern need for higher environmental protection versus the "generally" lax

Southern environmental standards.

Accordingly, the main hypothesis of this thesis is that such forms of trade restrictions or non-tariff barriers (NTBs) imposed by countries of the North who are members of NAFTA and the Euro-Mediterranean Partnership are a form of trade protectionism for their domestic markets and their own self-interests. In particular, the hypothesis was applied to two main regional trade agreements: the NAFTA and the Euro-Mediterranean Partnership. It focused on the link between the US and Mexico under NAFTA, and Egypt and the EU under the Euro-Mediterranean Partnership.

The conceptual basis of the thesis will be the writings and interpretation of *Realist* scholars who have embarked on analyzing the behavior of nations-states in the international political arena.

The methodology used regional settings in this thesis sheds light on the analogies that can be present in cases of regional free trade regimes that states from the North and from the South together establish in an effort to enhance trade interactions. Thus, the thesis will use two countries (Egypt & Mexico) and a time frame of the 1990s.

The thesis examined Egypt in its relation to the EU under the provisions of the Euro-Mediterranean Partnership under GATT rules, and Mexico in its relation to the United States under the NAFTA regime.

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CHAPTER 1

INTRODUCTION

Background

Economic development and growth are means to enhance nations' prosperity and progress. Trade has come to be recognized as a mean by which an economy can grow and flourish, as well as a way by which nations can interact, cooperate, and compete in the international economic arena. The use of trade as a medium of interaction among nation states has led the international community to embark on the initiation of international trade regimes. One of the main concepts of international trade amongst nations post-World War II is the concept of "free trade". Free trade means that nations interact on basis of competition and comparative advantage, and that trade protectionism is limited to a great extent.

Trade has been an important issue in international relations. Nevertheless, since the end of the cold war, "*trade*" among nations of the developing and developed worlds has risen to the top of the international agenda. When communism ceased to be in confrontation with Western capitalism, issues of North vs. South acquired priority and momentum. Nevertheless, in the last two decades it has been recognized that there is an emerging trade protectionism that takes the form of non-tariff barriers (NTBs) to trade. These NTBs masquerade under different guises, such as environmental protection restrictions to trade imports coming from developing nations to nations of the North.

Since environmental standards of goods and application of environmental protection laws vary from nation to nation, exports are subject to be restricted by the importing nations due to their environmental compatibility levels. Environment includes polluted coastlines, climate change, deforestation, land degradation, water pollution and air pollution, wastes, industrial pollution, depletion of ozone and natural resources, and loss of species. As economic growth requires more energy utilization, more emissions and wastes, more land converted from its natural state and an increased need for natural resources, the environment can be threatened with unsustainability.¹ However, as the "environment" encompasses such a diversified list, it has become an influential factor in today's politics and economics. The use of environmental protection restrictions on imports has raised doubts about the credibility of the concept "free trade" under international trade regimes such as GATT, as well as in regional regimes such as NAFTA and the Euro-Mediterranean Partnership. GATT represents the umbrella of free trade regimes with its wide international acceptance and is also because it is joined by nations who are members of regional trade regimes. Nation state members of the NAFTA or the Euro-Mediterranean Partnership are also members of this international free trade regime. Accordingly, nations from the South and the North have agreed on the provisions of the GATT as being the basis for free trade among nations. Nevertheless, environmental issues have risen on the trade agenda as a new challenger for the "free trade" doctrine. And since the world is moving rapidly towards interdependence and globalization, the trade vs. environment debate illustrated its importance in international affairs.

As a result, trade openness emphasized in international trade regimes like the General Agreement on Tariffs and Trade (GATT), and in regional agreements like the North American Free Trade Agreement (NAFTA) and the Euro-Mediterranean Partnership, has triggered debate among both environmentalists and advocates of "free trade" on the tradeoffs that could occur between trade and the environment. As "freer" trade means that borders between nations will be turned into bridges allowing the "freer" passage of products, values, and people, this also means that exports will be moving from the North to the South and vice versa. This "free" movement of goods has alarmed nations of the North about the eligibility of Southern exports to the "higher" Northern environmental standards. Nations of the South have complained that their exports to the North are being hindered by barriers to markets of the North. Exports of nations of the South such as Egypt and Mexico have encountered problems in developed nations due to the accusation of their ineligibility with higher environmental standards. On the other hand, nations of the North argue that those Southern exports are not compatible with their required environmental standards or quality.

Trade and Environment

International conferences on the environment and development have shown that there is a gap between the North and the South in the field of environmental priorities. Conferences such as the 1992 United Nations Conference on Environment and Development (UNCED) declared that we can no longer consider environment, economic (including trade) and social development policy objectives separately.² One of the outcomes of this conference was *Agenda 21*, a document that outlines debates and issues

relating to the concept of sustainable development and is a generally accepted standard for sustainable development in the new era. The trade-environment debate is addressed in Chapter 2 of Agenda 21.³ As this conference was attended by many official delegations from the South and the North states, as well as from non-governmental organizations, new debates took priority in the discussions and environmental concerns from free trade came under discussion. Two main issues were of priority: On one hand, the Northern states have their commitments to "free trade" regimes, but are apprehensive to opening their markets to Southern exports which might have lower environmental standards and are cost/price competitive. On the other hand, the South aspires to free trade with the North to achieve economic growth but are alarmed by the Northern protectionism in the form of environmental restrictions to their exports.

The inclusion of environmental protection restrictions on imports from the South going to the North became a crucial concern for nations of the South who have lower environmental standards for products, but at the same time need export gains to fund their development objectives. The South seeks free trade and opened markets for their exports, a goal that could clash with the Northern need for protectionism and better environmental standards. This relation, combined with the presence of "free/ Liberal" regional trade regimes linking nations of the North and the South, has triggered concern mainly on the side of developing nations who aspire to the application of free trade regimes.

Research Question

The question which the thesis will attempt to answer is the following: are forms of trade restrictions new means of protectionism or are they a legitimate expression of the Northern need for higher environmental protection versus the "generally" lax Southern environmental standards.⁴ This thesis will explore whether Northern trade protectionism is justified by the environmentally lower qualifications of imports from the South or is it a new form of protectionism to their markets. The research will explore the nature of trade relations among nations of the North and the South and the role of protectionism in the new era of international environmental politics and regional free trade regimes. The research will also address the fact that economic development (including trade) is indivisible from the concept of environmental sustainability.

Hypothesis

The main hypothesis of this thesis is that such forms of trade restrictions or non-tariff barriers (NTBs) imposed by countries of the North who are members of NAFTA and the Euro-Mediterranean Partnership are a form of trade protectionism for their domestic markets and their own self-interests. As nations of the North justify the use of import restrictions from the South on the basis of their adherence to stringent environmental standards, nations from the South interpret such forms of restrictions as new masqueraded forms of trade protectionism.

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The thesis will explore the dynamics of trade vs. environment debate in international relations, and how this debate has been a major concern for both nations of

the North and the South. As nations of the North and South indulge in regional trade regimes (*NAFTA and the Euro-Mediterranean Partnership*) that are needed to regulate as well as to further enhance trade among countries, we find that there is an emerging form of trade protectionism hidden under non-tariff barriers (NTBs) restrictions on imports from the South.

Based on a Realist interpretation of international relations, we find that nations of the North use some forms of trade protectionism in order to preserve their national interests against the infiltration of Southern products to their markets, hidden under their commitments to "free trade regimes". Thus, the use of environmental restrictions is only a veil to protect their markets, whilst ostensibly taking into consideration their commitments under free-trade regimes.

In particular, the hypothesis is going to be applied to two main regional trade agreements: the NAFTA and the Euro-Mediterranean Partnership. It will focus on the link between the US and Mexico under NAFTA, and Egypt and the EU under the Euro-Mediterranean Partnership. The use of two regional regimes in this analysis is necessary to experiment the hypothesis, and thus, to test its validity for application on international basis. In addition, the behavior of nation states in regimes demonstrates the Realist theory of how states act in international relations. Accordingly, the two regional regimes used will show how North and South states interact in the regimes environment, and how Realism explained this North-South interaction.

Theory

The writings of political scholars in the field of international relations and international political economy have covered issues related to the relationship between politics and economics in international relations. Jeffrey A. Frieden and David A. Lake⁵ defined international political economy to be "...a study of the interplay of economics and politics in the world arena".⁶ In addition, they defined both the terms of economics and politics: "...in the most general sense, the economy can be defined as the system of producing, distributing, and using wealth; politics is the set of institutions and rules by which social and economic interactions are governed".⁷ There are three main theories pertaining to political economy, Liberalism, Marxism and Realism.

The conceptual basis of the thesis will be the writings and interpretation of *Realist* scholars who have embarked on analyzing the behavior of nations-states in the international political arena. By using the Realist understanding of international trade and politics, the thesis will be laying the foundation for a clear understanding of the motivations, interests and dilemmas pertaining to the free trade, environment, and protectionism correlation. Realism emphasizes the role of the state in the analysis of international relations, and they highlight its primacy as a unit of analysis. Using a Realist interpretation of state behavior in international trade we can examine the link between trade protectionism and the use of environmental restrictions to trade imports from the third world. The Realist interpretation will be used to understand the underlying justification of the Northern use of masquerade protectionism against Southern exports.

Therefore, we will start by briefly reviewing the theories of Liberalism and Marxism and how they treated trade relations between states. Then, we turn to look closely at the Realist paradigm of international relations and the role of Realism in explaining trade relations among nation states.

Liberalism

The Liberal perspective is derived from the writings of Adam Smith (1723-1790) and David Ricardo (1772-1823) who asserted that nations' wealth was best raised by allowing free and unhindered exchange among individuals in both the domestic and international economies.⁸ The basic assumptions are that individuals can be looked upon as the main actors within the political economy, and that these individuals are rational actors aiming at maximizing their interests.⁹ Thus, and also according to Gilpin,¹⁰ Liberals believe that economic activity enhances the power and security of the state, and therefore it is encouraged because at the end, the main aspiration of economic activity is to benefit the individual consumer.¹¹ "The primary motivating force in the economy is the competitive interaction among individuals, who are assumed to maximize their satisfaction, or utility, especially through the social institution of the market".¹²

The Liberal theory seeks to redefine the world system in other broader terms than the Realists do, and includes issues such as the environment, modernization and welfare in their agenda.¹³ Liberals redefine security to include wider terms than the geopolitical-military spheres, and they highlight the potential for collaboration among nations.¹⁴ The

nation-state needs the support to handle issues such as diffusion of knowledge and communication technology which raise popular expectations.¹⁵ Interdependence among nations can arise from globalization, technology, communication globalization, environmental threats, immigration, and diseases that nations cannot manage unilaterally.¹⁶

Liberal models recognize that international behavior and its results evolve from a multiplicity of motives, and not only emanating from security reasons (if authentically defined in military or strategic terms).¹⁷ However, they also assert that international behavior is not solely a result of nation-states' actions, but in fact, the aggregate behavior of other actors as well.¹⁸ Thus, Liberalism differs from Realism in the reduced role of the state that is challenged by the presence of other influential non-state actors. In addition, they differ in the view of how states relate to each other in international relations, which the Liberals contemplate by predicting the presence of cooperation over conflict. As such, Liberalism represents the good nature of humans and the presence of goodwill intentions. This is observed through the establishment of Liberal systems of trade among nations.

Liberalism and Trade

Liberal theorists believe that economic specialization produces gains in productive efficiency and national income.¹⁹ According to Adam Smith, "trade should be free and nations should specialize in what they could do best so that they could become wealthy and powerful".²⁰ Moreover, David Richardo's provision of the first scientific theory demonstrating the benefits of international trade, the theory of *comparative advantage*,

provided the new basis for Liberal trade theory.²¹ Comparative advantage meant that nations would specialize in producing goods that they can produce with comparatively lower costs. Gilpin adds that Liberals consider free trade to be the best policy because specialization and the international division of labor increase individual productivity and thus, the accumulation of both national and global wealth.²²

These Liberal postulations explain the presence of cooperation among states and the diminishing role of conflict due to the stability provided by interdependence. Thus, according to Liberal theories, if trade is liberalized, then nations will specialize in goods where they have comparative advantage and therefore, this exchange will bring benefits for all. Benefits will then trickle down from the rich to the poor. Contrary to Realism, Liberals stress on the inherent goodness of man accounts for cooperation among states who will benefit from the closer trade ties. Therefore, Marxism comes to give a different set of interpretations and represents a different level of analysis to international relations and political economy.

Marxism

Marxism came as a reaction to the spread of Liberalism in the nineteenth century when capitalism was seen as creating wider wealth gaps between the rich and the poor. This provoked Marx' disagreement with the assumption that such Liberal exchange among individuals will necessarily maximize the benefits of the whole society.²³ As a result, "the core of the Marxist critique of capitalism is that although the individual capitalist is

rational (as Liberals assume), the capitalist system itself is irrational".²⁴ Marxists believe that classes are the main actors in the political economy and are the adequate unit of analysis, and that classes act to maximize their interests.²⁵ Above all, Marxists believe that economics determines politics.²⁶

The proponents of the Marxist theory also emphasize the presence of class discrepancies among people and societies, and accordingly, conflict among nations in the world system. The economic differences among classes in a society account for the presence of conflict due to the presence of a controlling class and a poorer weak class. Thus, the state is controlled by an economic elite (the bourgeois) who control factors of production and abuse the weaker working class. Marxists believed that the state is eventually the follower of the dominant class in the society.²⁷ The international system and foreign policy, are consequently, determined by the structure of the domestic economy. Marxists criticize the capitalist mode of production as being the reason for the economic discrepancies among classes. They predict that eventually the capitalist world will be liable to self-destruction. "Though the state and the struggles among states are a consequence of the capitalist mode of production, the future will bring a realm of true harmony and peace following the inevitable revolution that the evil capitalist mode of production will spawn".²⁸ Eventually, societies will move towards socialism.

7

Marxism and Trade

Contrary to Liberals who tend to ignore the issue of distribution, and to nationalists (Realists) who tend to focus on the international distribution of wealth, however, Marxists focus on both the domestic and international influences of a market economy on the distribution of wealth.²⁹ They draw attention to the means in which the rules or regimes regulating trade, investment, and other economic relations influence the distribution of wealth among groups and states.³⁰

The uneven distribution of wealth among the units of the system accounts for the presence of a better off core and a marginalized poor periphery. According to Immanuel Wallerstein, the capitalist world economy has emerged triumphant as a world system".³¹ He argued that in the nineteenth and twentieth centuries there has been only one world system in existence, the world capitalist world economy" which is characterized by the uneven division of labor between the periphery and the core.³² Accordingly, the widening gap between the wealthy core and the less fortunate periphery creates a dependency relationship among the two parties.

Marxists agree with Realists in the understanding that economic interdependence brings with it insecurity, vulnerability, and resentment against foreign political and economic opponents.³³ Nevertheless, the principle weakness of Marxism as a theory of international political economy results from its failure to appreciate the role of political and strategic factors in international relations, and focusing only on the economic relations

among the actors.³⁴ Thus, even with its theories about wealth and power in a state, Marxism seizes to prove that it is a credible theory of political economy. Robert Gilpin argued that despite its "proper focus on political changes, Marxism is seriously flawed as a theory of political economy".³⁵

Now we turn to the theory of Realism, its postulation, and how it is related to the hypothesis of this study.

Realism

Realism, according to Frieden and Lake, can be traced to the writings of Thucydides, Machiavelli, Thomas Hobbes, and Mercantilists like Jean Baptist Colbert and Friedrich List.³⁶ Realism re-emerged in the aftermath of the 1930s Great Depression as a reaction to the spread of economic warfare.³⁷ For Realists, nation-states are power maximizers; rational actors who seek power and interests, and who are the dominant actors in the international political economy.³⁸ They believe that nation-states are considered the main unit of analysis and that they act to pursue power and self-interest.³⁹ This *Realist* perspective assumes primacy of politics over economics and that the market should be subordinate to the pursuit of state-interests.⁴⁰ Nevertheless, contrary to the *Liberals* and *Marxists*, *Realists* perceived politics as determining economics.⁴¹

Another interesting point, argued by Frieden and Lake, is that unlike *Marxists* and *Liberals* who believe that classes and individuals respectively act to maximize their economic welfare at all times, *Realists* believe that states can accept to forgo economic

gains in order to weaken their opponents or to strengthen themselves militarily or diplomatically.⁴² "Thus, trade protection-which might reduce a country's overall income by restricting the market- maybe adopted for reasons of national political power".⁴³ This intellectual tradition has proved to be the most distinguished and persistent model of international relations. For political economy, Realists argue that the system of states,

[... means the reciprocal and dynamic interaction in international relations of the pursuit of wealth and the pursuit of power. In the shortrun, the distribution of power and the nature of the political system are major determinants of the framework within which wealth is produced and distributed. In the longrun, however, shifts in economic efficiency and in the location of economic activity tend to undermine and transform the existing political system. This political transformation in turn gives rise to changes in economic relations that reflect the interests of the politically ascendant state in the system].⁴⁴

According to Ole R.Holsti,⁴⁵ classical Realists agree on five main starting points (although the Realist school is not homogenous). *First*, They agree that the structure of the system is a vital and a sufficient explanation for many aspects of international relations.⁴⁶ Thus, a state of "structural anarchy" exists in the absence of a central authority and gives rise to dilemmas like the "security dilemma".⁴⁷ This represents a "self-help" system in which states search for security often leaves its current and potential opponents insecure; and any nation which seeks total security leaves all others in the system totally insecure; and it can therefore provide a reason for arms race, war or any other hostile interactions.⁴⁸ *Second*, due to the first element, the issue of "relative capabilities" is a crucial factor, and nations' efforts to deal with this factor of international relations are the driving force behind the relations among the units of the system.⁴⁹ That is why, contrary to "Liberals", classical Realists recognize that conflict is the natural state of affairs in the

system and not a consequence of adverse events or casual flaws of leaders.⁵⁰ *Third*, classical Realists focus on geographically based groups as the central actors in the international system.⁵¹ *Fourth*, classical Realists agree that state behavior is rational as states are guided by the rationale of "national interest" defined in terms of survival, power, security and relative capabilities.⁵² For Morgenthau, "rational foreign policy maximizes risks and maximizes benefits".⁵³ *Finally*, the nation-state is a unitary actor and its actions in the international arena are a response to external rather than domestic political forces.⁵⁴ In general, "According to Stephen Krasner... the state can be treated as an autonomous actor pursuing goals associated with power and the general interest of the society".⁵⁵ Nevertheless, Holsti (1995) added that classical Realists sometimes use domestic politics to explain deviation from rational policies.⁵⁶

Realism and Trade

The Realist state is seen as in a continuous pursuit of power and interest in the world, with politics determining economics. The definition of national interests of the state, as Stephen Gill and David Law argued, is not only its external relations, but it also could have internal aspects regarding its domestic order and social cohesion.⁵⁷ From this point of view, national interest is usually seen to imply the need for increasing the dependence of other states on the home state's economy.⁵⁸ By this token, a simultaneous policy is to decrease the dependence of the home state's economy on others.⁵⁹ In addition, Neil R. Richardson (1995) argued that Realists have always been occupied with issues of security, state power, national interest, and international balance of power, but they have

in general tackled issues of international trade only secondarily.⁶⁰ However, they have universally recognized that the power of the state is inherent in the economic basis of its society.⁶¹

Realists believe that economic wealth of a state is directly proportionate to its power (mercantilist).⁶² It is economic wealth which allows the state to build its military arsenal and afford to impose its power on others. One of the main legacies of mercantilism is "the idea that trade relations can be beneficial to some parties at the political expense of others".⁶³ The second Realist point of view arises from economic self-sufficiency. Richardson added that for those Realists, "the economic independence of the state is threatened by its trade ties-at least intensive ones-because the economic benefits of trade can become addictive".⁶⁴ Ideally, a state's economy should be self-sustaining as more interdependence among states increases the probability of conflict among them.⁶⁵ This is apparent in the presence of the current North-South debates concerning trade, environment, and the presence of Northern protectionism.

Realism and the North-South Conflict

As nations of the North and the South join free trade regimes, we can clearly visualize the role and objectives of the nation-state that the Realists foresaw. Nations of the North use the environment as a new way by which they can protect their domestic products sensitive to foreign competition of the South. On the other hand, nations of the South aspire for the application of free trade regimes that join them with the Northern countries. According to the Realist theory, the world is a state of conflict and nations

states are power seeking, national interest prone, and aim at maximizing their "relative" benefits vis-à-vis absolute benefits. Particularly, in trade relations among nations of the North and the South, we can use the Realist paradigm (with some modifications) to best explain the behavior of nation states.

In application of the Realist theory, we find that the Realist argument is manifested differently among nations of the North and the South. Nations of the North are using environmental restrictions as a new form of trade protectionism due to the role played by internal forces. And given their commitments under free trade regimes, states of the North pursue their national interest perceived in their receptive attitude towards domestic interest groups' demands for trade protectionism (for sectors sensitive to foreign competition). In the North, states are still considered an autonomous actor in international relations, but still it is not solely the "black box" of foreign policy-making, and interest groups manage to infiltrate to state level. Classical Realists argue that the autonomy of the state means that its actions are related to external rather than internal dynamics. Supporters of Realism have often argued that the state is superior "...for understanding the "high" politics of deterrence containment, alliances, crises, and war, if not necessarily for "low" politics."⁶⁶ On the other hand, they tend to put "...the low politics of trade, currencies, and other issues that are almost always highly sensitive to domestic pressures [that] are becoming an increasingly important element of international relations" in the second priority of the state.⁶⁷ However, that is considered as one of the issue areas where traditional Realism needs to integrate the rising role of non-state actors who can influence the foreign policy of a state especially in the areas of "low politics" of trade in this era of

free trade regimes. It is in the arena of "low politics" that the state is not absolutely autonomous, and domestic politics can have an influence on state policy. Nevertheless, this still maintains the general Realist arguments on the superiority of the state in international relations in issue areas of security, war, deterrence, or crisis, where the state becomes the unitary actors. On the other hand, in issue areas like trade, the state takes into consideration the domestic interest groups' demands.

Traditional Realists do not take into account the influences of domestic politics on state action particularly in the area of "low politics" where trade and the economic transactions are affected more by the working of domestic forces. This is relevant to the North countries in this study (the United States and the European Union countries) where domestic interests can use the democratic process to influence state policy. Since the North countries are recognized by their democratic structures, interest groups can compete to alter or re-direct state policy via trade Union, political parties, non-governmental organizations (NGOs) as they are considered the main institutions of civil society. Because of the democratic freedoms allowed individuals or interest groups can lobby for their interests, and states of the North often have to be receptive to the domestic demands in issues of trade. However, those interest groups act to increase their relative power even if at the end they lead the state to pursue an economically inefficient policy of trade protectionism. In the forthcoming case studies, we will see how the influences of interest groups in the North states, the United States and the EU, can affect the state policy to use hidden protectionism which helps them withstand foreign competition. In the North there are several interest groups each competing for its relative power, and

working to influence the state policy. As in the case studies, there are environmental, agricultural, and pro-export groups who compete for their interests and those competing interests influence partly the state policy. We will see that in the North American Free Trade Agreement, and also in the EU trade, environment, and protectionism correlation.

In general, the behavior of Northern states could still be explained by the Realist theories, because even if the state at the issue arena of "low politics" can be influenced by the demands of interest groups, still the state is the independent actor in the international political arena. First, the state has the prerogative to join and sign free trade regimes; Second, in the relations between countries, the nation-state still maintains its power over foreign policy; and finally, the state functions to pursue the aggregate national interest, and not the particular interest of only one group who work only to advance their relative power over other competing groups. States of the North still act to pursue power and national security, however, the reason of the state's compliance with domestic interest groups demands, is that part of its overall security is domestic security.

States of the North cannot afford to pursue a policy that is not supported from within. And as long as there are competing domestic forces the state is able to support protectionism as long as they have a widely supported base. On the other hand, there are pro-export groups who oppose protectionism and fear the reciprocity element; that countries of the South would react to protectionism at home state by blocking their exports too. Therefore, when it comes to free trade regimes, North states support them because they contribute to the overall wealth and power of the nation, economically

speaking. The North finds that free trade among nations gives them the opportunity to compete in Southern markets. Thus, allowing more wealth too their societies and leading to more power of the state with the presence of strong domestic support.

On the other hand, the South states present a manifestation of the classical Realist arguments of states primacy and power in international relations. Southern nations in general, have weak democratic systems, which makes them more vulnerable to external and internal threat. In the South, the state seeks to secure its wealth through its support to authoritative regimes rather than market oriented ones, which is what Krasner argued. One of the conditions "... which has driven Third World states to attempt to alter international regimes fundamentally is the weakness of their domestic societies and political systems." ⁶⁸ Analyzing the social, political, and economic sectors in the developing nations indicate that most developing nations cannot absorb and adapt to external shocks. ⁶⁹ South leaders use public expenditures to reinforce their political support. ⁷⁰ "In the absence of more-enduring sources of legitimacy, fluctuation in external performance can have devastating internal political consequences." ⁷¹ Developing nations have relatively few instruments at their disposal to make them adapt to periodic swings generated by either external or internal factors. ⁷² Developing countries are weaker to stand against any changes in the international economy, and therefore, this paper point out this variation in North-South relations in trade regimes. ?

In the case studies, the South countries, Mexico and Egypt represent the difference in the manifestation of Realist theory. As Southern countries, they feel the importance of trade to their well-being and that is why they are sensitive to the Northern attitude towards their exports. Since, "economistic interpreters have maintained that the desire to improve economic well-being is the most important motivation of Third World behavior", they are lobbying for the elimination of trade barriers in the North, as well as their accusations of the abuse of environmental restrictions as a new form of protectionism.⁷³ Thus, the Realist theory although is manifested differently in North and South states, still maintains its primacy as a theory of international relations.

North-South relations are bound to be conflictual as the Realists argued. The emergence of trade blocs of regional free trade regimes like the North American Free Trade Agreement (NAFTA) and the European Union (EU) seriously challenges the credibility of the General Agreement on Tariffs and Trade (GATT).⁷⁴ Those forms of new and strong regimes are emerging at regional levels and relations between those blocs may be an evidence of continued commercial rivalry, "but the language of conflict is perhaps itself becoming defined in economic and commercial terms".⁷⁵ Nevertheless, since war among industrialized blocs is in essence unthinkable, by another token, the EU and NAFTA are also "security communities".⁷⁶ Moreover,

[...even if trade wars between blocs (and including Japan) become somewhat more likely with the demise of a GATT-inspired economic order, real war across major blocs seems highly unlikely. The major commercial states and other bloc members are very busy negotiating their differences over the management of their economies. The fact that they are trying to collaborate represents their growing realization that collective management is increasingly necessary to their prosperity. It also represents an intensification of initial integrative undertakings by the states themselves.]⁷⁷

Political Realism postulates that conflict among states over economic resources and political superiority is prevalent in a system of international anarchy.⁷⁸ This means that the process of unequal growth "generates conflict among rising and declining states as they seek to improve or maintain their relative position in the international political hierarchy".⁷⁹ Other political theorists would consider Realism in the form of economic nationalism. Economic nationalism is looked upon as a sub-branch of Realism. Nationalists assume that in a world of free trade, the terms of trade tend to tilt towards the most industrially advanced economy.⁸⁰ Moreover, they believe that free trade "undermines national autonomy and state control over the economy by exposing the economy to the vicissitudes and the instabilities of the world market and exploitation by other, more powerful economies".⁸¹

[...economic nationalists criticize the Liberal doctrine of free trade because the doctrine is politically naïve and fails to appreciate the extent to which the terms of trade and the rules governing trade are determined by the exercise of power, because the doctrine is static and slights the problem of adjustment costs, and because it ignores the problems of uncertainty in its stress on the benefits of specialization.]⁸²

However, as the Realists argued that free trade has a direct relation with the state pursuit of power and interests, they also explained the behavior of states in regimes. Realists saw the behavior of states in regimes as demonstrating their pursuit of interests and the predictions of how states tend to act. They also provided an analysis of how North and South states perceive regimes which link them together. The study of Realist interpretation of North-South perception of regimes supports and demonstrates the

previously mentioned analysis on how nations of the North and the South show how Realism can be manifested differently between them.

Regimes and North-South Relations

[Regimes are principles, norms, rules and decision-making procedures around which actor expectations converge. Principles are a coherent set of theoretical statements about how the world works. Norms specify general standards of behavior. Rules and decision-making procedures refer to specific prescriptions for behavior in clearly defined areas.]⁸³

According to Arthur A. Stein, "international regimes exist when patterned state behavior results from joint rather than independent decision-making".⁸⁴ In addition, international politics is typically characterized by independent self-interested decision-making, and states often have no reason to abstain from such individualistic behavior.⁸⁵ He also added that some political theorists argue that the world is a "prisoner's dilemma" in which individuals have a leading strategy of defecting from common action but in which the result of this mutual defection is deficient for all.⁸⁶ Nevertheless, Stein asserts that mutual cooperation is not going to result in equilibrium because each actor can choose to make himself better off immediately by cheating.⁸⁷ Moreover, political theorists argue that "individuals came together to form the state by agreeing to coerce one another and thus insure the optimal outcome of mutual cooperation."⁸⁸ In other words, they agree to coerce one another in order to guarantee that no individual would take advantage of another's cooperation by defecting from the pact and refusing to cooperate.⁸⁹ In essence, North-South interaction under free trade regimes came to demonstrate this theory.

Stephen Krasner argued that the South would support international regimes that would ameliorate its weakness.⁹⁰ "...Developing nations endorse principles and norms that would legitimate more authoritative as opposed to more market-oriented modes of allocation".⁹¹ In addition, concerning North-South relations, Krasner argued that their relations "...are bound to be conflictual because most Southern countries cannot hope to cope with their international vulnerability except by challenging principles, norms, and rules preferred by industrialized countries".⁹² As such, nations in an international regime want to acquire more control over those regimes in order to make its own basic values and interests more secure.⁹³

The importance of trade to the developing nations can be often linked to Robert Keohane and Joseph Nye's concept of "vulnerability dependence".⁹⁴ Many less-developed countries are greatly vulnerable because of their high dependence on imports of certain vital goods and services.⁹⁵ Their vulnerability arises from their limited domestic resources, such that any changes in policy are insufficient to change their basic condition.⁹⁶ Such vulnerability is a basis for the uneven power that is manifested in international exchange relations, and in international relations more generally.⁹⁷

Moreover, Stephen Krasner argued that third world states, like all states in the international system, are concerned about vulnerability and threat.⁹⁸ And since most Third World nations' regimes are relatively weak (domestically and internationally), they seek power and control as much as wealth.⁹⁹ Therefore, as Krasner argued, one of their

strategies is to challenge and change the rules of the game in different international issue areas.¹⁰⁰ Such aspirations are incompatible with Northern long-term interests, and thus, North-South relations will be deemed conflictual as the South cannot hope to cope with their international vulnerability except by the strategy of challenging norms and principles favored by the North.¹⁰¹ As a result, Third World countries have supported international regimes that would improve their weakness and have continuously supported principles and norms that would legitimate more authoritative modes of resource allocation.¹⁰² As a realist, Krasner sees that the conflict between the powerful North and the vulnerable South will not be solved through either economic growth or regime change.¹⁰³ Instead, the conflict will be reduced if the North and South had less to do with each other, and "collective self-reliance is preferable to greater interdependence".¹⁰⁴

This thesis studies two case studies with the aim of presenting similarities in the both the North and the South behavior in trade, environment and protectionism correlation. The study uses the two regional trade regimes, the NAFTA and the Euro-Mediterranean Partnership as an example of the North-South trade dilemma under free trade. Krasner asserts that the North-South relations are bound to be conflictual due to the discrepancies in their political and economic powers, which in turn appears in international regimes and agreements. Krasner argued that this discrepancy in power pushes the South to indulge in authoritative regimes (which gives them more power over the market). This argument however, supports the hypothesis presented in this thesis because it represents a Realist interpretation of state interests in international regimes; *firstly*, by showing how

nations-states (North and South) tend to maximize their power even over sound economic policies; and *secondly*, by showing how the North have the power to use trade protectionism (without being liable to punishment from the South under trade regimes commitments) to control the flow of Southern products into their markets; and *finally*, how the South feels the unfairness and their weakness before international trade agreements which tilts more towards benefits of the North.

One of criticisms of regime analysis is that its view of the state is inappropriate and too narrow; the state tends to be viewed as unitary actor, often with little reference to the importance of domestic politics.¹⁰⁵

[Domestic political forces, such as churches, trade unions, corporations, and peace movements- all have an interest in the nature of the international regimes which directly or indirectly affect their interests. Such conflicting domestic forces may mean that the concept of "national interest" is highly problematic.]¹⁰⁶

Decision-making theories are sometimes used to explain deviations in state foreign policy. They are used to account for the presence of domestic influences in state policy. There are several theories explaining the decision-making process within the system of states. They tend to focus on the workings of the domestic politics and how they are an influential factor leading to the changes in the foreign policy of a nation.

[Decision-making models challenge the premise that it is fruitful to conceptualize the nation as a unitary rational actor whose behavior can adequately be explained by reference to the system structure-the second, fourth and fifth realist proposition identified earlier--because individuals, groups, and organizations acting in the name of the state are also sensitive to pressures and constraints other than international ones, including elite maintenance, electoral politics, public opinion, pressure group activities, ideological preferences, and bureaucratic politics].¹⁰⁷

Thus, as Realists believe that the state can be viewed as this "black box"- that the domestic political dynamics are difficult to understand and are generally "superfluous" for explaining the international behavior- decision-making analysts believe that one must take into consideration those domestic influences with special attention to the decision makers and their "definitions of the situation".¹⁰⁸ Nevertheless, the use of decision-making policies will not be sufficient to explain the system of states in international relations or why the state is a power seeking and interest prone entity. The Realist theory even if it does not pay enough consideration to the forces of internal politics, is still the most appropriate theory explaining nation-states actions in international trade regimes or in the economic relations between the North and the South. This was explained in the above-mentioned analysis.

Methodology

The methodology used in this thesis is based on the above-mentioned theorization and interpretation aiming to reach a concrete justification of the thesis hypothesis. The regional settings used in this thesis shed light on the analogies that can be present in cases of regional free trade regimes that states from the North and from the South together establish in an effort to enhance trade interactions. Thus, the thesis will use two countries (Egypt & Mexico) to support the generalization of the analysis provided in it.

The thesis will examine Egypt in its relation to the EU under the provisions of the Euro-Mediterranean Partnership under GATT rules, and Mexico in its relation to the United States under the NAFTA regime. The choice of those two countries is based on their identification as developing nations aspiring to the goal of economic development.

Egypt and Mexico both view trade as one of the main tools by which they can increase their GNP and improve their overall standards of living. They are both members of an international 'free trade' regime, the GATT, which links nations from all continents, and they are both members of regional free trade regimes (Mexico and NAFTA, Egypt and the Euro-Mediterranean Partnership). Moreover, Mexico is the United States' third largest trading partner and on the other hand, Egypt considers the European Union to be its main trading partner with 30% of Egyptian exports goes to the EU and about 38% of Egyptian imports come from the EU. Their Northern counterparts (*the US and the EU*¹⁰⁹) are also members of the GATT, which means they have endorsed the provisions of this international free trade regime. In addition, other political scientists have attempted to use Egypt and Mexico for a comparison.¹¹⁰

The thesis will use the time frame of the 1990s in order to focus the research. In addition, it will use of the 1990s period because this is the period that witnessed the booming of the trade vs. environment debate (starting with the Tuna/Dolphin case)¹¹¹ and their conversion of the disputes into legal cases before the regional and international trade regimes. In addition, by studying global regimes like the GATT and others of a regional nature like the NAFTA and the Euro-Mediterranean Partnership, the thesis will better analyze and interpret the debate between trade protectionism and the environment. Moreover, by using the theoretical perspective of scholars representing the debate from developing nations' viewpoint on trade and environment as well as the North-South trade relations, the thesis will be a synthesis of a variety of perspectives on the issues under examination.

Chapters Outline

Chapter 2: Trade Vs. Environment: Literature And Debate

This chapter focuses on the literature on trade, environment and protectionism debates. The second part of the chapter explores the dynamics within the GATT system, as it was originally an agreement on tariffs, and was structured to provide the grounds for any tariff negotiations among countries. The GATT has a history of 50 years since the end of the Second World War endorsing the concepts of free Liberal trade among nations. The system was developed through a series of trade negotiations, or rounds, held under GATT.

As this international trade regime was meant to address the concerns of trade protectionism which led to the 1930s Great Depressions, the rise of non-tariff barriers as trade restriction tools in the last two decades came as means by which governments can protect their industries and products sensitive to imports. The rise of NTBs after WWII could be explained according to different factors. Of those NTBs, some them masquerade under the guise of environmental standards which block Southern exports from flowing into Northern markets. From here the debate of trade versus the environment came into being. The 1992 United Nations Conference on Environment and Development (UNCED) declared that environment was not anymore a luxury but in fact it has to be addressed appropriately within any trade negotiations. This has been triggered by the fact that environmentalists see that free trade and the whole international economic system as full of flaws and that free traders are living in an ivory tower of economic theories with no link to their environmental realities.

On the other hand, free traders see the application of environmental trade measures as a threat to the international economic system and as a threat to its harmony. In particular, they see dangers of environmentalism as becoming new forms of protectionism, which hinders foreign producers from penetrating markets and reduces the efficiency gains from trade.

Chapter 3: Mexico and The NAFTA

Moving from the previous chapter which introduced the general debate, we move towards the case study of Mexico. The Tuna/Dolphin case triggered the events of the free trade vs. environment debate in North America and in the GATT. Therefore, NAFTA negotiations included an environmental agreement in parallel with the free trade agreement. With the initiation of the NAFTA, those issues of environmental concerns were tackled to overcome the discrepancies between the NAFTA parties in their environmental profile; in particular between the two industrialized nations, the US and Canada on one hand, and on the other hand, the developing nation Mexico.

American officials¹¹² believe that the foreign policy implications of NAFTA make an already compelling economic case even stronger. Since the US has supported the establishment of free trade regimes after the end of the World War II by its support to the GATT. As president Clinton puts it "We chose then to try to help rebuild our former enemies and to create a world of free trade supported by institution which would facilitate it".¹¹³ Mexico is the United States third-largest trading partner, after Canada and Japan. Exports to Mexico soared from \$12.2 billion in 1986 to a record setting \$ 56.8 billion in

1996.¹¹⁴ US trade with Mexico is greater than the combined trade with the next two largest trading partners: China and Germany. A stable, democratic, and prosperous Mexico is fundamental to the US national security that is ensured by having a close cooperative relationship with Mexico.

Nevertheless, as much as the US government supports free trade and endorses the provisions of NAFTA, there are voices which call for protectionism. Interest groups within the US push for the application of trade protectionism measure in order to protect their products from international competition. "The quantity of trade protection provided within an economy and the instruments used to provide it are determined in the political market place".¹¹⁵ [Demanders of protection (import-competing firms, and labor union and associated interests, as well as bureaucrats in relevant government departments and agencies) interact through brokers (Congress, the president and bureaucrats) with suppliers (export firms, and labor unions and associated interested, as well as consumers) to determine a trade protection equilibrium].¹¹⁶

Thus, even if Mexico is considered a national security interest and that free trade with it represents a national economic gain, we find that the US maintains a kind of protectionism for its markets. Therefore, domestic pressures for protectionism paired with the need of the US to secure its national interest results in the masqueraded trade protectionism.

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Chapter 4: Egypt and The European Union

Since the end of the cold war, Egypt has been aggressively pursuing two main policy strategies, Asianism and Euro-Mediterraneanism. However, the issue of Egyptian agricultural exports to the EU has been a major stumbling block in the negotiations. Whereas the draft agreement exempted European industrial exports to Egypt from all Egyptian tariffs and non-tariff barriers, it placed restrictions on Egypt's agricultural exports to the EU. The EU offered limited increases in the quotas for Egyptian agricultural exports, extensions of the importation seasons and entry to the EU market for additional agricultural products.

Egypt is a country whose agriculture constitutes an important percentage of its GDP (18%), and employs around 36% of the total employment as a result of the diversity of its agricultural products of vegetables and fruits. Egypt exports 2.6% of international exports of potatoes. Nevertheless, Egyptian exports of potatoes have been many times refused entrances to the EU because they have not met certain health and environmental standards in their production. The European Union refused to grant such entrance to the Egyptian potatoes based on the brown rotten bacterial infection.

The Liberalization of Egypt's agricultural trade with the EU would not hurt European agriculture as this trade represents only a small fraction of the EU's total agricultural production and imports. Moreover, Egypt was a net importer of European agricultural goods. The EU's agricultural exports to Egypt were worth almost five times

the value of Egypt's agricultural exports to the EU. Therefore, this chapter will be dedicated to further exploration of the realities of this trade triangle.

Chapter 5: Conclusion and Recommendations

This last chapter will be a dedicated to reaching conclusions and also reaching recommendations of the topic. In this chapter, a comparison will be drawn between the two case studies and conclude with the dynamics of the trade, environment, and protectionism triangle.

Conclusion

From the above review, we find that the thesis will be an addition to the available literature in the political economy and environmental politics pertaining to the examined countries. The thesis will express a point of view which will be of interest to developing nations by providing analogies for a wider view on the South. Therefore, the objectives of the thesis will be:

First, to explore the different dimensions of international trade based on the Realist theorization in order to lay a basis of understanding the dynamics of North-South debates. This objective will present the "in depth" exploration of the role played by theory in reaching the hypothesis.

Second, the thesis will explore the important trade regimes: the GATT, in relation to environmental regulations to free trade and restrictions to trade stemming from non-

tariff barriers. This objective aims at further investigation of the influential forces of non-tariff barriers to trade and how they can be used aggressively as environmental trade barriers to imports from the developing world. By understanding the nature and the use of non-tariff barriers to trade, we can understand the wider trade-environment debate. In addition, we can further investigate the ongoing debate in international relations between trade and environment and the conflicts that arise between nations of the North and the South. The thesis seeks to reflect on the hidden dynamics of environmental restrictions to free trade between nations with high environmental priorities and nations with lax environmental regulations.

Third, based on the third objective, the thesis aims at critically researching the two country case studies (Mexico and Egypt) that are going to be used in this thesis as a demonstration of the trade vs. environment debate between countries of the North and countries of the South. Thus, in this way, the thesis will present the point of view on how such environmental obstacles to trade can hinder the process of trade Liberalization in the third world by the closure of Northern markets to their exports.

Finally, the thesis aims at presenting a set of recommendations for third world countries as well as for developed countries in order to solve the trade-environment debate among the two sides

The materials used are dependent on primary sources such as books, journals, periodicals, documents, as well as other newspaper materials. Books, as well as economic

and political science journals have helped in the survey of the thesis topics and brought forward the scholarly analysis of the different facets of the thesis. Other sources of documentation have been explored in order to add to the overall assessment. Interviews with diplomats from the EU delegation, and the Mexican embassy, as well as with political scientists and key persons in international and local organizations concerned with issues of trade enhancement and the environment have been used. Moreover, secondary resources will be analyzed in order to see how other political scientist and economists have explored the dynamics of the trade-environment debate in international relations.

NOTES

- ¹ Jessica Tuchman Mathews, Redefining Security. In Robert J. Art and Robert Jervis. *International Politics: Enduring Concepts and Contemporary Issues* (New York: Harper Collins College Publishers, 1996), 486-497.
- ² "GATT, the WTO and Sustainable Development Positioning the Work Program on Trade and Environment" *The International Institute for Sustainable Development*. (<http://iisd.ca/trade/gattwto.htm>).
- ³ Anna Syngellakis. The Euro-Mediterranean Partnership and Sustainable Development: The Interface between Free Trade and the Environment. In Richard Gillespies Ed. *The Euro-Mediterranean Partnership: Political and Economic Perspectives* (London: Frank Cass, 1997), 133.
- ⁴ Developing nations have to deal with difficult priorities such as education, nutrition, sanitation, clean water, debt, and infrastructure, when it comes to management of environmental resources. They lack financial, technical and managerial capacity in these areas and that is why they need external support for a sound management of environmental resources. See, Nevin Shaw and Aaron Cosbey, "GATT, the WTO and Sustainable Development Positioning the Work Program on Trade and Environment," IISDnet Trade and Sustainable Development[Database on-line]; available from <http://iisd.ca/trade/gattwto.htm>; Internet; accessed 9 May 1999.
- ⁵ Jeffrey A. Freiden., and David A. Lake, *International Political Economy: Perspectives On Global Power And Wealth*. (New York: St. Martin's Press, 1991).
- ⁶ Ibid., 1.
- ⁷ Ibid.
- ⁸ Ibid., 5.
- ⁹ Ibid., 6.
- ¹⁰ Robert. Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).
- ¹¹ Frieden and Lake, 28.
- ¹² Stephen Gill, and David Law, *The Global Political Economy: Perspectives, Problems and Policies*. (Baltimore: The John Hopkins University Press, 1988), 42.
- ¹³ Ole R. Holsti, "Theories of International Relations and Foreign Policy: Realism and Its Challengers," In Charles W. Kegley Jr. Ed. *Controversies in International Relations Theory: Realism and the NeoLiberal Challenge* (New York: St. Martin's Press, 1995), 35-66.

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- ¹⁴ Ibid., 43.
- ¹⁵ Ibid.
- ¹⁶ Ibid.
- ¹⁷ Ibid.
- ¹⁸ Ibid.
- ¹⁹ Gilpin (1987), 173.
- ²⁰ Ibid.
- ²¹ Ibid.
- ²² Ibid., 179.
- ²³ Frieden and Lake, 7-8
- ²⁴ Gilpin (1987), 37
- ²⁵ Frieden and Lake, 8.
- ²⁶ Ibid., 9.
- ²⁷ Gilpin (1987), p 43.
- ²⁸ Ibid.
- ²⁹ Ibid., 50.
- ³⁰ Gilpin (1987), 50.
- ³¹ See Immanuel Wallerstein, *The Modern World-System* (New York: Academic Press, 1974), 45.
- ³² Ibid.
- ³³ Gilpin (1987), 51.
- ³⁴ Ibid., 53.
- ³⁵ Gilpin (1987), 42.
- ³⁶ Frieden and Lake, 10.
- ³⁷ Ibid., 10.
- ³⁸ Ibid.
- ³⁹ Ibid., 10.
- ⁴⁰ Gilpin (1987), 26.
- ⁴¹ Ibid.
- ⁴² Ibid.
- ⁴³ Frieden and Lake, 10.
- ⁴⁴ Robert Gilpin, "The Nature of Political Economy," In Robert J. Art and Robert Jervis *International Politics: Enduring Concepts and Contemporary Issues* (New York: Harper Collins College Publishers, 1996), 283.

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- ⁴⁵ Holsti , 36.
- ⁴⁶ Ibid., 36.
- ⁴⁷ Ibid. p 37. See also Gill, Stephen, and David Law, *The Global Political Economy: Perspectives, Problems, and Policies* (Baltimore: The Johns Hopkins Univ. Press, 1988), 25.
- ⁴⁸ Ibid.
- ⁴⁹ Ibid.
- ⁵⁰ Ibid.
- ⁵¹ Ibid. Since the Treaties of Westphalia (1648), nation-states have been the dominant units, and not city- states or empires.
- ⁵² Ibid.
- ⁵³ Ibid. National interest may differ depending on the circumstances, but the similarities among nations allow theorists or analysts to conceptualize a common pattern of state behavior.
- ⁵⁴ Ibid.
- ⁵⁵ Holsti, 35-66 .
- ⁵⁶ Ibid.
- ⁵⁷ Gill, and Law, 27.
- ⁵⁸ Ibid.
- ⁵⁹ Ibid.
- ⁶⁰ Neil R Richardson, "International Trade As a force for Peace," In Charles W. Kegley Jr Ed. *Controversies in International Relations Theory: Realism and the NeoLiberal Challenge* (New York: St. Martin's Press, 1995), 281-294.
- ⁶¹ Ibid., 282.
- ⁶² Ibid.
- ⁶³ Ibid., 283.
- ⁶⁴ Ibid.
- ⁶⁵ Ibid.
- ⁶⁶ Holsti, 55
- ⁶⁷ Ibid.
- ⁶⁸ Stephen Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkley: University of California Press, 1985), 4.
- ⁶⁹ Ibid., 39.
- ⁷⁰ Ibid., 58.
- ⁷¹ Ibid.
- ⁷² Ibid., p 41.

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- ⁷³ Ibid., p 307.
- ⁷⁴ Richardson, 290.
- ⁷⁵ Ibid., 291.
- ⁷⁶ Ibid.
- ⁷⁷ Ibid.
- ⁷⁸ Gilpin (1987), 54.
- ⁷⁹ Ibid.
- ⁸⁰ Ibid., 182.
- ⁸¹ Ibid., 183.
- ⁸² Ibid., 190.
- ⁸³ Krasner (1985), 4.
- ⁸⁴ Arthur A Stein, "Coordination and collaboration: regimes in an anarchic world," *International Organization*, v 36. No 2 (Spring 1982): 299-324.
- ⁸⁵ Ibid.
- ⁸⁶ Ibid., 306.
- ⁸⁷ Ibid.
- ⁸⁸ Ibid.
- ⁸⁹ Ibid.
- ⁹⁰ Krasner (1985), 5.
- ⁹¹ Ibid.
- ⁹² Ibid., 3.
- ⁹³ Ibid., 5.
- ⁹⁴ Gill, and Law, 225.
- ⁹⁵ Ibid., 226.
- ⁹⁶ Ibid.
- ⁹⁷ Ibid. This means that their trade and wider economic relations are generally characterized by structural dependence.
- ⁹⁸ Stephen D Krasner, "Power vs. Wealth in North-South Economic Relations," In Robert J. Art and Robert Jervis Eds *International Politics: Enduring Concepts and Contemporary Issues* (New York: HarperCollins College Publishers, 1996), 299-318.
- ⁹⁹ Ibid., 299.
- ¹⁰⁰ Ibid.
- ¹⁰¹ Ibid.
- ¹⁰² Ibid., 300.
- ¹⁰³ Krasner (1985), 30.

104 Ibid.

105 Gill, and Law, 38-39.

106 Ibid.

107 Holsti, 47.

108 Ibid.

109 The EU is considered as a single entity.

110 Concerning this comparison, one example See Dan Tschigi Ed. *Development in the Age of Liberalization: Egypt and Mexico* (Cairo: The American University in Cairo Press, 1996).

111 See Daniel C Esty *Greening the GATT: Trade, Environment, and the Future* (Washington DC.: Institute for International Economics, 1994), 27-32.

112 The US Senate Finance Committee. *"NAFTA: A bridge to a Better Future for the United States and the Hemisphere"*. Statement by Secretary Warren Christopher .Washington, DC, September 15, 1993.

113 "NAFTA: Embracing Change". President Clinton. Remarks at signing of NAFTA side agreement, Washington, DC, September 14, 1993. U.S. Department of State Dispatch v. 4 no. 37 Sept. 13, 1993.

114 "Fact Sheet: Working with Mexico, Building America's Future." *The Bureau of Inter-American Affairs*. http://www.state.gov/www/regions/wha/work_with_mexico_fs_0497.html April 15, 1997.

115 Charles K Rowley, Willem Thornbecke, and Richard E. Wagner, *Trade Protection in the United States* (Aldershot, UK : Edward Elgar, 1995).

116 Ibid., 151.

CHAPTER 2

TRADE VS. ENVIRONMENT: LITERATURE AND DEBATE

I fully expect the 1990s to continue being preoccupied with the theory of political economy, both in international economics and economics generally... *Jagdish Bhagwati*¹

Introduction

As we have seen in chapter one, free trade among nations has been one of the main priorities on the world agenda. North-South relations has acquired both momentum and strength in an era where nations are quickly moving towards interdependence and globalization. Political theorists have long studied the role of economic (trade) transactions on international relations. Among these issues, as has been mentioned in the previous chapter, trade came to prove its importance in North-South debates. As the world moves towards closer ties and more intertwined relations, conflict has risen between nations of the North and the South concerning their trade relations' profile. Environment has come to play an important role in North-South trade rules. The South, facing protectionism from the North, seeks the full application of free trade regimes that join them together, and the opening of Northern markets for their exports.

In addition, since the environment came to present a reason for North-South conflict, the debate of trade versus the environment has gained importance in world politics. Therefore, this chapter surveys literature that tackles the debate, and also provides the background basis of free trade regime, the General Agreement on Tariffs and Trade (GATT) as well as the trade versus environment debate. This chapter lays the theoretical basis for the case studies as it presents a general view of debate and the available literature. GATT represent the umbrella of free trade politics and the grounds which led the way to the initiation of other regional trade regimes. As the

grounds which led the way to the initiation of other regional trade regimes. As the North and the South establish regional free trade regimes, conflict still exists, even if those regimes seek to facilitate collaboration between nations. In addition, we will see how the different trade regimes, GATT, NAFTA and the European Union addressed the relationship between trade and the environment.

Literature

By exploring a wide variety of literatures in international relations, international trade theory, and environmental politics, we can conclude that few writings on these two case studies have directly addressed the issue of trade protectionism from an environmental perspective. Most of the literature focuses on the general issues of trade problems between the North and the South, and the environmental cases presented to the GATT/WTO (World Trade Organization) and the NAFTA or the EU. Others focus on the general highlights in the debate of trade vs. environment, choosing to present the debate from different economic, social and political aspects and not from the dimension of protectionism. Indeed, it was found that there is a gap concerning studies of problems faced by the two countries under examination (Egypt and Mexico) as examples of two developing nations from two different regions facing similar export problems due to the presence of protectionism in the form of stringent environmental qualifications.

In addition, there is little literature that interprets obstacles to trade as being forms of protectionism under the veil of environmental standard restrictions. Consequently this thesis, which aims at further exploration of the dimensions of such debate, will be an interesting addition to the available literature.

Reviewing literature that approaches the issues of protectionism and free trade, it was found that those sources provide the background for the definition of protectionism and the trade instruments which could be used as non-tariff trade barriers (NTBs). In general, economists look at trade protection as a reason for trade distortions and as a factor that does not enhance a country's capability to compete successfully (in the long term) in the world economy. W. Max Corden defined trade protectionism as all the tools which constrain or distort trade; mainly tariffs, import quotas and other non-tariff barriers, such as voluntary export restraints, preferential procurement arrangements, and export taxes.² In addition, economists such as William Penfield Travis asserted that the theory of *Heckscher-Ohlin* is the only complete and general explanation of international and interregional trade.³ This classical theory focuses on the element of comparative advantage among nations by assuming that production functions differ internationally.⁴

[Its main assumptions are that factors of production functions are technical relationships which, like cooking recipes are everywhere the same though not necessarily everywhere known, and the commodities use factors in different proportions. The theory concludes that under free trade countries will export goods which use their abundant factors. Herein lies the basis of comparative advantage. From this, the theory predicts that free trade among countries will tend to equalize their factor returns.]⁵

Another bulk of the literature expressed the efforts undertaken by the international community to respond to the disadvantages of protectionism and the inefficiency of high tariffs on trade. The initiation of the General Agreement on Tariffs and Trade (GATT) came as a solution to trade barriers among nations. Kenneth W. Dam⁶ asserted that the GATT was originally an agreement on tariffs, and the GATT institution was structured to provide the grounds or the environment for tariff negotiations among countries.⁷ Tariff concessions were to be made between

countries on the basis of the reciprocity principal.⁸ In addition, according to Dam, substantial sections of the GATT provisions are designed to assure that other types of trade measures do not hinder or work to burden the effects of tariff concessions.⁹

Thus, the *first* provision of the GATT was to target tariff measures aiming to hinder trade. A *second* provision in the GATT is the "*most favored nation*" status provided as a principal in Article II, and contained in Article I as a Clause. It applies to all tariffs, whether covered by concessions or not, and also to all other rules and protocols relating to importing and exporting.¹⁰ The *third* important provision of the GATT is *non-tariff barriers*. Each kind of non-tariff barrier is treated separately.¹¹

Thomas J. Schoenbaum,¹² added that as GATT became adopted officially in 1994 at the Marrakesh Conference, the World Trade Organization was officially created as the "GATT 1994".¹³ "GATT 1994 not only establishes the normative structure for trade under international law; it also seeks to further the goal of free international trade".¹⁴ Tariffs were permitted, but "most are bound at concessional rates; quantitative restrictions are eventually eliminated; and a whole range of non-tariff barriers to trade are subjected to the discipline of international law rules".¹⁵ Similarly, Jennifer Schultz¹⁶ argued that the new rounds of GATT which created the World Trade Organization (WTO) allows the WTO structure to facilitate the expansion of the GATT institutional capacity and allows it to better serve the new directions of negotiations.¹⁷

From the literature reviewed, we can conclude that non-tariff barriers emerged as a new form of protectionism after the retreat of tariffs as trade protection tool. Freiden and Lake argued that as GATT was able to remove or start phasing out trade tariff restrictions, the rise of non-tariff barriers to trade as new restriction tools came as means by which governments can protect their industries sensitive to imports.¹⁸

Rowely, Thorbecke and Wagner¹⁹ added that there are three main tools used for trade protection: tariffs, quotas and voluntary export restraints (VERs). The last two decades have witnessed the retreat of tariff barriers to trade as a result of the success of the GATT rounds and that is why the alternative became non-tariff barriers (NTBs).²⁰ However, Gilpin, asserted that such issues of free trade versus protectionism have always been a conflict between Liberals and nationalists.²¹

By reviewing the general themes of the GATT in relation to protectionism and tariffs, we turn to review literature approaching the issue of "Environment" in international and regional trade regimes. We have reviewed GATT because it is the international trade regime the links the North and the South and which provided the main efforts to tackle issues of trade protectionism. As such, by using GATT as the basis, we can now make relevant comparisons between the GATT, NAFTA, and EU in their file of environmental protection provisions.

Literature approaching the issue of the environment in world politics has pointed out the internationalization of environmental degradation, depending on the size of the problem in hand and the geographical effects of this problem. According to Ronnie D. Lipschutz and Ken Conca,²² one of the basic sources of power for a state

lies in its control over the resources located within its national territory. Gareth Porter and Janet Welsh Brown²³ assert that countries have different mixtures of domestic economic and political forces, which influence their policies towards environmental issues. In addition, according to Porter and Brown, environmental problems on the other hand, have varied effects on the different nation-states and that is why nation states react differently to environmental problems.²⁴ However, in the formation of international regimes, economically strong states have the ability to push an agreement forward against weaker states by their use of threat of trade sanctions on countries which refuse to cooperate with them.²⁵ Donor countries can also use their resources to guarantee or hinder the initiation of an international regime.²⁶ Porter and Brown also argue that, as the most important action by nation-states is regime formation, they have an influence on the legal mechanisms, the issues to be discussed as well as the negotiations.²⁷ This will be seen in the case study about NAFTA and Mexico.

However, in the case study about Egypt, we will see how the EU is trying to use its environmental standards, which are driven by domestic interest groups who are pro-agricultural protectionism, to block competitive Egyptian exports of potatoes.

From the reviewed literature, it is seen how states perceive the "environment" and how resources could be used by powerful states (North states) as a way to pressure weaker nations of the South towards applying stricter environmental standards. Thus, we turn now to explore the way the different free trade regimes, GATT, NAFTA and the countries of the European Union approached the relationship between trade and environment. This review will help in exploring the atmosphere under which this thesis' case studies' Mexico and Egypt, indulge in trade transactions (under their commitments to free trade regimes) and why they view environmental restrictions to

their exports as being forms of trade protectionism. Richard H. Steinberg²⁸ stated that Trade-Environment negotiations in the WTO have produced rules that are not that developed or environmentally friendly as those in the NAFTA and the EU.²⁹ Steinberg argues that rich states with tough environmental regulations are responsible for pushing forward the environment in trade regimes' agendas.³⁰ Moreover, "...in all three trade organizations, the richer, greener states have used their power to exert environment-friendly pressure on international trade-environment rules, coercing poorer countries into accepting greener rules (usually by threatening to close their markets to goods from those countries), compensating them for doing so (usually by promising to keep open or further open their markets to those countries), or signaling likely coercion or compensation".³¹ In addition, Steinberg contended that the United States and the European Union have been pressing for environment-friendly rules on trade-environment issues in the GATT/WTO.³² This will be seen in the coming chapters with the exploration of the case studies.

Concerning the GATT, Baer and Weintraub³³ maintain that GATT was criticized for the way it handled environmental issues, which are covered in Article XX of the GATT, permitting signatories to make trade-restrictive regulations that are "necessary to protect human, animal, plant life, or health" but on non-discriminatory basis.³⁴ Thomas J. Schoenbaum and Jennifer Schultz asserted that before 1991, the trade-environment relationship did not gain much attention until the decision of the Tuna/Dolphin³⁵ case ruling in 1991 in which the GATT dispute resolution panel declared that a United States embargo on tuna caught by fishing methods causing the killing of a large population of dolphins, to be illegal.³⁶

As a result of the growing voices calling for environmental protection within the international trade regimes, the Uruguay Round of Multilateral Trade Negotiations in Marrakech on April 14, 1994, saw the GATT contracting parties agree on establishing a new Committee on Trade and Environment (CTE) under the auspices of the newly established World Trade Organization (WTO).³⁷ Schultz added that environmentalists were concerned about the GATT/WTO because they wanted environment to be included in the WTO charter. Moreover, the GATT/WTO contains two agreements: the Agreement on Technical Barriers to Trade (TBT) and the Agreement on Sanitary and Phytosanitary Measure (SPS).³⁸ The TBT agreement deals with government regulations such as auto-emissions standards, and the SPS deals with government regulation and import ban concerning food safety and disease spreading products.³⁹

Nevertheless, when comparing the GATT/ WTO with NAFTA, Schultz and similarly Duncan Brack⁴⁰ argue that "...NAFTA clearly establishes that for trade and environment disputes the burden of proof will fall on the challenging party, the GATT/WTO rules maintain that burden on the member defending an environmental measure, including when the measure falls under an Article XX exception". In these situations, the GATT/WTO provisions stated that it should be up to the member against whom the complaint has been brought to rebut the charge.⁴¹ That is why the GATT/WTO is considered a bit behind other trade Liberalization regimes such as the NAFTA and that of the EU when it comes to environmental considerations in trading interactions.

NAFTA has more developed environmentally friendly rules than the GATT/WTO, as Steingberg argues. Although the NAFTA adopted the GATT/WTO TBT Agreement, it included the principle that each party may "establish the level of

protection it considers appropriate".⁴² Thus, the main difference from the GATT/WTO is that a technical standard that has been adopted by an international standards setting body is accepted as in compliance with the NAFTA.⁴³ By this token, the United States was guaranteed that Mexico would be pushed for tougher standards since international standards are more stringent than domestic standards of developing countries.⁴⁴ On the other hand, Mexico was guaranteed that the US would not use technical barriers to its trade as long as they are in compliance with international standards.⁴⁵

Baer and Weintraub asserted that some of the opponents of NAFTA embrace trade protectionism as their ideology, but many environmentalists and public policy specialists who participated in the debate "sought to balance the expanding international trade relationship with sustainable economic growth and rational natural resource use".⁴⁶ Thus, as Steinberg mentions, parties to NAFTA created the Commission for Environmental Cooperation (CEC) in 1993 to ensure the three countries, Mexico, the US and Canada, cooperate in environmentally friendly trade.⁴⁷ Therefore, by strengthening the grounds for environmental cooperation and for more efficient application of environmental laws and regulations along with a free trade agreement, the signatories will be moving hand in hand to promote sustainable development, creation of jobs, and making the region more competitive.

From another continent, we find that the European Union was been able to "maintain the most well-developed and environmentally-friendly trade-environment rules, because it is the organization with the deepest integration and power which is

relatively concentrated in favor of green countries".⁴⁸ According to Sir Leon Brittan (vice-president of the European Commission), the EU's basis on the environment has sprouted from their commitment to sustainable development that was a highlighted concept at the Earth Summit in Rio in 1992.⁴⁹ According to Steinberg⁵⁰ and Esty,⁵¹ the European Union provides its member states with a right to ban imports from other member states, as well as from other countries outside the EU, which are not compatible with certain environmental or health standards of the importing state. Nevertheless, Esty criticized the US and the European Union for their use of "offensive" trade actions in order to impose their own environmental standards on imports from the South. As such, Steinberg added that the Single European Act adopted at the end of 1992 has allowed the European Union's environmental measures "a high level of protection".⁵² In comparison to "...the force of other trade organization law in states that are members of the NAFTA, and the WTO, the EU law enjoys unqualified supremacy in all member states".⁵³ This means that EU laws are to be applied in all member states without having to be compatible with domestic laws of member states' national laws. However, this power is not present in the WTO or in the NAFTA.

At this stage, after reviewing the present literature on international and regional free trade agreements and their environmental profile, we turn to the literature tackling the debate which links trade and environment. Daniel Esty asserted that the debate of trade vs. environment has been triggered on the world agenda after the end of the cold war. As realized in international conferences and international debates, the environment became an influential factor. Esty argues that environmentalists see free trade and the whole economic system as full of flaws and

that free traders are living in an ivory tower of economic theories with no connection to the environmental realities of the world.⁵⁴ They see that free trade "invite[s] increased pollution, lost regulatory sovereignty, and anti- environmental counter-force driven by the desire for jobs and profits, and policy making by obscure, unaccountable, business-oriented international bureaucrats".⁵⁵

On the other hand, Esty presented the point of view of free traders who see the application of environmental trade measures as a threat to the international economic system and as a threat to its harmony.⁵⁶ In particular, they see dangers of environmentalism as becoming new forms of protectionism, which hinders foreign producers from penetrating markets and reduces the efficiency gains from trade- as an emerging trend using the appeal of politically attractive environmentalism.⁵⁷ Also, Porter and Brown argued that advocates of free trade proclaim that " restrictions on trade for environmental purposes is just another type of non-tariff barrier to be forbidden or removed".⁵⁸ Moreover, others like Perroni and Wigle⁵⁹ argued that even from an economic point of view, international trade has little impact on environmental quality and the "magnitude of the welfare effects of environmental policies is not significantly affected by changes in trade policies".⁶⁰ "At the same time, the size and distribution of gains from trade Liberalization appear to be little affected by changes in environmental policies".⁶¹ The authors also asserted that trade Liberalization has came under criticism because of the doubts that local environmental politics can be substantially undermined through trade diversion and relocation of "dirty" industries to "pollution havens", especially when governments are constrained by trade agreements.⁶²

Vicky Hutchings⁶³ argued that free trade treaties and the GATT have been primarily unfair treaties as they allow for one-sided trade because of the clauses attached to them concerning environmental regulations.⁶⁴ This meant that they allow free-market access to Northern exports while at the same time denying access to third world exports.⁶⁵ To rephrase, it is understood that stringent environmental restrictions from the North are another tool or "weapon" under Northern states' disposal used to limit the Third World from transmitting their exports on to world markets.⁶⁶ Nevertheless, "such clauses, designed to be narrowly protectionist measures to help the North, will not prevent transnational corporations from shifting production to countries where environmental protections are less stringent".⁶⁷

Now after reviewing the three main trade organizations under consideration, we will have a review of the literature available on the trade-environment status of the two case studies: Mexico and Egypt. This thesis will be exploring the dynamics of the trade environment debate between Mexico and the United States within the boundaries of the NAFTA agreement. We find that Esty, Steinberg, Schultz, as well as Baer and Weintraub have referred to the 1991 ruling in the Tuna/Dolphin case, which triggered the trade-environment debate in the international agenda. However, this case was the beginning of a worldwide focus on environmental concerns related to trading interactions between countries with discrepancies in environment regulations. Nevertheless, with regards to Mexico, we find that there were several other trade cases/conflicts concerning its exports to the United States.

As for Egypt, we find that Richard Gillespie⁶⁸ has argued that the European Union has begun to approach the area of the Mediterranean basin with new interest

after the end of the cold war and the collapse of the Soviet Union as well as the war in Iraq 1991. Europe began to realize that it is not only the dominant source of imports but also represents a major market for the Southern Mediterranean region.⁶⁹ Similarly, Egypt after the end of the cold war began to turn towards its European neighbors for a new policy that aims at furthering its ties with them and securing its economic interests.⁷⁰ As a result, the Barcelona Ministerial conference in November 1995 witnessed the production of the Euro-Mediterranean declaration by the participating European and Mediterranean nations.⁷¹ The declaration "...reflected to a large extent the European view point on the nature of peace and stability, and on the free trade area which will be established by the year 2010".⁷² In addition, the Barcelona Declaration and the Euro-Mediterranean association agreements signed so far have several provisions aimed at promoting sustainable development and the protection of the environment.⁷³

Nevertheless, with the presence of free trade agreements, we find that Egyptian exports to the European Union face strict environmental regulations due to the EU's right to ban imports not in line with their environmental qualifications or laws. The European Union refused to grant Egyptian exports of potatoes because they have not met certain health and environmental standards in their plantation. According to Fawy⁷⁴ and Amin,⁷⁵ the EU refused to grant such entrance to the Egyptian potatoes based on the brown rotten bacterial infection of potatoes, knowing that Egypt imports about 80% of its potato buds, infected with the bacteria, from Holland. In addition, Amin mentioned that Egypt would file an official complaint to

the WTO against the EU for its import restriction measures which are in violation with the rules of free trade provided by the WTO.⁷⁶

Now after reviewing literature concerning the debates around trade, environment and protectionism, we turn to review the background about GATT, its environmental profile, and finally the overview of the trade vs. environment debate. The GATT represents the main free trade agreement which laid the basis for other regional trade regimes. Also the GATT provisions were used as basis for regional regimes of NAFTA and Euro-Mediterranean Partnership.

Part II

The GATT

The General Agreement on Tariffs and Trade (GATT) was originally an agreement on tariffs, and the GATT institution was structured to provide the grounds or the environment for any tariff negotiations among countries.⁷⁷ First, tariff concession, were to be made between countries on the basis of reciprocity principle.⁷⁸ Contracting parties were obliged to adhere to tariff concessions as well as to apply those concessions to all contracting parties and not just to the contracting party with which the concession was negotiated (except in cases of special preferences).⁷⁹ In addition, many parts of the GATT provisions are designed to assure that other types of trade measures do not hinder or work to burden the effects of tariff concessions.⁸⁰ Nevertheless, parties could elude the application of harming concession using the "escape clause", and under certain conditions contracting parties may "withdraw operative concessions, as long as new and compensating concessions are made".⁸¹

A *second* provision in the GATT is the "most favored nation" (MFN) status which is provided as a principle in Article II, and contained in Article I as a clause which applies to all tariffs, whether covered by concessions or not, and also to all other rules and protocols relating to importing and exporting.⁸² However, this status is subject to exceptions relating to preferential arrangements that are granted to some countries, and also to the exemption of customs unions, and free-trade areas from this clause.⁸³

The *third* important provision of the GATT is non-tariff barriers (NTBs). GATT does not include a general provision on non-tariff barriers, but, instead, each kind of non-tariff barrier is treated separately.⁸⁴ Non-tariff barriers can have different forms and different cases, and that is why they raise doubts about whether a certain measure can be labeled as a non-tariff barrier or not.

[The philosophy of the General Agreement is, however, quite different in the case of non-tariff barriers. Whereas a contracting party is not required to lower tariffs in the absence of special agreement, the general principle with respect to non-tariff barriers is one of immediate abolition. As a corollary to this principle, the General Agreement makes no general provision for negotiations in the reduction of non-tariff barriers.]⁸⁵

Non-tariff barriers can be financial in nature, but are yet considered consistent with free trade, although they can hinder or restrict imports to some extent.⁸⁶ The justification for calling such barriers as financial is if the charge is "inordinately high or if there is some kind of discrimination in its imposition or administration".⁸⁷ However, those financial barriers are subject to regulations of permissible measures; for example internal taxes should not be imposed at a higher rate on imported good more than what is imposed on the locally produced good, and so are antidumping and countervailing duties.⁸⁸

On the other hand, non-tariff barriers with non-financial nature raise a lot of problems pertaining to their identification or regulations. Some barriers can be linked to domestic legislation or regulations concerning sales, purchases transportation or even labeling.⁸⁹ To this, environmental requirements and standards can be added as a source of non-tariff barriers that are not accounted for by the GATT. That is because during the drafting of the GATT, quantitative restrictions were the most important non-tariff barrier at that time and that is why they were subject to very complex provisions.⁹⁰ However, this part of the GATT relates directly to this study but will be explored more in the coming section about the GATT and the environment.

GATT and the Environment

The Tuna/Dolphin case

Before the North American Free Trade Agreement (NAFTA), environmentalists paid little attention to trade. However, when United States officials announced that the agreement was on its way in 1990, this alarmed environmentalists about the dangers of trade with Mexico.⁹¹ Mexico's exports of tuna fish to the United States exacerbated a new debate about non-tariff trade barriers based on environmental concerns, and also the viability of such restrictions under the GATT free trade rules. As Mexico exports tuna to the US, the United States Marine Mammal Protection Act (MMPA) (PL 92-522, 86 Stat. 1027) of 1972 (see box 2.1), demanded that the US government should work to prevent the killing of marine mammals. It also demanded that the US Secretary of Commerce should ensure or guarantee that foreign governments are taking steps to prevent the killing of marine mammals, or otherwise prohibit the importation of tuna products from the offending country.⁹²

Box 2.1 The Marine Mammal Protection Act in 1972

- This act was intended to reduce the dolphin kills to levels approaching zero by legally requiring US tuna fishermen to incorporate [dolphin-safe techniques].
- Furthermore, the act established a permit system, setting a fixed ceiling for dolphin kills and limiting the taking rate for species that were endangered.
- To ensure that these regulations were abided by, the MMPA also required US vessels to carry federal observers.
- In 1984, the Congress inserted the "comparability provision" or direct embargo Provision (§101 (a) (2) into the Marine Mammal Protection Act). The goal of this provision was to decrease foreign kills by prohibiting the importation of yellowfin tuna from nations that did not have regulatory programs and mortality rates comparable to the United States.
- In 1986, the Eastern Tropical Pacific had vessels from the US (34 vessels), Mexico (43), Venezuela (15), Vanuatu (4), Spain (2) and one from Cayman Islands, Costa Rica, El Salvador, and Panama.

Source: Trade Environment Database: <http://www.american.edu/projects/mandala/TED/Tuna.htm>

As a result, in 1988, based on the fact that fishermen in violation of this law are killing dolphins in the eastern tropical Pacific Ocean, where tuna swim together with dolphins, the debate was triggered.⁹³ An environmental group (Earth Island Institute) sued to enforce such law, and the federal court agreed that the "administration was not upholding the law and ordered Mexican tuna imports banned from the United States".⁹⁴ At the same time the ban was imposed, the US tuna fleet⁹⁵ had largely abandoned fishing in this part of the Pacific Ocean, so the dolphin protection provisions of the MMPA did not apply to them.⁹⁶ In addition, even with US fishermen's use of more dolphin protecting fishing techniques, the dolphin kill rate remained high.⁹⁷ Accordingly, Mexico, in belief that this unilateral act is a violation of its GATT-guaranteed right to sell tuna in the United States, challenged the US, and demanded a GATT dispute settlement panel to adjudicate the issue.⁹⁸

The GATT panel concluded that:

- The US ban on Mexican tuna inappropriately discriminated (in violation of GATT Article III's "national treatment" requirement) against the imported product based on production practices that were not legitimate as a focus of US regulation.⁹⁹
- The US standard for incidental dolphin kills, which depended on the number of dolphins killed by US fishermen in any given year, was retroactive and variable, and thus inappropriate. In fact, Mexican fishermen could not know their limits until the results of the American harvest were declared.¹⁰⁰
- The US claim of justification under GATT Article XX (b) for actions important to protect human health or animal life was inapplicable on the grounds that this exception does not encompass harms occurring outside the jurisdiction of the country imposing the trade measure, and because less-restrictive means were available to the United States to achieve its objective.¹⁰¹
- The US claim of justification under GATT Article XX (g) for the conservation of exhaustible natural resources could not be unilaterally applied outside the national context.¹⁰²

Nevertheless, Mexico failed to get the three-member panel's findings adopted by the GATT Council, and sought to resolve the issue bilaterally with the US. In addition, due to the results of the GATT panel, the European Union decided to further challenge the United States under the Tuna Dolphin II case (May 1994).

In this second Tuna/Dolphin case, the European Union opposed the "secondary embargo" which is imposed under the MMPA (Marine Mammal Protection Act) on all countries which trade in tuna with Mexico.¹⁰³ This provision

bans tuna imports to the United States from any country which trades tuna with an embargoed country (which is in this case Mexico).¹⁰⁴ However, some European Union states import tuna from Mexico, therefore, the ban goes against them too. This case raises the issue of the right of a nation to impose unilateral trade measures to enforce its environmental values on other nations outside its jurisdiction. In general, the Tuna/Dolphin cases prove that trade and environmental policy could be problematic.

The choice to use trade penalties is usually explained with domestic politics of the country imposing trade measures in order to enhance its environmental policies.¹⁰⁵ A country like the United States can be relatively invulnerable to the threat of retaliation and there is much more willingness to use "radical" measure in support of even minor environmental preferences.¹⁰⁶ In comparison, other smaller states do not have the power to impose their own trade restrictions in support of their environmental policy because they are heavily dependent on trade.¹⁰⁷

GATT Environmental Profile

The ruling of the Tuna/Dolphin case and its impact on future GATT decisions was extremely controversial and drew world wide attention to the issues of trade and environmental protection. Therefore, with the Rio Earth Summit in June 1992, the world focused on the linkages between trade and environmental considerations.¹⁰⁸ Therefore, following this conference, the new multilateral trade accords of the Uruguay Round created the World Trade Organization (WTO) in 1994 to facilitate the extension of the institutional capacity of the GATT and permits it to take on the new responsibilities of the Uruguay Round (See Box 2.2).¹⁰⁹ The new GATT/WTO

"separates the institutional concepts from the substantive rules and gives the GATT the kind of legal mechanism that will enable it to incorporate new subjects".¹¹⁰ In addition, the new GATT/WTO created the Committee on Trade and Environment within the WTO, which meant a great success for environmental groups around the world.¹¹¹

Box. 2.2 Uruguay Round (1986-93)

- The Uruguay Round agreement (GATT 1993) expands, refines, and to some extent narrows the GATT Article XX general exceptions. Specifically the revised rules apply a "least trade-restrictive" test for standards (known in GATT speak as "technical barriers to trade" or TBT).
- In addition, the TBT agreement requires that national regulations be based on "relevant international standards" except where these would be "ineffective or inappropriate means for the fulfillment of the legitimate objectives pursued" (TBT Article 2.4).
- Finally, the new rules make clear that nations are free to select their own level of risk without fear of a GATT challenge.
- The Uruguay Round results also refine the rules relating to food, plant and animal health standards (known as sanitary and phytosanitary or SPS measures). The new provisions grant each nation the right to determine its own level of protection so long as the resulting SPS standards are not "arbitrary or unjustifiable distinctions" (SPS paragraph 20).
- The new GATT language requires parties to consider less trade-restrictive means of achieving their environmental goals in the sanitary and phytosanitary context but leaves the choice of goals up to the nation setting the standards.

Source: Daniel C. Esty, p 50.

The Technical Barriers to Trade and Sanitary and Phytosanitary Measures Agreements

As a result of the Uruguay Rounds, GATT/WTO contains two agreements governing national laws on the environment (and/or public health): the Agreement on Technical Barriers to Trade (TBT) and the agreement on Sanitary and Phytosanitary Measures (SPS).¹¹² The TBT agreement deals with government regulations on products (e.g. Auto emission standards). The SPS Agreement deals with government regulations and import bans due to food safety and disease-spreading products.¹¹³ The current GATT rules (i.e. Article III) are based on the long-established concept of national treatment, which means that a nation should apply international standards to

imported products but cannot put imported products at a disadvantage.¹¹⁴ In certain conditions, such as those concerning health or natural resource protection, GATT Article XX provides an exception from national treatment.¹¹⁵

Technical Barriers to Trade (TBT):

- First, the TBT Agreement covers all product regulations, such as those on size, grade and quality.
- Second, although the earlier GATT Standards Code did not restrict government regulations dependent on "process and production methods" (PPMs), the new TBT agreement does. (more on PPMs will be discussed below).
- Third, the Agreement requires that "relevant international standards" be used as a basis for national regulations "except when such international standards or relevant parts of them would be ineffective or inappropriate means for the fulfillment of the legitimate objectives pursued".¹¹⁶
- Finally, the TBT asserts that "national regulations" should be more trade restrictive to than necessary to fulfill legitimate objectives, taking account of the risk non-fulfillment would create.¹¹⁷

Sanitary and phytosanitary measures

- The SPS calls for internationally set standards to serve as a turning point for the harmonization of standards among GATT/WTO members as long as there is scientific justification.¹¹⁸
- Nations retain the power to select their preferred degree of protection.¹¹⁹

The application of the ISO 14000 systems, the environmental labeling and the use of environmentally friendly packaging systems in the European Union and most of the Western countries can be used to restrict exports of the developing nations by limiting their competitive advantage capabilities.¹²⁰ This environmental conditioning to exports can be used to hinder exports behind non-tariff barriers to trade, and block them from entering Northern markets.¹²¹

Northern countries committed themselves to fund the transfer of environmentally friendly technology to the developing nations in the Rio action plans. Nevertheless, they did not implement this commitment. Instead, they retreated from this commitment and they only focused on the procedures and on linking trade and investment with their environmental conditions.¹²² The problem here lies in exports like agricultural products, textiles, and leather.

Process and Production Methods (PPMs)

The term "PPMs" refers to *process and production methods* and is derived from the terminology used in the Agreement on Technical Barriers (TBT) to Trade in the General Agreement on Tariffs and Trade (GATT).¹²³ Within the trade and environment debate, the main issue concerning PPMs is whether or not government should be able to constrain trade in products based on their process and production methods.¹²⁴ PPMs center around the following: *first*, under which circumstances governments should restrict trade in products according to their process and production methods; *second*, what restrictions are appropriate given potential environmental and trade impacts; and *finally* what disciplines need to apply.¹²⁵ The

OECD (Organization for Economic Cooperation and Development) has categorized PPMs according to whether or not the environmental impact of the PPM is transmitted by the product itself.¹²⁶ *Category A* are PPMs which mean that the environmental impact is transmitted by the traded product¹²⁷, *Category B* is where the environmental impact of the PPM is not transmitted by the traded product.¹²⁸

Concerning Category A, process standards are sometimes looked upon as being the most successful way to control for product-related PPMs, ex. pressure vessels and phytosanitary measures.¹²⁹ The rules, which are applied on this kind of PPM, are found in the GATT Agreements on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS).¹³⁰ However, countries are only allowed to restrict trade in products due to *product-related* PPMs in order to protect their domestic environments, liable to certain disciplines including that such trade measures are not discriminatory or protectionist.¹³¹

PPMs in Category B are further divided into four sub-categories based on the type and scope of the environmental degradation caused by the PPM.¹³² In case of this category, the product itself does not transmit the environmental damage. Instead, the "process" or production means may lead to environmental degradation in the producing country and/or in other countries in the form of "*production externalities*".¹³³ The PPMs in Category B are termed "*non-product-related PPMs*" and are generally addressed through process standards and they contribute to four types of environmental degradation: *Category B-1* Transboundary Pollution, *Category*

*B-2 Migratory Species and Shared Living Resources, Category B-3 Global Environmental Concerns, and Category B-4 Local Environmental Concerns.*¹³⁴

There are various types of trade instruments that are being used or proposed to tackle environmental degradation caused by various categories of PPMs.

- **Trade Bans or restrictions:** trade bans or restrictions are measures placed on imported products when they do not comply with an environmental PPM standard or requirement specified by the importing country.¹³⁵ As such, a product could be fully banned from the market when it fulfills the domestic PPM prerequisite.¹³⁶

- **Trade Sanctions:** Trade sanctions are bans or limitations placed on products other than the specific product which does not comply with or results from the environmental PPM standard or requirement specified by the importing country, or as specified by international agreements and/or organizations.¹³⁷

- **Tariffs:** Tariffs are financial levies on imports that could be related to their environmental PPMs.¹³⁸

- **Border Tax Adjustments:** Border tax adjustments are internal taxes which are levied on imports or remitted on exports. They just reflect the domestic taxes.¹³⁹

- **Countervailing Duties:** Countervailing duties are charges levied on imported products to counteract subsidies received in the producing country and thus equalize production costs.¹⁴⁰

- **Mandatory Eco-labels:** Mandatory eco-labels are seals placed on imported products indicating that they were produced according to criteria

specified by life-cycle analysis or a specified environmental PPM; they are some kind of a trade restriction.¹⁴¹

In general, trade rules allow countries to restrict imports of products when they do not comply with national standards specified for the physical characteristics of these products.¹⁴² On the one hand, trade rules are interpreted in most circumstances as not permitting nations to restrict the imports from another country based on their production methods.¹⁴³ This is seen in the case study about Mexico which shows that the US restricts Mexican exports due to their production methods.

Now, we move to explain debate of trade protectionism (in the form of non-tariff barriers) in the past two decades and how North-South trade relations are affected by environmental restrictions to exports. This section further explores the nature of protectionism in the general debate regarding North and South conflict under free trade regimes.

Trade Protectionism

The GATT works to remove tariff barriers that hinder exports and imports between nations, as well as other economic implications of the use of tariff protectionism. However, the new form of trade protectionism as non-tariff barriers, has become used as trade restriction tools in the past years came, and as a means by which nations can protect their local production from imports.¹⁴⁴ !

The rise of NTBs after World War II could be explained according to different factors. The *first* is the presence of efficient income tax systems in industrialized

nations (more than developing nations) makes it less necessary for them to depend on the use of tariffs to provide a source of income to the central government operation.¹⁴⁵ Historical experience of the progress of nations realized that the need of central government to secure revenues and tariffs were recognized as an easy way to acquire such funding.¹⁴⁶ However, the beginning of the twentieth century witnessed the shrinking use of tariffs as a provider of the majority of federal government revenue in the United States and also other developed nations.¹⁴⁷ As developed nations decreased their dependence on tariffs, they started creating NTBs in order to regulate their international trading transactions.¹⁴⁸ On the other hand, developing nations still depend on tariffs as a source of funding and they continue to play such a major role in their economies.¹⁴⁹

Second, the presence of large interest groups (with large supporters' base) can push for NTBs within industrialized nations.¹⁵⁰ Although GATT discourages the use tariff barriers openly, NTBs can masquerade under different titles. Governments can set NTB restrictions on imports from other countries based on qualification, standards, environmental friendliness or even health requirements. Even though the GATT rounds decreases many of the tariffs on trade, NTBs are mostly used to protect domestic production, or to compensate industries which have been affected by decreases in tariffs, and also for environmental or health standards.¹⁵¹ This trend in NTBs is mostly apparent in the restrictions on imports from developing nations going to the developed nations such as food products, and agricultural goods (as in the case studies). *Finally*, there are always political advantages (domestically and internationally) to being able to support special interests in a less "publicized" way.¹⁵² Special interest groups who are not powerful enough to push their governments to

issue a tariff protection on imported goods find it easier to push for a provision of a non-tariff barrier.¹⁵³ The second and the last reasons both support the use of the argument in this study with importance of domestic politics to North states in areas of trade.

The Case for Protectionism

According to Frey and Weck-Hannemann, economic theory argues that free trade leads to the most efficient allocation of resources and maximizes a nation's economic welfare.¹⁵⁴ In addition, empirical evidence shows that tariff reductions (unilateral or bilateral) produces significant welfare gains. They asserted that

[Reality teaches us, however, that tariffs (and other trade restrictions) are prevalent in all periods and countries, and that there is a continual danger of ever-increasing protectionism in the world. The attempts made to reduce protectionism are based on the notion of reciprocity: that is to say, the propositions of trade theory about the welfare-increasing results of free trade do not seem to be accepted].¹⁵⁵

Pro-protectionist groups

In general, the most pro-tariff groups are domestic producers who are directly affected by the foreign competitors supplying their domestic markets.¹⁵⁶ Moreover, other supporters of trade protectionism are labor and trade unions who benefit from the application of tariffs. Also, other supporters could be the firms who supply inputs to the import-competing firms (provided that they do not themselves strongly depend on imported raw materials).¹⁵⁷ Those protectionist groups, who have strong political interests, will argue that tariff reduction would result in their direct loss of employment and output. On the other hand, with increased protection, employment output and profits will increase at home.¹⁵⁸ Therefore, the arguments are generally forceful and are being actively promoted by trade unions when there is an abnormally high unemployment in the domestic economy.¹⁵⁹

Anti-protectionist groups

The main group in the society, which favors tariff reductions and trade-Liberalizing policies, are the *export suppliers*.¹⁶⁰ They are those who export to foreign markets and recognize that any protectionist policies at home can provoke retaliatory actions from abroad. They fear that their access to foreign markets will be jeopardized by the domestic protectionist policies. However, their export interests are difficult to translate into political actions because the effects are indirect.¹⁶¹ Another group that supports trade Liberalization and lesser protectionism, is the group of consumers. Trade barriers burden consumers with limited choice and higher prices.¹⁶² Nevertheless, consumers' impact on trade policy is small, as the loss of consumer welfare through the imposition of tariffs is rather difficult to identify.¹⁶³

Political Organizations

"Whether pro-tariff or anti-tariff interests prevail depends on the political weight of the corresponding groups, and the intensity with which they raise their demands in the political process".¹⁶⁴ A vital element is the capability and incentive to organize and to acquire the financing necessary for effective lobbying.¹⁶⁵ In this concern, protectionism constitutes a public good affecting all the members of a particular economic sector or occupation.¹⁶⁶ In general, there are two propositions:

[a. *Pro-tariff* interests have strong lobbies and mainly consist of import-competing producers (which include workers);

b. *Anti-tariff* interests have weak lobbies as consumers and exporters find it difficult, and have little incentive, to organize and to lobby effectively.]¹⁶⁷

The theory of this study argued that interest groups tend to maximize their relative power vis-à-vis others. Interest groups of the North in the United States or in the EU seek the maximization of their power using the democratic institutions to lobby their governments. The discussion about protectionism is a strong reason for the debate between free trade and the environment. However, in order to understand the whole picture about the reason why South countries accuse the North of using new forms of trade protectionism, it is important to explore the different dimensions about trade versus environment debate in the world.

Trade vs. Environment: The Debate

The 1992 United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro declared that the world would no longer be able to exclude environmental sustainability from economic policies. The Rio Declaration suggested that economic development compatible to the environment will occur if countries were able to establish coherent and well coordinated partnership among the stakeholders in society (the people, the government, and civil society organizations).¹⁶⁸ They called for better trade negotiations that put into consideration environment and development concerns in the Uruguay Rounds of Multilateral Trade Negotiations held by the April 15, 1994.¹⁶⁹ In addition, they called for improved market access and improved functioning of commodity markets that support transition of developing countries to sustainable development.¹⁷⁰ Nevertheless, this progress was due to the efforts of environmental groups who lobbied their governments to consider "the environment" in trade regimes.

Environmental Point of View

Environmentalists see that free trade and the whole international economic system is full of flaws and that free traders are not in touch with the environmental realities of the world.¹⁷¹ They believe that free trade will be encouraging increased pollution, lost regularity and sovereignty, and anti-environmental counter-force driven by the desire for jobs and profits, and policy making by misleading, unreliable, business-oriented international bureaucrats.¹⁷² Therefore, in this controversial relationship, we find that Northern environmentalists demand that the South adopts more stringent environmental regulations in order to meet the current global environmental challenges, as well as to meet the desired level of environmental standards that are generally applied in the North.

Moreover, the last two decades have witnessed the rise of awareness of many societies towards the need for a better and higher quality of living on this earth. This has been a very important driving force in the industrialized North countries' politics, as their societies have reached a high level of development driving them to demand better environmental management of their lives. That is why trade is considered one of the factors that bridge societies and countries together; i.e. it is also one of the bridges which conveys environmental standards across borders. This means that trade links people through products and through the quality of those products. When a nation with low environmental quality of production trades with another nation that has higher levels of environmental regulations, then it is possible through free trade agreements that such lower quality products will penetrate the markets of nations with higher environmental standards. The result will be the infiltration of environmentally unfriendly products to societies which apply stringent rules for the environmentally

friendly production. Thus, there is the fear of introducing lax environmental production into higher and better environmental regulations in another nation, as well as the fear from the competitive edge that such lower quality products possess. A fear of competition from lower production costs makes the industrialized nations more prone to use non-tariff barriers linked to the environment as an alternative to tariff based ones.

This was complemented by the role of Northern environmental non-governmental organizations (NGOs) which enabled them to push a lot of environmental legislation forward and also to reduce or stop many environmentally harmful practices of their societies and governments. Environmentalists are concerned about the effect of free trade on the environment, but trade experts see the dangers of protectionism hidden under environmentalism.¹⁷³ That is because in the industrialized nations such as the US or the European Union it is difficult to challenge policies that masquerade as environmental restrictions because they are very popular. Politicians often avoid being called "*anti-environmental*".¹⁷⁴

Free Traders Point of View

On the other hand, free traders see the application of environmental trade measures as a threat to the international economic system and a threat to its harmony.¹⁷⁵ In particular, they see environmental concerns as becoming new forms of protectionism, which hinders foreign producers from penetrating markets and reduces the efficiency gains from trade. They fear an emerging trend using the allure of politically attractive environmentalism to restrict trade.¹⁷⁶ They argue that these trade restriction tools are not going to be the most effective means by which the environment could be protected.¹⁷⁷ Moreover, if a country is forced to abide by such

environmental rules, then they will not be enthusiastic about the application of these environmental regulations. As a result, there will be more room for low commitment, deception, "backsliding" and poor performance.¹⁷⁸

In addition, free traders raised concerns about the transition of developing nations to clean technology. The reason was the failure of the North and the South to agree on the sources of funding that could be made available to developing nations in their transition to environmentally friendly development.¹⁷⁹ As a result, US environmentalists, disappointed at the absence of funds to assist developing nations, and impatient to see the Southern conformity with environmental standards, have called for even wider consumer boycotts and trade protectionism to support environmental policies.¹⁸⁰ Developing nations, however, view the North's environmental interests with suspicion. They fear that new environmental requirements are being arranged to bloc their exports and to protect markets of industrialized countries' producers.¹⁸¹

Conclusion

From the above synopsis of the available literature on political economy, protectionism, the GATT regime and the trade-environment debate, we can now formulate a good basis upon which the case studies would be analyzed. This chapter provides the background and the literature upon which the trade, environment and protectionism debate revolves. Thus, from this chapter we can know how the debate emerged and what are the circumstances surrounding the Southern accusations to Northern nations for using trade protectionism. In addition, the chapter demonstrated the different dimensions to the debate, and thus, allowing for the understanding of why nations of the South (Mexico and Egypt) view Northern (US and EU)

environmental standards as being a new form of trade protectionism. Moreover, showing how protectionism as a Northern policy is supported from within by domestic interest groups that can lobby for protection policies.

From the literature overview, it is found that trade protectionism distorts trade, and is used to protect domestic industries or production sensitive to foreign competition. Nations have several instruments at their disposal to apply protectionism. However, as the GATT came to reduce and eventually phase out tariff barrier, non-tariff barriers (NTBs) emerged as an alternative to tariffs and as means for trade protectionism. NTBs have the advantage that they are difficult to measure or to identify. They could masquerade under different guises such as environmental or health standards and therefore, the victimized nation would find it hard to challenge their premises. As long as there are provisions within the GATT, NAFTA, and the EU allowing a state to take necessary measure to protect life, human health, or nature, a nation could use NTBs offensively to protect their markets and find legal justification for them. As mentioned by Baer and Weintraub, Schoenbaum, and Schultz, Article XX of the GATT permits its signatories to make trade-restrictive regulations to protect human, animal, or health, as long as they are non-discriminatory in nature. Nevertheless, as seen in the literature, NAFTA and the EU have more developed environmental provisions than the GATT.

The concentration of "green" power as mentioned by Steinberg means that rich states with tougher environmental regulations are responsible for pushing forward the environment in trade regimes' agendas. GATT links North and South nations but the presence of many Southern countries in this regime makes it more difficult for

Northern states to impose all their desired environmental provisions. GATT, as argued by Hutchings, is an unfair regime because its environmental provisions allow for one-sided trade. Nevertheless, contrary to Hutchings, still GATT gives Southern states to question the applicability of environmental restrictions. As mentioned in the Tuna/Dolphin case, and later in the coming case studies, GATT/WTO somehow challenges Northern countries' unilateral actions to ban or restrict exports of Southern countries, on the basis of their environmental profile.

On the other hand, NAFTA and EU represent more concentrated presence of Northern nations who have the power to impose their environmental standards on Southern nations. This is seen in the case study about Mexico (CHAPTER 3) with its relation to the US under NAFTA, and similarly Egypt (CHAPTER 4) in its relation to the EU under the Euro-Mediterranean Partnership.

Northern nations have the power to apply NTBs masquerading under environmental standards using their leverage in pressuring the South for stronger environmental standards. The North knows that free trade regimes will open up Southern markets for their exports, but nevertheless, faces competition from Southern exports (such as agricultural products) which have the ability to compete in Northern markets. Thus, Northern pro-protection interest groups lobby the state to apply protection methods against Southern exports. Accordingly, Northern states use non-tariff barriers (previously mentioned) to block Southern exports and escape using tariff barriers, which are diminishing due to free trade regimes.

On the other hand, the South are weaker to impose their own demands or their own standards in regional regimes such as NAFTA and the Euro-Mediterranean Partnership because Northern states could apply reciprocal measures to restrict their imports. And since the South are more vulnerable and dependent on trade with the North, they have to comply with their standards.

In general, this chapter sought to explore the North and South points of view on the role of environment in triggering the debate. As we have reached a general view of the available literature and a background on the different dimensions of free trade, environment, and protectionism correlation, we can turn to analyze the two case studies, Mexico and Egypt in their regional free trade regimes.

NOTES

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- ⁸ Ibid.
- ⁹ Ibid., 18.
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- ¹¹ Ibid., 19.
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- ¹⁸ Freiden and Lake, 348.
- ¹⁹ Charles K Rowley, Willem Thornbecke, and Richard E Wagner, *Trade Protection in the United States* (Aldershot, UK : Edward Elgar, 1995), 37.
- ²⁰ Ibid., 100.
- ²¹ Gilpin, 184.
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- ²³ Gareth Porter, and Janet Welsh Brown. *Global Environmental Politics* (Boulder: Westview Press, 1991), 17.
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- ²⁶ Ibid., 19.
- ²⁷ Ibid., 35.

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- ³⁰ *Ibid.*
- ³¹ *Ibid.*, 233.
- ³² Steinberg, 240.
- ³³ M.Delal Baer, and Sidney Weintraub, *The NAFTA Debate: Grappling with Unconventional Trade Issues* (Boulder: Lynn Reinner Publishers, 1994), 57.
- ³⁴ *Ibid.*
- ³⁵ This will be explained more in the coming section. However, for more information on the case, please refer to Daniel Esty. P. 27-32
- ³⁶ Schoenbaum, 268, and Schultz, 424.
- ³⁷ Schoenbaum, 269.
- ³⁸ Schultz, 426.
- ³⁹ *Ibid.*, 426.
- ⁴⁰ Duncan Brack, *International Trade and the Montreal Protocol*. (London: Earthscan Publications, 1996), 65.
- ⁴¹ *Ibid.*, 431.
- ⁴² Steinberg, 245.
- ⁴³ *Ibid.*, 246.
- ⁴⁴ *Ibid.*, 246.
- ⁴⁵ *Ibid.*, 246.
- ⁴⁶ Baer and Weintraub, 78.
- ⁴⁷ Steinberg, 247.
- ⁴⁸ *Ibid.*, 254.
- ⁴⁹ "The Rt Hon Sir Leon Brittan QC (Vice-President of the European Commission) Speech," The World Trade Organization. (<http://www.wto.org/wto/hlms/lbenv.htm>). Geneva, 15 March 1999.
- ⁵⁰ See note 28.
- ⁵¹ Daniel C Esty, *Greening the GATT: Trade, Environment, and the Future* (Washington DC.: Institute for International Economics, 1994).
- ⁵² Steinberg, 255.
- ⁵³ *Ibid.*, 258.
- ⁵⁴ Esty, 39.
- ⁵⁵ *Ibid.*, 2.
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- ⁷⁵ Raafat Amin, "A Complaint to the World Trade Organization Against the European Union for its Ban on Importing Egyptian Potatoes," *Al Ahram*, 7 April 1999, 15.
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- ⁷⁷ Kenneth W. Dam, *The GATT: Law and International Economic Organization* (Chicago: The University of Chicago Press, 1970), 17.
- ⁷⁸ Ibid.
- ⁷⁹ Ibid., 18.
- ⁸⁰ Ibid.
- ⁸¹ Ibid.
- ⁸² Ibid.
- ⁸³ Ibid., 19.
- ⁸⁴ Ibid.
- ⁸⁵ Ibid.
- ⁸⁶ Ibid., 20.
- ⁸⁷ Ibid.
- ⁸⁸ Ibid.
- ⁸⁹ Ibid.

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- ⁹⁰ Ibid.
- ⁹¹ Esty, 27.
- ⁹² Ibid., 30.
- ⁹³ Ibid. It was also estimated that about 300,000 dolphin were killed every year.
- ⁹⁴ Ibid.
- ⁹⁵ US tuna fishermen realized that their finish technique could not be used unless the large numbers of dolphin were alive and began to develop methods to reduce the dolphin kills and the injury rates. First, they used the backdown method in which the vessel would reverse when one-half to two-thirds of the net was retrieved. This allowed the net to sink and the dolphins to escape. Second, finer mesh nets were developed to reduce the chance for flipper and rostrum entanglement.
- ⁹⁶ Ibid.
- ⁹⁷ "The Tuna/ Dolphin Case". *Trade Environment Database*.
(<http://www.american.edu/projects/mandala/TED/Tuna.htm>).
- ⁹⁸ Daniel C Esty, 30.
- ⁹⁹ Ibid. p 31
- ¹⁰⁰ Ibid.
- ¹⁰¹ Ibid.
- ¹⁰² Ibid.
- ¹⁰³ Ibid.
- ¹⁰⁴ Ibid., 269.
- ¹⁰⁵ Ibid., 131.
- ¹⁰⁶ Ibid.
- ¹⁰⁷ Ibid.
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- ¹⁰⁹ Ibid., 425.
- ¹¹⁰ Ibid.
- ¹¹¹ Ibid. The WTO is not an environmental organization. Instead it is only competent to deal with trade issues. In environmental issues, it's only task is to study questions that arise when environmental policies have a significant impact on trade.
- ¹¹² Ibid., 426.
- ¹¹³ Ibid.
- ¹¹⁴ Ibid.
- ¹¹⁵ Ibid. GATT Article 20: policies affecting trade in goods for protecting human, animal or plant life or health are exempt from normal GATT disciplines under certain conditions.
- ¹¹⁶ Ibid., 427.
- ¹¹⁷ Ibid.
- ¹¹⁸ Ibid., 428.
- ¹¹⁹ Ibid.
- ¹²⁰ Ahmad El Sersawy, and Warda El Hosseiny, " Environment Before Customs In International Trade: Egypt And The Arab Countries The Most Disadvantaged From Environmental Conditioning In Exports," *Akhbar El Yom* 30 Oct., 1999, 10.
- ¹²¹ Ibid.
- ¹²² Ibid.

¹²³ Organization for Economic Cooperation and Development (OECD). "Trade and Environment: Process and Production Methods". (Paris: 1994), 7.

¹²⁴ Ibid.

¹²⁵ Ibid.

¹²⁶ Ibid.

¹²⁷ In other words, the method by which the product was produced has changed the characteristics of the product so that it may pollute or degrade the environment when it is consumed or used. This type of PPM is rare in the environmental realm, and more frequently found in the case of industrial process requirements to ensure a product's quality and fitness for use. Most other examples are in the area of food safety and health, where production processes may leave traces of dangerous chemicals or harmful organisms in products.

¹²⁸ Ibid.

¹²⁹ Ibid., 8.

¹³⁰ Ibid.

¹³¹ Ibid.

¹³² Ibid., 7.

¹³³ Ibid., 8.

¹³⁴ Ibid.

¹³⁵ Ibid., 9.

¹³⁶ Ibid. These are the most commonly used to address product-related PPMs (Category A). Trade bans and restrictions might be employed to tackle non-product-related PPMs where the production of the product being restricted causes environmental damage or threatens species conservation.

¹³⁷ Ibid. For example, as a threatened trade sanction, nations might propose to limit the import of some products from a country that uses environmentally harmful fishing methods.

¹³⁸ Ibid.

¹³⁹ Ibid.

¹⁴⁰ Ibid.

¹⁴¹ Ibid. Voluntary eco-labels may also require that products comply with certain PPM requirements, but imports may not be restricted on this basis; it is the manufacturer's choice whether or not to apply for a voluntary eco-label.

¹⁴² Ibid., 7.

¹⁴³ Ibid.

¹⁴⁴ Frieden, and Lake, 348.

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ Ibid.

¹⁴⁸ Ibid.

¹⁴⁹ Tariffs provide revenue for governments which, in their absence, would find it more difficult to finance public expenditure. This is especially true in developing countries where, due to the insufficiency of the tax system, there is little tax revenue. See also Bruno S Frey, and Hannelore Weck-Hanneman. "The Political Economy of Protection," *Current Issues in International Trade*. Ed. David Greenway. (London: Macmillan Press, 1996), 154-173.

¹⁵⁰ Frieden, and Lake, 348.

¹⁵¹ Ibid., 349.

¹⁵² Ibid., 348.

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- ¹⁵³ Ibid.
- ¹⁵⁴ Bruno S. Frey, and Hannelore Weck-Hanneman. "The Political Economy of Protection." *Current Issues in International Trade*. Ed. David Greenway. (London: Macmillan Press, 1996), 154-173.
- ¹⁵⁵ Ibid., 154.
- ¹⁵⁶ Ibid., 160.
- ¹⁵⁷ Ibid.
- ¹⁵⁸ Ibid.
- ¹⁵⁹ Ibid.
- ¹⁶⁰ Ibid.
- ¹⁶¹ Ibid. The damage suffered from import restrictions has the character of a forgone opportunity which is difficult to quantify.
- ¹⁶² Ibid., 161.
- ¹⁶³ Ibid. Consumers are mostly workers and employees whose incomes source is usually dependent on their jobs. Thus, they take into consideration the prices of the products they need to buy.
- ¹⁶⁴ Ibid.
- ¹⁶⁵ Ibid.
- ¹⁶⁶ Ibid.
- ¹⁶⁷ Ibid., 162.
- ¹⁶⁸ Nevin Shaw, and Aaron Cosbey. "GATT, the WTO and Sustainable Development: Positioning the Work Program in Trade and Environment." *International Institute for Sustainable Development*. <http://iisd.ca/trade/gattwto.htm>
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- ¹⁷⁰ Ibid.
- ¹⁷¹ Esty, 39.
- ¹⁷² Ibid., 2.
- ¹⁷³ Ibid., 24.
- ¹⁷⁴ Ibid.
- ¹⁷⁵ Ibid., 39.
- ¹⁷⁶ Ibid., 2.
- ¹⁷⁷ Ibid., 39.
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- ¹⁷⁹ Ibid., 25.
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CHAPTER 3

MEXICO AND THE NAFTA

Introduction

Mexico and the United States are a unique case in international relations as they are linked through a vast border territory. Their borders represent the largest link between a developed nation and a developing nation. This border means that US-Mexican relations in trade and in other aspects could be effected by their geopolitical aspects. Thus, the initiation of the NAFTA demonstrated the interest of its parties in acknowledging their territory and historical linkages through a free trade regime. NAFTA proves to be a case of regional regimes which joins countries of the North with countries of the South.

Environmental concerns, however, came to the forefront in public debates and in the negotiations. The Tuna/Dolphin case triggered these debates. Therefore, NAFTA negotiations included an environmental agreement parallel to the free trade agreement. With the initiation of NAFTA, the issues of environmental concerns were addressed to overcome the discrepancies between the NAFTA parties in their environmental profiles. Nevertheless, as much as the US government supports free trade and endorses the provisions of NAFTA, there are voices which call for protectionism. Interest groups within the US push for the application of trade protectionism measures in order to protect their products from international competition. Therefore, this chapter explores this dimension of the US-Mexican "free trade", protectionism, and the environment in the North-South relations. This case study shows how the Realist theory is manifested

differently in nations of the North (the United States) and nations of the South (Mexico). This chapters explores the interests of the two nation-states, the North American Free Trade Agreement (NAFTA) environmental profile, and with the Mexican avocado case which shows the US' use of trade protectionism and the underlying reasons for this policy.

The US Interest in Mexico

Except under very limited conditions, both the US and Mexico have tried to ignore each other for many years, either through highlighting their cultural differences, or by dealing indirectly through third countries or within the framework of multilateral organizations.¹ However, due to the complexity of border issues between the two nations and the natural consequences of their territorial proximity, they had to exert efforts to confront their shared problems. Although the main interest of the United States in Mexico emanates from strategic and military reasons, economic ties and interdependence among the two countries have been enhanced by a process of "interpenetration."² Mexico attracted the United States' interest in several facets; oil resources, the dangers of heavy debts on instability of the US banking systems, bilateral trade, Mexican migration to the US and finally drug trafficking.³ As such, the 1980s Mexico's economic crisis led the two nations to start confronting their differences for the sake of their mutual cooperation. Actually, until the 1980s, Mexico did not have a definite long-term plan towards the US, since they favored short-term solutions to their differences. The main concern in Mexico was that Mexican cultural identity would be driven towards the Americanization and towards subordination to the United States. The radical changes in the international arena

in the last decades of the century made the United States the main challenger to the Mexican nation. However, due to the turbulent history of the Mexican economy, the Mexican government decided that free trade and liberalization would eventually improve its performance.

Mexico's Interest in the US

Until the mid-1960s, Mexico's agricultural sector was used to finance the economic requirements of the growing industrialization process.⁴ The state sought to adopt an import-substitution policy which was aimed at more protection of the domestic productions and industry. The Mexican development model "characterized by wide protection to domestic producers of manufactured goods, subsidies to wage employment, low inflation, expansion of domestic demand, and incentives to export-oriented agriculture, had by the early 1970s, produced a large and prosperous industrial elite with close ties to government, as well as a well-disciplined labor union movement with corporatist representation in political decision-making and a modern export-oriented agro-industrial elite".⁵ Nevertheless, the size of the population and the structure of income distribution were an obstacle to effective implementation of industrial development through the production of intermediate and capital goods.⁶ At the same time, increased government expenditures and activities were not supported by an increased concern for revenue expansion or for encouraging other sources of growth in the economy.⁷ Therefore, by the end of 1964, the Mexican government launched the *Maquiladora* program that aimed at attracting US companies into Northern Mexico for manufacturing and assembling operations that would create employment opportunities for a large number of unskilled labor.⁸

This program set up a special customs regime in Mexico which permitted certain corporations temporary duty-free imports into Mexico for raw materials, equipment, machinery, replacement parts, and other items needed for the assembly, or manufacture of finished goods for subsequent export.⁹ Within one year of its initiation, the Mexican government took advantage of the American tariff schedules 806 and 807, which allowed US components to be assembled in other countries and then re-exported back to the US without being taxed on re-entry.¹⁰ The product, then, is returned to the US with only the Mexican taxes over the value added. As the program became very popular, it resulted in the growth of industry along the border region. This was enhanced by the entrance of Mexico into the GATT (The General Agreement on Tariffs and Trade) in the 1980s and the liberalization of its import markets.¹¹ This economic industrial integration with international and regional markets created a need for binational (with the US) resolution of problems caused by transboundary pollution and resource depletion.¹²

The US, Mexico and the Environment

In 1983, the two nation-states signed the first comprehensive border pollution accord at La Paz, Baja California Sur, Mexico.¹³ The agreement mainly tackled mainly pollution problems created by the widely growing *Maquiladoras* and the environmental impact of the ever-increasing dynamism of the Northern Mexico economy.¹⁴ This integration and connection between the US and Mexico along the vast border area represents a special case in across-border environmental development. Since the US-Mexican border is the longest between a developed and a third world country, the chance

for clashes and the need for cooperation increased as industries migrated into the region.¹⁵

The US-Mexican differences are mainly apparent in the degrees of environmental regulatory development of each country.¹⁶ The US government has enforced national environmental standards on its state governments since the early 1970s, and the drive for the nationalization of environmental policy was domestically impelled.¹⁷ As a result, the United States government established two bodies to monitor and impose environmental regulations, the Council on Environmental Quality and the Environmental Protection Agency (EPA) and started to execute extensive amendments to the federal Clean Air Act in 1970.¹⁸ In comparison, Mexico's primary experiment with environmental policy making, the 1971 *Federal Law for the Prevention and Control of Environmental Contamination*, was a direct reaction to international pressure for environmental change, and it represented little more than the establishment of administrative regulatory power under the central government.¹⁹

However, it wasn't until 1988 that the Mexican government put environmental protection on the political agenda, under the mandate of the General Law For Ecological Equilibrium and Environmental Protection.²⁰ This law in particular defined the terms of environmental regulations as well as the relations among government agencies that deal with environmental concerns.²¹ Nevertheless, even with such environmental regulations,

the problem fell within the implementation and enforcement side as well as with the vagueness of the wordings of these laws.

Thus, through years of rapid population growth and industrialization, without the appropriate environmental investment and enforcement, this has left the country with a "legacy" of polluted waters and a huge quantity of improperly managed waste.²² Nevertheless, only in the last decade has Mexico had environmental laws which were adequate, and only since 1993 have these laws been supported by appropriate implementing regulations, standards, and institutional infrastructure to make them effective.²³ In other words, considerable progress has been made over the past few years to address three decades of deteriorating environmental conditions along the US-Mexico borders as well as in the interior of Mexico. With the initiation of NAFTA (see box 3.1), issues of environmental concerns were addressed to overcome the discrepancies between the NAFTA parties in their environmental profile, in particular, between the two industrialized nations, the US and Canada on the one hand, and the developing nation Mexico on the other hand.

Box 3.1 The North American Free Trade Agreement (NAFTA)

- The US/Mexican/Canadian Agreement or the North American block agreement encompasses an economic alliance between two developed countries and a low-income, newly industrializing country.
- The NAFTA Agenda is divided into six areas: market access (tariff and non-tariff barriers, rules of origin, government procurement, automobiles, and other industrial sectors); regulations (safeguards, subsidies, trade remedies, and standards); services (principles of services, financial services, insurance, land transportation, telecommunications, and other services); investment; intellectual property, and dispute settlement.
- The agreement indicated strict rules of origins safeguards clauses, and up to fifteen-year phase-in periods for the elimination of tariffs governing import sensitive industries such as agriculture and textiles and apparels.

Source: Mario F. Bognanno, and Kathryn J. Ready. *The North American Free Trade Agreement.* (Westport:Quorum Books, 1993).

[The Parties recognize that it is inappropriate to encourage investment by relaxing domestic health, safety, or environmental measures.-] NAFTA Article 1114.2²⁴

NAFTA and the Environment

[...the NAFTA embodies several unique, albeit general commitments to protect the environment and to ensure that environmental amenities are not sacrificed to attract capital investment.]²⁵

This last commitment is an obvious consideration for arguments raised by critics of NAFTA that "environmental dumping" will take place, whereby toxic firms relocate to Mexico to avoid stricter enforcement of environmental standards in the United States and Canada. Still, individual countries maintain sovereignty over their domestic health and safety standards, although these standards can be challenged as unwanted trade restrictions.²⁶

The integration of trade-environment issues within trade agreements took prominence during the negotiations of the North American Free Trade Agreement (NAFTA). Trade-environment provisions within the NAFTA are considered more developed and friendlier than those in the GATT/WTO, because the trade integration is deeper and also "green country power" is more concentrated in it.²⁷ This concentration is due to the presence of the US and Canada, two major industrial powers with great concern for environmental ("green") issues in the NAFTA. Closer trade relations meant considerable pressure on Mexico to continue its rapid transition in environmental policy.²⁸

US President George Bush had to provide the Congress with a plan to address the environmental particulars of NAFTA in order to secure votes for a Fast Track²⁹ authority to negotiate the agreement.³⁰ The three parties to the NAFTA, Canada, the US, and Mexico agreed that the environmental talks related to the trade agreement would move in a parallel track along with the original trade talks.³¹ Pressure continued to grow from environmental groups and members of the US Congress, making it a vital prerequisite for the ratification of the trade agreement later on. However, "NAFTA-related trade and environment integration efforts came after the change of presidential administrations in the United States."³² The presidential campaign of 1992 witnessed an increase in debates relating to NAFTA's impact on environment and labor issues. That is why when Clinton won the elections, his stance on having a NAFTA which addresses clearly those two issues, led to the initiation of a supplemental agreement with Mexico and Canada completed in September 14, 1993.³³ This shows the importance of domestic politics on the state policy especially when it comes to trade areas, where the state can listen to the demands of interest groups.

The North American Agreement on Environmental Cooperation (NAAEC) came as a means by which NAFTA parties can recognize and institutionalize environmental and sustainable development within their free trade regime. In addition to many provisions, this parallel agreement created *The Commission for Environmental Cooperation* with some authority to arbitrate and review environmental disputes.³⁴ The establishment of this agreement laid new grounds for the pairing of international trade and environmental concerns through a mechanism of an international regime.³⁵

Criticism to NAFTA

[The American People realize that our interest lies in an open, competitive international marketplace. We have reason to be confident of our strengths. We are the number one global exporter. We have the most productive labor force. Our high technology is the envy of the world. Given an open market, our workers and companies can compete and win.]³⁶ *H.E. Warren*

Christopher

The most important factor that concerned the United States in NAFTA was not the agreement itself. Instead it was the fear that it will be having a free trade agreement with a developing nation whose wages are significantly lower (about 14% of the US level for production workers in manufacturing in 1991).³⁷ This competitive factor was at the center of the debate within the United States. Accordingly, NAFTA was criticized by leaders of organized labor (mainly the American Federation of Labor-Congress of Industrial Organization AFL-CIO), by environmental groups, and by such privileged sectors as the textile industry and Florida growers who enjoy special government support and subsidies which protect them from foreign competition.³⁸ Those groups often distorted the facts about NAFTA, exaggerated the potential harm, created myths that NAFTA would eventually hurt both the United States and Mexico, and even created arguments that are unquestionably deceptive.³⁹ Those groups, however, succeed in influencing the state policy towards their products by having some form of protectionism, either hidden under environmental restrictions (as in the case of agriculture) or under anti-dumping accusations. Nevertheless, without NAFTA, the US would have been really harmed because of the loss of jobs, the rise in prices of vast goods and services, reducing the quality of American products, and also limiting consumer choices, and most importantly destabilizing Mexico.⁴⁰

[...these issues are coming to the fore in the midst of a severe U.S recession, in a post-Cold War era when all foreign policy issues have been increasingly politicized, and in a charged electoral arena where jobs and economic growth are the key and virtually only issue. As these new and more complex issues entered into trade discussion, both the intensity of the debate and the decibel level have risen.]⁴¹

Growers used to support the lax US immigration law that would allow low-cost Mexican farm workers to enter the United States. NAFTA, however, would not only allow cheaper labor in, but would also allow the entrance of cheaper agricultural products.⁴² Accordingly, other groups as well joined the rally against NAFTA. The California tuna industry, environmentalists, and South Florida farmers were among the groups who opposed the agreement.⁴³ They argued that Mexican producers do not have to follow the same laws or regulations that are being followed by American producers. As argued in the theory in Chapter 1, groups work to advance their "relative" power vis-à-vis the absolute power. This means that they lobby for their interests even if the overall results of this policy is not economically efficient for the state (in the long-term).

Many environmental groups argued that Mexican underdevelopment would leave it a victim to the plundering of international capital and multinational companies (MNCs) seeking an environmental free ride.⁴⁴ Nevertheless, the Clinton administration's public policy changed drastically towards environmentalists. That is because the new President had campaigned on the promise that strong environmental and labor protections would be integrated through parallel accords to NAFTA.⁴⁵

[The debate over the environment and NAFTA clearly mirrors a larger debate in multilateral trading arrangements. At the same time that North American trade

negotiators were dealing with this issue, the GATT itself had revived a long defunct working group on environmental matters. And the European Community has encountered a number of political roadblocks in dealing with its environmental issues.]⁴⁶

On the other hand, Mexico's government asserted that criticism of Mexican policy and enforcement were unfair and that most problems in these areas will ultimately perish due to the economic growth stemming from a successful trade agreement.⁴⁷ However, due to the fear that the Mexicans lose a potentially beneficial free trading agreement with the US, Mexico's President Salinas agreed to the US proposal for stronger environmental controls.⁴⁸

Mexican Compliance

Salinas, who was elected in 1988 (1988-1994), brought in the modern economic revolution. Since his first moment in office, Salinas sought to modernize Mexican society.⁴⁹ He made Mexico join the North American Free Trade Agreement (NAFTA) in 1994 with the USA and Canada, as means to enhance trade liberalization and promotion of export-oriented manufacturing. This step made by Salinas was a way to seek economic reforms through integration in the international markets via the US and Canada. The Mexican state felt its weakness vis-à-vis the US power. This shows how the Southern state, Mexico, are weak and vulnerable in regimes just like Krasner argued. This is more apparent in the environmental restrictions that Mexico had to abide by, or else it would have lost a chance to be a member of this regional free trade regime. This demonstrates the North-South power variations and how the Southern countries, because of their inherent weaknesses, have to abide by Northern regimes rules.

Before the year 1988, enforcement of the Mexican Environmental laws was practically non-existent.⁵⁰ The 1987 amendments to article 27 of the Mexican Constitution meant that the conservation of the environment became no longer a luxury, but in fact, a priority of the state policy.⁵¹ However, the beginning of the 1990s witnessed a radical change in the Mexican government's view on the environment. Salinas' successor President Zedillo, at the start of his administration in 1994, reorganized Mexico's disparate environmental agencies into a single, cabinet-level secretariat (SEMARNAP) and released a six-year plan to achieve sustainable use of natural resources.⁵² This plan called for the decentralization of environmental authority, increased social participation in decision making, and most importantly, a greater use of economic incentives.⁵³ Accordingly, with NAFTA, Mexico has begun serious efforts to enforce its environmental laws, focusing more on new companies, thereby reducing any incentive for firms to relocate to Mexico to avoid stringent environmental regulations.

Table 3.1 Mexico's Trade Balance with the US and Canada (billion dollars)

	1991	1992	1993	1994	1995	1996	1997 p/
Mexico-US							
Exports	33.9	37.4	43.1	51.7	66.3	80.5	94.3
Imports	36.8	44.2	46.5	54.8	53.9	67.6	82.0
Trade Balance	-2.9	-6.8	-3.4	-3.1	12.4	13.0	12.3
Mexico-Canada							
Exports	1.1	1.0	1.5	1.5	2.0	2.2	2.2
Imports	0.7	1.1	1.2	1.6	1.4	1.7	2.0
Trade Balance	0.4	-0.1	0.4	-0.1	0.6	0.4	0.2
l/ Includes in-bond industries.							
p/preliminary							
Source: Bank of Mexico. "The Mexican Economy 1998: Economic and Financial Developments in 1997".							

NAFTA's Environmental Provisions

"Some of NAFTA's opponents have a protectionist trade philosophy, but many of the environmentalists and public policy specialists who entered the debate sought to balance the expanding international trade relationship with sustainable economic growth and rational natural resources use".⁵⁴ Many of the important environmental provisions in the NAFTA are similar to those provisions in the General Agreement on Tariffs and Trade (GATT). However, unlike the GATT/WTO which has a single Committee on Trade and Environment to deal with Trade-Environment issues, NAFTA created a wide set of institutions to take charge of those issues as well as to ensure the adherence to specified standards of environmental protection.⁵⁵

The agreement assures the right of every Party to develop its own level of protection, policies and priority, as well as that each country ensures that its laws contribute to high levels of environmental protection and endeavor to continue to improve those laws.⁵⁶ Each Party is also obliged to report to the other Parties of a decision to ban or strictly limit the use of a pesticide or a chemical and will consider banning the export of another Party of toxic substances, the use of which is banned within its own territory.⁵⁷ "Each party agrees to ensure that their procedures for the enforcement of environmental law are fair, open and equitable".⁵⁸

The North American Agreement on Environmental Cooperation (NAAEC) supplements the NAFTA and commits the NAFTA parties to a series of obligations and institution intended to progress both environmental protection and environmental

sustainability of the NAFTA-related trade.⁵⁹ In particular, the NAAEC's declared objectives include the promotion of sustainable development, support for the environmental objectives of the NAFTA, and the promotion of transparency and public participation in the development and enhancement of environmental protectionism.⁶⁰

The NAAEC provides a very particular provision which is allowing citizens of the member countries to have access to judicial and administrative procedures for the enforcement of environmental laws;⁶¹

[...while this provision does not guarantee that citizens will have actual standing in domestic courts to secure the enforcement of environmental laws, it does ensure that, consistent with a party's laws, citizens will have the right to petition their governments to enforce these laws. This provision also requires the parties to provide citizens who have suffered real damages because of an environmental harm the right to sue the person or legal entity that caused the harm.]⁶²

Thus, the NAAEC, as negotiated within the NAFTA context, unravels the problems associated with the differences in environmental protection laws in the member nations by providing that a party government may have recourse to NAFTA dispute settlement to challenge another party's "persistent pattern of failure to enforce" domestic environmental measures.⁶³ By this token, a party is allowed to exert monetary fines or ultimately impose trade retaliation measures if there continues to be a persistent pattern of failure to conform to environmental protection provisions.⁶⁴ Moreover, NAFTA effectively increased the stringency of applied PPMs (Processes and Production Methods) in Mexico.⁶⁵ Reviews of Mexican PPMs have suggested that, on the books, they are generally equivalent to those in the United States; at the time the NAFTA was negotiated, the problem was that Mexican PPMs were not enforced.⁶⁶ Similarly, NAFTA also allows

NGOs (non-governmental organizations) to take measure to report to specified trinational authorities the failure to enforce environmental laws. Therefore, in general, those laws and regulations were made to push for more strict application of the Mexican environmental laws.

The Commission for Environmental Cooperation

The NAAEC established a new trilateral *Commission for Environmental Cooperation (the CEC)* which is an institution that works to complement existing bilateral environmental institutions in North America.⁶⁷ The Commission is run by a Council, which is comprised of cabinet-level representatives from each of the three member states and is empowered to oversee implementation of the NAAEC (North American Agreement on Environmental Cooperation); consider trade-environment data; assess the environmental impact of proposed projects likely to cause significant transboundary environmental effects; assess ways to improve the compatibility of environmental technical standards and regulations in the three member states; develop recommendations regarding the environmental protection; and enter into agreements consistent with the scope of the representatives' diplomatic powers.⁶⁸

One of the main areas that represent the role of protectionism and the influences of interest groups on the state policy, is the agricultural sector. As will see, NAFTA was feared for its agricultural consequences, because Mexico can be competitive to the US in many agricultural products, as well as for its environmental effects.

NAFTA and Agriculture

NAFTA was criticized by environmentalists and farming groups because of its potential effect on both the agriculture and the environment. They were concerned that agricultural production would shift from the United States to Mexico which has weak regulations on handling and applying agricultural chemicals (in comparison to the US).⁶⁹ Most of the questions centered around the pesticide residues on Mexican agricultural produce exported to the US, the pesticide poisoning of the Mexican farm workers and the damage to the physical environment.⁷⁰

In general, Mexico and the United States will eliminate their non-tariff barriers through a conversion to a tariff-quota system.⁷¹ By means of the tariff quota system, duty free quotas based on average levels of recent trade activities will be built. Such quotas will increase gradually by 3% per year.⁷² Those imports that will exceed said amount would pay duties at a rate equal to the latest internal and external price average. The tariff will be gradually reduced to reach 0% in a period of 10 to 15 years, depending on the product.⁷³

Tariffs on importation of agricultural goods will be eliminated following the tariff reduction schedule set out. Mexico and the United States agreed not to impose quantitative restrictions under NAFTA.⁷⁴ Also both parties agreed to waive their right under the General Agreement on Tariffs and Trade (GATT) to adopt quantitative restrictions on agricultural products or fisheries. In fact, NAFTA provides that, in the event that the tariff applied to a product in accordance with a tariff quota set forth in the

Annex 302.2 were to exceed the applicable rate of duty established in GATT as of June 12, 1991, the other party would waive its right to apply the GATT rate, notwithstanding the obligation to respect GATT provisions, as set forth in Article 103 of NAFTA.⁷⁵

Phytosanitary and Sanitary Measures

“Provides for the right of each party to establish a level of protection that it considers appropriate for animal health, environment and safety matter”.⁷⁶

NAFTA provides parties to take sanitary and phytosanitary measures within the parties own territories and allow enforcement by non-governmental bodies. In addition, it provides that tendency to avoid the use of disguised restrictions, obstacles, and non-discriminatory treatment that can occur on trade among Parties.⁷⁷ It also provides that Parties follow international standards to the highest extent, as well as ensuring the pursuit of equivalence in order not to reduce the level of protection to the health.⁷⁸ However, each party has the prerogative to establish its own degree of protection under the guidelines in this chapter, as well as to conduct its own risk assessment.⁷⁹

US Trade law and GATT Law

The text of the NAFTA agreement includes provisions of the GATT throughout, as the three Parties to NAFTA are all members of the GATT.⁸⁰ Thus, in the preamble, the three nations agreed to build upon their respective rights and obligations in the GATT.⁸¹ Accordingly, NAFTA was designed to be a supplement to the GATT, and not a substitution to the rights and the obligations of the three nations in the GATT. 7

Nevertheless, article 103 states that if any inconsistency between NAFTA and other agreements, the provisions of NAFTA shall take precedence, unless otherwise occurs.⁸²

On the one hand, the key parts of the GATT are all domestic US law because they have been proclaimed and not because they are self-executing.⁸³ US courts have decided that in regards to the issue of GATT and direct applicability, they all have held that the GATT is part of the US domestic law.⁸⁴ On the other hand, under NAFTA, Mexico has reaffirmed its GATT obligations to establish its required norms with the international standards.⁸⁵ In addition, Mexico has sought to make its standards compatible with the US standards in a number of sectors, as well as to recognize US standards-certifying entities starting on the fourth year after NAFTA's entry into force.⁸⁶

Mexico-US Avocado Trade Dispute

[True free trade does not exist between Mexico and the United States in avocados, or most agricultural products, a goal sought by the North American Free Trade Agreement. Until such a time, there will continue to be trade friction between Mexico, the United States and Canada.]⁸⁷

NAFTA was made to establish an area of free trade between the US, Mexico and Canada, and thus, to allow the free movement of goods between the three countries without the hindrance of trade barriers. However, this case demonstrates how non-tariff barriers under the guise of the environment can be used by a developed nation (the US) to hinder the exports of the developing nation (Mexico). In this case, the "environment" is used as a new method of trade protectionism to replace the vanishing tariff barriers between the US and Mexico under NAFTA. In addition, this case shows the influences of interest groups' demands on the American state, and how the state attempts to integrate those competing interests.

The US has been banning the importation of fresh avocados from Mexico since 1914, when the US plant health officials identified avocado seeds weevils in Mexican orchards as pests of quarantine significance.⁸⁸ In the early 1970s, the Mexican government requested the allowance to export avocados grown in the state of Michoacan; however, later in 1975, the government also sought to approve the entry of avocados grown in the state of Sinaloa.⁸⁹ Nevertheless, the US Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) eventually rejected both requests.⁹⁰ However, between the year 1991 and 1992, Mexico submitted three different work plans through which avocados grown in Michoacan could be imported into the United States.⁹¹ One of those work plans resulted in the APHIS' approval to allow the entry of Mexican avocados into Alaska under specified conditions by July 1993.⁹² By July 5, 1994, the Mexican government officially requested that APHIS further amend its importation regulations to approve the importation of Haas avocados into the Northeastern United States.⁹³ In fact, the whole issue was that:

[The possible introduction and alleged infestation of insect pests is perhaps the sole issue of contention. The USDA has proposed to lift the ban for their belief that, under certain conditions, the possibility of infestation can be adequately controlled through risk mitigation procedures].⁹⁴

Therefore, this dispute does not only include the risk of infestation to avocado and other host crops in the United States, but a more important risk to the domestic avocado growers who possess a real monopoly on the American demand for avocados.⁹⁵ For instance, the State of California has about 6,000 avocado growers and 65,000 acres of avocados; San Diego county alone produces about half of all US avocados (worth \$250

million in 1994).⁹⁶ On the other hand, Mexico has a competitive advantage in the production of avocados, as it has both higher yields and lower costs.⁹⁷ In addition, Mexico has the ability to produce higher yields than California yields due to the more favorable climate conditions to grow avocado.⁹⁸ The huge wage gap between the Mexican avocado growers and their American counterparts has resulted in the large price difference between the products of the two nations.⁹⁹ In fact, as a result of the ban on Mexican avocados in the US, a box of US-grown avocados in the US sells for about \$30, while the box of Mexican -grown avocados in Canada sells for about \$8. As such, "if Mexican growers, who produce about 45% of the world's avocados, are allowed to compete fairly in the US market, they could gain an export market estimated as high as \$60 million per year".¹⁰⁰

[The fresh fruit and vegetable growers in the United States, mostly in California, Florida, and Texas, stand to lose from NAFTA. Thus, a trade-off exists within the U.S. agricultural sector.]¹⁰¹

Nevertheless, the strong influence of the California Avocado Commission, which represents about 6,000 growers of crop worth nearly \$250 million per year, did whatever is in their disposal to block the USDA's Animal Plant Inspection Service to issue its lift of the ban.¹⁰² California growers paid for full-page advertisements criticizing and opposing the USDA's scientific conclusions in issuing the rule. In addition, the avocado commission played an active role in seven public hearings and files a 200-plus page analysis opposing the rule, resulting in the strong rallying of about 1,500 growers and members of California congressional delegation.¹⁰³ However, the government decided to lift the ban, ignoring the negative drawbacks. One other major driving force for that

decision were other interest groups of agricultural exporters, who argued that the department would not be able to stand against the Mexican government any more for blocking US exports of other farm products to Mexico.¹⁰⁴ Exporters feared that that USDA's ban on Mexican imported avocados would lead to a possible blocking, adopted by Mexico or any other country, to their products,¹⁰⁵ thus, affecting the access for US products. Industry government officials feared

[...that failure to adopt the systems approach will encourage Mexico to adopt similar standards of protection for US wheat, apple, peach, cherry, and other exports to Mexico. This could have major disruptions to US agricultural trade with Mexico.]¹⁰⁶

The Mexican government has repeatedly tied US refusal to allow the importation of Mexican avocados to issues affecting US exports of another range of agricultural products such as apples, peaches, nectarines and cherries. Research shows that avocado prices could drop 10% if 30 million Mexican avocados reach the US markets.¹⁰⁷ The freeing of trade between the US and Mexico could create a \$60 million export market for the Mexicans and notable competition for US growers.¹⁰⁸ However, due to the compliance of Mexican avocados to the US environmental standards, avocado exports from Michoacan to 19 US states reached 6,031 tons and produced an income of about \$13.3 million.¹⁰⁹ That is why Michoacan avocado producers aim at asking permission to export to all US 50 States in 1999.¹¹⁰ Nevertheless, this request will still be blocked by US domestic growers until they can accept the presence of foreign competition to their products.

- Since 1993, exports have more than doubled, to \$115 billion. Manufactured goods now make up close to 90% of Mexico's sales abroad, up from 77% five years ago.
- Oil, by contrast makes up 7% of Mexico's exports, down from 22% in 1993.

Source: Gery Smith, and Elizabeth Malkin, "Mexican Makeover: NAFTA Creates The World's Newest Industrial Power." *Business Week* 21 December, 1998: p 50-53

Other Relevant Cases

The United States prohibited certain shrimp and shrimp products from some countries on the basis that they violate Section 609 of Public Law 101-162 with its associated regulations and judicial rulings.¹¹¹ India, Malaysia, Pakistan and Thailand (Appellees) requested the Dispute Settlement Body (DSB of the GATT/WTO) to examine their complaint against the US in 30 January 1997. Other countries like Mexico, Australia, European Community nations, and Ecuador were Third Participants. Accordingly, the Dispute Settlement Board (DSB) established two panels in accordance with these requests.

Section 609(b)(1) imposes an import ban on shrimp that has been harvested with commercial fishing technology which may adversely affect sea turtles.¹¹² This provision is designed to influence countries to adopt national regulatory programs requiring the use of TEDs by their shrimp fishermen.¹¹³ There are two fundamental exemptions from the import ban, both of which relate clearly and directly to the policy goal of conserving sea turtles. First, Section 609, as elaborated in the 1996 Guidelines, excludes from the import ban shrimp harvested "under conditions that do not adversely affect sea turtles".¹¹⁴ Thus, the measure, by its terms, excludes from the import ban: aquaculture shrimp; shrimp species (such as *pandalid* shrimp) harvested in water areas where sea turtles do not normally occur; and shrimp harvested exclusively by artisanal methods, even from non-certified countries.¹¹⁵ The harvesting of such shrimp clearly does not affect sea turtles. Second, under Section 609(b)(2), the measure exempts from the import ban shrimp caught in waters subject to the jurisdiction of certified countries.¹¹⁶

The Panel found out that:

[... it appears to us that, in light of the context of the term "unjustifiable" and the object and purpose of the WTO Agreement, *the US measure at issue constitutes unjustifiable discrimination* between countries where the same conditions prevail and thus is not within the scope of measures permitted under Article XX.]¹¹⁷

This meant that the United States used trade measures to ban exports from other countries on the basis that they are in violation of the US' efforts to protect the environment and species. However according to several historical rulings of the GATT/WTO panel (such as the Tuna/Dolphin case), such measures were found to be in violation to the GATT provisions for a free, fair multilateral trade environment. The US used this law to exert pressure on other countries because environmental interest groups were calling for such measure in order to protect sea turtles. The panel refused to make a decision supporting the US for the fear that such ruling would be used unjustifiably by other nations as means of trade restrictions or protectionism.

Conclusion

Mexico remains at the top of the list of US foreign policy priorities in Latin America, as it is not only the second importer from the US, but also the US has vital economic and security interests at stake in maintaining closer relations with Mexico.¹¹⁸

This chapter shows how the Realist theory is manifested differently in the North and the South. The US shows how North states can be receptive to interest groups demands even if the states maintains its primacy as an actor in international relations. On the other hand, Mexico demonstrates the South countries' manifestation of more classical Realist arguments on the state dominance as a unit of analysis. Moreover, it shows how this

Southern state is weak and vulnerable to changes in the international or regional economics. Mexico is vulnerable to the United States acts of protectionism, and it exemplifies how the Southern states need the flow of wealth to secure its support base.

Mexico represents a great opportunity to the US environmental technology firms to export solutions to Mexico.¹¹⁹ However, the main concern with NAFTA was that increased trade would lead to further environmental degradation in Mexico, as companies would relocate their industry to Mexico to evade the stringent environmental enforcement in the United States.¹²⁰

From the case study, we could see that trade protectionism in the United States is affected by the interplay among interest groups particularly between pro-export, and agricultural groups. "Protectionism is a three player game among protectionism, pro-export interests, and voters, with the political parties acting as intermediaries."¹²¹ The competition among those groups influences the American state policy towards imported foreign products.

The use of environmental restrictions on imports is not justified by the domestic standards, instead they show double standards. For example, the United States continues to export banned or unregistered pesticides to Mexico, although there is a substantial controversy to its exportation.¹²² The main drawbacks are that it has damaging effects *first* on the creation of a "circle of poison". A situation in which US banned pesticides are exported to the Third World and are used on crops whose produce is then sent back to the US.¹²³ Second, the harmful effects of the use of those pesticides are being evident on agricultural workers in the Third World.¹²⁴ The US maintains strict law concerning the

use of pesticides within its border, however, it does not maintain such law to the exportation of banned or unregistered pesticides.¹²⁵ The United States relies heavily on the importation of food products produced in Third World nations, especially from Mexico: 25% of all fresh and frozen products in the US is imported and 50% of them are from Mexico.¹²⁶ Therefore, the double standards in US trade policy demonstrates the Northern states power to impose their own trade standards even if they are bound by free trade regimes.

Concerning the avocado case, we find that the US had to partially lift the ban because they had to prove that they are leaders of free trade and liberalization. The long support of the US to multilateral and bilateral free trade and liberalization had to be supported by simultaneous actions. Nevertheless, in the international arena the US has to support its domestic pressure groups, and use the environment as a means by which it can respond to agricultural interest groups. The political debate and public opinion compel the US officials to support certain policies even if they were economically inefficient in the longrun. Also, from the shrimp importation case, we can also recognize that nations, who are members of the GATT, denounce the United States' use of unilateral ban of imports for the reason that they violate their domestic laws or for the reason that they endanger the environment.

As Realists argued that states pursue national interest and power in the world system, they are considered the unitary actor within this world. However, Realism asserted that even if the state is the main actor who acts rationally at all times, there comes instances where state actions are being affected by domestic politics. Although the

US believes in free trade and the importance of Liberalism in the creation of wealth, the US maintains a protectionist policy because of the strong influences posed by its domestic interests groups. A state can pursue a policy which is in effect "irrational" in order to protect its power and its own national security.

Realists predicted that conflict would arise due to interdependence among nations, and we have seen how the NAFTA regime is another ground for these conflicts. In addition, as mentioned in the previous chapters, Stephen Krasner argued that the North-South relations would be deemed conflictual because of the discrepancies between the North and the South in their wealth and power capabilities. Mexico feels the power and wealth gap with the US and how free trade would be a way to better economic development. Nevertheless, the US' power and might mean that Mexico will face strong competition from American products. Therefore, Mexico's only chance is to trade with its comparative advantage goods (ex. Agricultural products) and to be allowed to trade in them freely.

NOTES

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- ¹ M. Delal Baer, and Sidney Weintraub Ed, *The NAFTA Debate: Grappling with Unconventional Trade Issues* (Boulder: Lynne Rienner Publishers, 1994), 155.
- ² Ibid.
- ³ Ibid.
- ⁴ Merilee S Grindle, *Challenging the State: Crisis and Innovation in Latin America* (Cambridge: Cambridge University Press, 1996), 48.
- ⁵ Ibid., 50.
- ⁶ Ibid.
- ⁷ Ibid., 51.
- ⁸ Baer, and Weintraub Ed., 74-75.
- ⁹ "The North American Free Trade Agreement (NAFTA) at four years: What it means for the US and Mexico". *United States- Mexico Chamber of Commerce*. (<http://www.usmcc.org/naftafor.html>)
- ¹⁰ Kathryn Kopinak, *Desert Capitalism: Maquiladoras In North America Western Industrial Corridor* (Tucson: The University of Arizona Press, 1996), 7.
- ¹¹ M. Delal Baer, and Sidney Weintraub Ed., 75.
- ¹² Ibid., 75.
- ¹³ Ibid. 75.
- ¹⁴ Ibid.
- ¹⁵ Ibid.
- ¹⁶ M. Delal Baer, and Sidney Weintraub Ed., 75.
- ¹⁷ Ibid.
- ¹⁸ Ibid.
- ¹⁹ Ibid.
- ²⁰ Ibid., 76.
- ²¹ Ibid.
- ²² "Environmental Issues In Mexico under NAFTA". *United- States-Mexico Chamber of Commerce*. (<http://www.usmcc.org/environment.htm>)
- ²³ "The North American Free Trade Agreement (NAFTA) at Four Years: What it means for the US and Mexico. *United States-Mexico Chamber of Commerce*. (<http://www.usmcc.org/naftafor.html>)
- ²⁴ "The Role of Regional Trade Agreements in the Integration of Trade and Environmental Policies". gopher://gopher.undp.org/00/ungophers/unep/publications/mon.../nafta_04%09%09%02
- ²⁵ Steven Golberman, and Michael Walker Ed. *Assessing NAFTA: a Trinational Analysis*. (Vancouver: The Fraser Institute, 1993), 297.

²⁶ Ibid.

²⁷ Richard H Steinberg, "Trade-Environment Negotiation in the EU, NAFTA, and WTO: Regional Trajectories of Rule Development," *The American Journal of International Law* v.91 no. 2 April' 97,245. Green power means that the international environmental agenda is driven by wealthy states with relatively stringent environmental regulations.

²⁸ Baer, and Weintraub Ed., 79.

²⁹ Fast track authority is highly controversial and first passed during the Reagan administration. In the past 15 years, the US has completed more than 89 multilateral agreements that did not go through fast track process. Under fast track process, the US Congress can authorise the president to negotiate specified trade agreements. It allows approval of an agreed-upon text without the almost continuous renegotiations of the usual amendment process.

³⁰ The Role of Regional Trade Agreements in the Integration of Trade and Environmental Policies."
([gopher://gopher.undp.org/00/ungophers/unep/publications/mon.../nafta_04%09%09%%2](http://gopher.undp.org/00/ungophers/unep/publications/mon.../nafta_04%09%09%%2))

³¹ Ibid.

³² Ibid.

³³ Ibid.

³⁴ Baer, and Weintraub Ed., 53.

³⁵ Ibid.

³⁶ US Department of State, Office of Spokesman (21 June, 1993). "Opening Remarks at the US-Mexico Binational Commission Meeting as Delivered by US Secretary of State Warren Christopher," Washington DC.

³⁷ Globerman, Steven, and Michael Walker Ed., 12.

³⁸ Baer, and Weintraub Ed., 119.

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Ibid., 126

⁴³ Ibid.

⁴⁴ Baer, and Weintraub Ed., 54.

⁴⁵ Ibid.

⁴⁶ "The North American Free Trade Agreement (NAFTA) at Four Years: What it means for the US and Mexico. *United States-Mexico Chamber of Commerce*. (<http://www.usmcoc.org/naftafor.html>)

⁴⁷ Baer, and Weintraub Ed., 54.

⁴⁸ Ibid.

⁴⁹ Meguel Angel Centeno. *Democracy Within Reason: Technocratic Revolution in Mexico*. (Pennsylvania: Pennsylvania State University Press, 1994), 4.

⁵⁰ Gonzalez Vargas Bryan, and Gonzalez Bz. *NAFTA Vademecum: A Handbook of doing business in Mexico under the North American Free Trade Agreement and Mexico's new Foreign Investment Framework*. August, 1997, 6. It is a general practice Law firm with seven offices in Mexico and one in New York, divided into several departments, each specialising in different sectors of Mexican and international.

⁵¹ Ibid.

⁵² "The North American Free Trade Agreement (NAFTA) at Four Years: What it means for the US and Mexico. *United States-Mexico Chamber of Commerce*. (<http://www.usmcoc.org/naftafor.html>)

⁵³ Ibid.

⁵⁴ Ibid., 77-78.

⁵⁵ See Steinberg, 247.

⁵⁶ "Summary of the Agreement on Environmental Cooperation". (<http://www.i-trade.com/dir07/facts/3005.htm>)

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ See Steinberg, 246-7.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Stienberg, 246.

⁶⁴ Ibid., 246.

⁶⁵ The OECD Secretariat defines PPM standards as standards that: "specify criteria for how a product is manufactured, harvested, or taken. They encompass emission and effluent standards, certain performance or operations standards, and practices prescribed for natural resource sectors. Terms such as "made with", "produced by" and harvested by" signify a PPM standard. ... All PPM standards specify criteria for how a product is produced or processed. However, the PPM standard may address the environmental effects of a product all during its life-cycle, ie. Effects

which may emerge when the product is produced, transported, consumed or used, and disposed of. (Stienberg, 234)

⁶⁶ Ibid.

⁶⁷ Ibid.

⁶⁸ Ibid., 247.

⁶⁹ Anna Syngellakis, "The Euro-Mediterranean Partnership and Sustainable Development: The Interface between Free trade and the Environment," In *The Euro-Mediterranean Partnership: Political and Economic Perspectives*. Richard Gillespie Ed. (London: Frank Cass, 1997), 136.

⁷⁰ Ibid.

⁷¹ Gonzalez Vargas Bryan, and Gonzalez Bz., 33.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid., 34.

⁷⁵ Ibid.

⁷⁶ Ibid., 36.

⁷⁷ Ibid.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Globerman, and Walker Ed., 4.

⁸¹ Ibid. This is done again in chapter 1 (objectives), in chapter 3 (trade in goods), under which various GATT articles are incorporated unto NAFTA, chapter 6 (energy and basic petrochemicals), and elsewhere.

⁸² Ibid.

⁸³ Charles K Rowely, Willem Thorbeck and Richard E. Wagner. *Trade Protectionism in the United States* (Aldershot: Edward Elgar Publishing, 1995), 297.

⁸⁴ Ibid.

⁸⁵ "Mexico: 1994 Country Report on Economic Policy and Trade Practices Bureau of Economic and Business Affairs." *US Department of State*.

(Gopher://dosfan.lib.uic.edu:70/00f...0Report%3Alatin%20America%3Amexico)

⁸⁶ Ibid.

⁸⁷ "TED Case Studies: Mexico-US Avocado Trade Dispute". *Trade and Environment Database*.
(<http://www.American.edu/projects/mandala/TED/AVOCADO.htm>)

⁸⁸ Ibid.

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid. using a "systems approach" to phytosanitary, APHIS developed a series of complementary procedures all intended to prevent the introduction of avocado seed and stem weevils, an avocado seed moth, and three species of fruit flies that can infect avocados and other host fruits and vegetables.

⁹⁵ Ibid.

⁹⁶ Ibid.

⁹⁷ Ibid.

⁹⁸ Ibid.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ Globerman, and Walker Ed., 19.

¹⁰² "TED Case Studies: Mexico-US Avocado Trade Dispute". The "systems approach" developed by APHIS in response to other possible pest infections, consists of nine safeguards designed to operated sequentially to progressively reduce the risk to an insignificant level. The components of a systems approach are: Host resistant-Field survey-trapping and field bait treatments-filed sanitation practices-post harvest safeguards-winter shipping only-packaging house inspection and fruit cutting-port of arrival inspection-distribution limited.

¹⁰³ Ibid.

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

¹⁰⁶ Ibid.

¹⁰⁷ Ibid.

¹⁰⁸ Ibid.

¹⁰⁹ Alva Sanzek, "Trade Talk." *El Financiero Weekly International* (Mexico City, MX) 19 April, 1998, 18.

¹¹⁰ Ibid.

¹¹¹ "The United States Import Prohibitions of Shrimps and Some Shrimp Products". *The World Trade Organisation*. (<http://www.wto.org/>).

¹¹² Ibid.

¹¹³ Ibid.

¹¹⁴ Ibid.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Ibid.

¹¹⁸ John Sweeney. "Clinton's Latin America Policy: A Legacy of Missed Opportunities." *The Heritage Foundation Backgrounder* no. 1201. [Http://www.heritage.org/library/backgrounder/bg1201.htm](http://www.heritage.org/library/backgrounder/bg1201.htm) 6 July, 1998.

¹¹⁹ "Environment: Environmental Issues in Mexico NAFTA." *United States-Mexico Chamber of Commerce*. (<Http://www.usmcoc.org/environment.htm>).

¹²⁰ Ibid.

¹²¹ Rowely, Thorbeck and Wagner, 121.

¹²² "Mexican Use of Unregistered US Pesticides (MEXPEST Case)". *The Trade Environment Database*. ([Http://www.american.edu/projects/madala/TED/mexpest.htm](http://www.american.edu/projects/madala/TED/mexpest.htm)).

¹²³ Ibid.

¹²⁴ Ibid.

¹²⁵ Ibid. While laws exist in the US concerning pesticide registration and use in the country, no law exists that forbids manufacturers from exporting banned or unregistered pesticides to countries with less stringent laws. On the other hand, although Mexico has law concerning pesticide use, or example, import regulations on certain pesticides, these laws are rarely, if ever, enforced.

¹²⁶ Ibid.

CHAPTER 4

EGYPT AND THE EUROPEAN UNION

Introduction

Economic liberalism has allowed the Egyptian economy to be opened up to outside competition and for international trade to play a greater role in promoting economic development, as the government follows through commitments to bringing down barriers to imports. This would be enhanced by faster growth in the economies of the European countries that have become progressively more important markets for Egyptian exports.¹ Egyptian state realized how its relations with the European Union could become its gateway to economic development through the enhancement of trade exchange. Nevertheless, non-tariff barriers (NTBs) have posed as considerable obstacles to Egypt's exports to the European Union. Those NTBs are used under the guise of environmental restrictions to trade, which Egyptian exports do not meet. The use of such NTBs is being criticized as constituting new forms of European trade protectionism in an era of free trade regimes such as the Euro-Mediterranean Partnership. Since the Realist theory by Stephen Krasner predicted that North-South relations would be conflictual, this case study represents another demonstration of this prediction.

The EU represents North states whose interest is to maintain domestic support of interest groups, through the use of protectionism to the agricultural sector. Egypt on the other hand represents a South state, which is more vulnerable and weak towards changes in regional or international trade, and thus, demonstrates this vulnerability in its relations to North states through the Euro-Med Partnership. Therefore, this chapter aims at exploring the three dimensional relationship between

the environment, trade and protectionism in the relationship between Egypt and the European Union.

Egypt's Interest in the EU

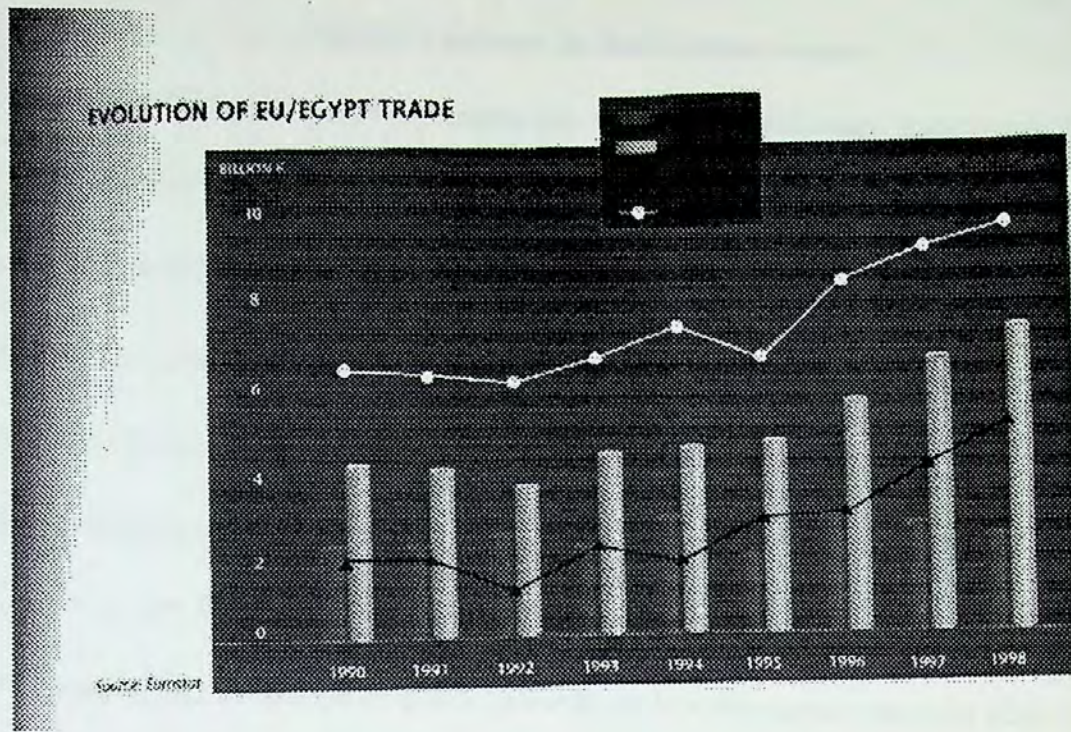
Egypt is by far the most populous Arab country and represents 1/3 of the total population in the Arab world. As a country that possesses a wide historical background, tourism was in 1991 the first source of income, more important than the revenue from Suez Canal, and oil exports combined.² Since the introduction of the IMF-encouraged reforms in 1991, notable adjustments have been made in the three critical areas of fiscal, monetary and exchange rate policies.³ Macroeconomic indicators have shown undeniable signs of improvement. Despite the huge population growth (60.66 million in 1996), GDP per capita has increased from 61.3% to US\$1,000, compared with US\$620 in 1991 (when population was 53.92 million).⁴ The World Bank's purchasing power parity (PPP) basis data suggests that Egypt have the third-largest economy in the Middle East/North Africa after Iran and Turkey.⁵ However, since the end of the cold war, Egypt has been actively pursuing two new foreign policy strategies, specifically, *East Asianism* and *Euro-Mediterraneanism*.⁶

These strategies reflect Egypt's attempt to build new linkages to secure its economic and security interests, which have been jeopardized by the bipolar world system.⁷ As a state from the South, Egypt's long historical links with the European countries and the geopolitical linkages between them made it turn towards Euro-Mediterraneanism as a pragmatic choice for the country. Egypt actively exercises advocacy in pan-Mediterranean cooperation through the Mediterranean Forum, and in

the positive response given to the Euro-Mediterranean Partnership (EMP) initiative and the dynamic pursuit of an Egyptian-European Partnership (EEP).⁸

The beginning of a legislated Egyptian -European economic relationship goes back to the agreement between Egypt and the European Common Market (ECM) on January 18, 1977.⁹ This agreement came from the efforts of the ECM on the 1970s in order to enhance their relationship with their Mediterranean allies. With this agreement, Egypt was able to acquire one-sided preferential treatment which terminated tariffs on Egyptian industrial exports to Europe; enabled Egypt to export limited quotas of Egyptian textile free from custom charges; to renew the export quotas of Egyptian agricultural products to the Common European Market to include specified seasons without having to provide similar treatment; and also to benefit from the European financial support which accompanies cooperation agreements from the year 1977 till 1997.¹⁰ According to this agreement, Egypt received about 661 million ECUs (European Currency Units) in the form of donations, and about 793 ECU in the form of soft loans.¹¹ As a result, the European Union countries became the primary trade partner for Egypt with 30% of Egyptian exports going to the European Union,¹² whereas the 15 member states of the EU make up for 38% of Egyptian imports.¹³

Figure 4.1. Evolution of EU/Egypt Trade



Source: European Union. *Delegation of the European Union in Egypt. Annual Report, 1998.*

Nevertheless, with the ending of the Uruguay Rounds of Multilateral Trade agreements and the establishment of the World Trade Organization (GATT/WTO), this agreement between Egypt and the EU became unreasonable with the new international free trade approach. It was apparent that the agreement needed to address other issues that gained ground, such as the social-cultural dimension, the scientific and technological cooperation, intellectual property, money laundering and other issues in the Egyptian-European relationship. As a result, the Euro-Mediterranean Partnership initiative came to support the new needed change for Egypt.

The EU's Interest in the Mediterranean

The European Union represents one-fifth of the total world trade in goods and a quarter of total trade in commercial services.¹⁴ With a share of 20% of total world imports, the EU stands equal with the USA, as the world's largest importer.¹⁵ The European Union¹⁶ is a manifestation of a successful regional integration revealed in its recent formation of a monetary union and the introduction of its single currency.¹⁷ This monetary union has created a "frontier-free" integrated market of 370 million citizens within Europe.¹⁸ With the end of the cold war in 1989, the European Community had to reshape its policy towards the Mediterranean countries after the radical changes that happened in regional and international politics. The dissolution of the Soviet Union and its threat to Europe led to the surfacing of many subdued debates between the US and the EU on issues like international trade and global financial policies. It also led to the redirection of European policy towards enhanced Mediterranean relations, coming as a response to the United States' control over Middle Eastern resources.¹⁹

The EU (see box 4.1) has realized those relations with its allies of the Arab world "are one of the essential long-term foreign policy elements" for the 21st century.²⁰ From this realization, came the Euro-Mediterranean initiative to create a new form of economic, political, and social cooperation between Europe and its neighbors of the Southern Mediterranean. The *Barcelona Declaration* signed in 1995 by the parties mentioned laid the foundation for that framework of cooperation. The main changes that urged the European Union for the new Mediterranean policy came from their new redirected policy aiming towards strengthening the European identity

1992 *Unified Europe Project*. These changes were reflected in their *Neo-Mediterraneanism* through which Europe needed to translate its unification successes to more political and economic presence in international and regional politics.

Box 4.1: The European Union

- The European Community is now the European Union. The change took place in November 1993 following the ratification of the Maastricht Treaty by the 12 member states. The precursor of today's European Union was effectively the European Coal and Steel Community (ECSC), which came into force in 1952. Unlike other organizations, its six founder members—Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands—quite consciously sought to sow the seeds of greater European integration and lasting peace by pooling all their coal and steel production under this single organization.
- The adherence to the goal of European unity through economic integration was further enhanced by the Six agreeing to the terms of the European Atomic Energy Community (Euratom) and, in March 1957, the European Economic Community (EEC).
- One successful attempt to widen the scope for the coordination of national policies came in 1970 with the setting-up of a voluntary intergovernmental instrument coordinating European Political Cooperation (EPC) in foreign policy. Another sign of progress was evident in the setting-up of the European monetary system (EMS) in 1979.
- The Single European Act, in force since July 1987, was the culmination of several years of intense debate looking at how the process of European integration could be re-launched improved and made more relevant to the European people. The treaty of the European Union, or the Maastricht Treaty as it is more commonly known, took the process of European integration one step further, paving the way for the introduction of a single currency—the next logical step towards frontier-free market—and setting up new, largely intergovernmental —political structures or 'pillars' to enable the Union to fulfil its responsibilities as a leading global power in a rapidly changing world.

Source: 'How does the European Union Works?' *Office for Official Publications of the European Communities*: Luxembourg, 1996

Thus, their strategy focused on tackling issues of security through maintaining and modifying their traditional relations with Mediterranean Southern states. The new focus was on doubling their financial assistance, increasing investment, improving the possibilities for Southern exports to the EU, and also more regional cooperation. The Corfu Summit in Greece, in June 1994, delegated the European Ministerial Council and the European Committee to evaluate the Mediterranean policy and assess the prospects of improvement to enhance this relationship on both a short and long term basis.²¹ Accordingly, the Canne Conference held in France in June 26-27, 1995,

focused on the newly proposed Mediterranean policy with its recommendation for the organization of a Euro-Mediterranean Conference in November 1995 in Barcelona.

Box 4.2 Decision-making in the European Union

- The main institutions of the EU are the European Parliament, The European Commission, the Council of Ministers, the European Court of Justice, and the Court of Auditors.
- The Council is the main decision-making body of the EU.
- The institutions are subject to varying degrees of democratic control, which the Parliament is seeking to reinforce.
- The Council consists of ministers from the member states who are directly responsible for their national governments and parliaments.
- The European Parliament is directly elected by EU citizens every five years. The president and the 16 other Members of the European Commission, which has the sole right to initiate draft legislation, are nominated by common agreement by their governments.

Source: *The European Union. Office of Official Publication of the European Communities. Questions and Answers about the European Union, 1994.*

The Barcelona Conference (Nov. 27-28, 1995)

The main aim of the Barcelona Conference was to declare the *Euro-Mediterranean Partnership* that starts with the establishment of a free trade zone funded by the appropriate financial support.²² However, this economic cooperation will also lead to more political cooperation for the aim of establishing a Euro-Mediterranean peace, security, and stability zone. Despite the fact that the overall aim of the agreement and its declaration is to increase and sustain trade relations in the region, its environmental protectionist regulations remain an obstacle tipping the balance in favor of Northern states. Having to meet dictated Environmental quality standards with respect to its exports, Egypt finds it self incapable of investing in corrective measures given the time constraint and therefore end up facing even more pressure from European interest groups. Before clarifying this point in later sections, a background of the main aims, provisions and regulations of the declaration is discussed below.

The Barcelona Conference was held with the participation of all the 15 EU states, twelve Mediterranean states (plus Mauritania as an observer),²³ and the US, Russia, Eastern and Central European states, the Baltic States and Albania as guests only in the opening session of the conference.²⁴ The Declaration was adopted after the proposed European project was modified to reflect some of the concerns of the Mediterranean countries. Nevertheless, it is argued that the Declaration reflected mainly the European viewpoint on issues.²⁵ The cooperation tackled three main areas:

- A political and security partnership intended to define a common area of peace and stability, and based on democracy and respect for human rights.
- An economic and financial partnership aimed at establishing a zone of shared prosperity.
- A partnership in the social, cultural and humanitarian fields to permit the development of human resources and to promote understanding between cultures and exchanges between civil societies.²⁶

For the sake of this research, we will be focusing on the economic and financial dimensions of the Declaration. The Economic Partnership aims at fostering cooperation for the sake of the establishment of a prosperity zone whose benefits would be reflected on all the partners. *First*, the establishment of a free trade area in year 2010, *second*, economic cooperation, and *finally*, financial cooperation. The economic cooperation stated the following:²⁷

- Enhancing and developing cooperation in the different economic areas (agriculture, industry, scientific research, transportation, water, environment, etc.).

- The need for increasing direct foreign investment, enhancing national savings to raise the production efficiency and increasing exports.
- The importance of having the freedom to join regional cooperation.
- Encouraging cooperation among institutions and companies, and providing the appropriate environment and legal framework.
- Protection of the environment and commitments to the Mediterranean Action Plan (MAP).
- Encouraging the dialogue concerning energy policies.

In the financial cooperation section, an amount of ECU 4,685 billion was dedicated by the EU (from 1995 to 1999) to the MEDA²⁸ plan.

The Euro-Mediterranean (Euro-Med) Partnership agreements are thus considered the first stage in a three-dimensional relationship, which were included in the Barcelona plan. The stages were as follows:

First, the establishment of a vertical relationship (North-South) through the Euro-Med association agreements between the EU and the states of the Southern Mediterranean. In this respect, Tunisia signed an agreement in 1995, Morocco in February 1996, Israel on November 1996, The Palestinian Authority February 1997, Jordan December 1997, and Egypt is still in the negotiations process since 1995.²⁹

There are also Algeria, Syria and Lebanon entering negotiations, as well as Libya.³⁰

Second, Building the horizontal relationship among South-South states, through the formation of free trade agreements between the countries of South and eastern Mediterranean as a second phase. In this agreement, "rules of origin" would be applied according to the Unified European rules of origin used in the vertical (North-South) agreements.

Third, the establishment of the Euro-Med free trade area between 27 European and Mediterranean countries who are parties to the Barcelona process. The free trade area (European Mediterranean Economic Area) will be completed by the year 2010, and will also include in addition: countries of the EFTA,³¹ the 4 SAFTA countries,³² the three Baltic States,³³ as well as Slovenia, Romania and Bulgaria (who are linked to the EU through free trade agreements within the frame of the European Free Trade Zone).³⁴

The Role of the Environment

The United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro in 1992 marked the EU's endorsement of Agenda 21. "Towards Sustainability" is the European Union's policy and action in relation to the environment and sustainable development for 1992-2000, was developed following the objectives of Agenda 21.³⁵ The 1992 Maastricht Treaty formally institutionalized the concept of sustainable development in the European Union law.³⁶ Later in 1997, the Amsterdam Treaty made sustainable development a priority goal of the European Union.³⁷ This treaty enhanced the EU's commitment to the concept that further development should be built on the principle of sustainable development and high degree of environmental protection.³⁸ Under this commitment, the EU allowed its member states to use or introduce certain environmental standards and requirements that are stricter than those of the Union.³⁹ Nevertheless, the Commission has the power to verify the compatibility of these stricter national standards with the single market and the protection of equal basis of competition.⁴⁰

The EU seeks to ensure that trade and environmental policies do not collide with their goal of a sustainable development within the context of the WTO or any other regional and international agreements. Accordingly, the EU has been pushing for stricter environmental protection in the Union's trade and development assistance policies.⁴¹ This means that they seek to use assistance as means to push for the application of more environmentally sensitive policies in developing nations, through trade and assistance.

Europe and Regional Politics

Europe and the Western World's support for the application of a peace and security in the Middle East region depends on the presence of a supportive atmosphere for development, progress, and modernization.⁴² Therefore, the partnership regime should be a reason for pushing forward economic development in the region and not to impose further limitations and restriction, which hinders their developmental potentials.⁴³ These limitations and restrictions in the long-term could affect the balance of power and provide a threat to the strategic interests of Europe and the West in the far-reaching Mediterranean region.⁴⁴ And since Egypt is a country, which possesses strong weight in regional and international politics, it is considered the door to many other regions. Thus, Egypt could be taken as a golden opportunity for the European Union, which strives to be a leading power in international relations of the next millennium. Moreover, what the EU has already provided Egypt with is considered very modest, taking into account all the economic and Realistic measurements which only achieve marginal results to the Egyptian economy.⁴⁵ On the one hand, Europe allows the free movement of industrial products as well as capital and investments, but on the other hand refuses the free movement of Egyptian labor (at the same time Egypt does not put such restrictions on European

labor).⁴⁶ This only means that the European Union acquires benefits and monopolizes profits in the sectors it possesses competitive advantage and does not give Egypt a similar treatment for its competitive advantage source (its human resources).⁴⁷

This is apparent in the agreement which liberalizes several sectors like industry, services, and the capital movement, but evades freeing sectors like human resources from which Egypt has competitive advantage.⁴⁸ Statistics show that Egyptian imports from Europe with the current agreement will rise to \$11 billion by the year 2012, representing 57% of the total Egyptian imports.⁴⁹ Also it is estimated that by the year 2012 when the agreement will be in force, the Egyptian exports-imports balance with the EU will not exceed 39% of Egyptian external trade.⁵⁰ As such, the inequity in the trade balances between European Union and Egypt will be tilting more towards Europe which has competitive advantage in the liberalized sectors in comparison to sectors which gives Egypt more competitive advantage.

One of the major concerns for Egypt involves the proposed quota for Egyptian agricultural exports eligible for partial-and possibly total-customs exemptions. In Egypt's opinion, the current proposal is too restrictive, as it is based on the country's current agricultural capacities, and ignores the huge potential that will be developed through the mega-projects already underway in the Sinai, East Oueinat and Toshka.⁵¹ To thus limit the scope of Egypt's exports to Europe runs counter to one of the primary aims of the Euro-Med Partnership, which is to encourage development in the countries South of the Mediterranean.⁵² Moreover, "the very notion of quotas conflicts with the principle of free trade, which has recently achieved universal

recognition through the establishment of the WTO".⁵³ On the other hand, when it comes to Egyptian industrial exports, the EU has shown itself rather more flexible, mostly because of the considerable competitive advantage enjoyed by the European industrial products.⁵⁴ The volume of the Egyptian exports to European Union did not exceed \$1.2 billion, but the European exports to Egypt are about \$6 billion, which exemplifies the great gap in the trade balance.⁵⁵

Double Standards

"Owing to labor immobility and the maintenance of agricultural protectionism, critics claim that the Euro-Med project is less about free trade than about Europe creaming off dividends once the *mare nostrum* is liberalized."⁵⁶

Europe can be accused of taking advantage and exploiting the economies of the South Mediterranean. Until now, and with the flow of funds for development of the Mediterranean Southern nations, the EU has avoided offering aid for genuine development.⁵⁷ Although it has devoted money to modernizing outdated industries, the EU has offered very small input into education projects or scientific research, which in turn might raise employment levels.⁵⁸ In addition, funds for industrial modernization have been "anorexic". For example, Tunisia's export of manufactured goods is expected to drop by 40 percent after trade liberalization. Similarly, in a recent study by the Royal Institute of International Affairs in London in 1998, it was found that 60 percent of Morocco's industrial sector will disappear unless the EU sets aside \$5.4 billion of transition costs.⁵⁹ However, the EU is not matching this. In fact, the EU's assistance to the Mediterranean was cut by 35% at the Stuttgart summit in April 1999.⁶⁰

Moreover, another issue is that Egypt exerts efforts to try to convince the EU countries to reverse their decisions to impose anti-dumping duties and bans on Egyptian exports. Dumping claims have had a negative effect on the Egyptian exports to the EU, thus, applying a protectionist measure against these exports.

The EU encourages developing nations to focus their agricultural policies towards the production of products for domestic consumption only as well as to look for alternative markets to their agricultural products (away from European Union markets).⁶¹ The CAP was one of the reasons for the delay of the Uruguay Rounds of GATT negotiations because the EU was maintaining its high degree of protection. However, the reforms of 1992 enabled the EU to show some signs of compliance with its obligations under the Uruguay Round GATT Agreement which was signed on 15 April 1994. This was a far-reaching multilateral agreement which also covered all farm products. This reciprocal agreement requires a 20% reduction in domestic support for agriculture over a six-year period, a reduction of 36% in budget spending on export subsidies and a 21% cut in the quantity of subsidized exports.⁶²

Accordingly, due to the present problems in the Egyptian- European trade, environment, and protectionism triangle the Egyptian-European association agreement came to address such issues of concern.

The Egyptian- European Partnership Agreement

The Egyptian-European Partnership agreement came as a response to the vertical relation (mentioned previously) for the sake of a smooth transition of twelve years to

the free trade zone.⁶³ The trade section in the Partnership Agreement lies under the rules governing the establishment of free trade areas in rule 24 of the GATT, as well as in the memorandum of understanding of the same rule in the founding agreement of the WTO.⁶⁴ Within this framework, the EU will cancel all custom and tax charges which are being levied on Egyptian industrial exports to the EU, when the agreement enters into execution. This is going to be applied to the Egyptian textile exports that would be allowed entrance into European markets without the limitations of customs or quotas.⁶⁵ Similarly, when the agreement enters into execution, Egypt will gradually free its industrial imports coming from the European Union countries, starting with capital goods and raw material in the first years of the transition period, followed by the freeing of intermediary goods and production inputs, and ending with the total liberalization of final products.⁶⁶

During this phase, Egypt will be benefiting from the financial support received under the MEDA program that would be implementing several developmental programs to upgrade Egypt's economic capabilities. However, it is noted that Egypt has received the largest share of this support for Mediterranean states reaching ECU 755 million from 1997-1999, which is about 27% of the total EU aid to the 12 Mediterranean countries.⁶⁷ This aid is used to fund many developmental projects in the fields of education, industrial modernization and health.

Preferential Treatment for Egyptian Agricultural Exports

It is apparent that there is a strong protectionist European Union agricultural policy (in the European Common Agricultural Policy CAP), which is the policy acknowledged by the WTO with specific regulations in 1995. However, the policy

raises tremendous criticism from developing nations as well as from the United States, and that is why it is always brought up in GATT discussions. As a result, countries which have no preferential agreements with the EU will find it very difficult for their agricultural export to penetrate European markets.⁶⁸ The EU presidency had to provide new grounds for negotiations due to the conflict among both parties (Egypt and the EU) in the agricultural realm. Pressure had to be exerted on Southern European countries like Spain, Portugal, and Greece in order to agree to provide Egypt with that preferential treatment given to Egyptian agriculture.⁶⁹

The Case

The issue of Egyptian agricultural exports to the EU has been a major stumbling block in the negotiations and a sign of the EU's protectionism of their agricultural sector, which faces strong competition from Egyptian agricultural exports. Egypt started the negotiations for the Egyptian-European agreement in September 1993, since Europe is considered the main external trade partner.⁷⁰ Whereas the draft agreement exempted European industrial exports to Egypt from all Egyptian tariffs and non-tariff barriers, it placed restrictions on Egypt's agricultural exports to the EU. The EU offered limited increases in the quotas for Egyptian agricultural exports, extensions of the importation seasons and entry to the EU market for additional agricultural products. The EU's protectionism came from the Common Agricultural Policy (CAP) which represents a means by Europe can control its agricultural sector against competitive foreign exports.

The Common Agricultural Policy

In the European Community, the agricultural sector lies under the Common Agricultural Policy (CAP) which was formulated in 1958.⁷¹ The Cap was conceived

to raise the incomes of the farming communities, to stabilize agricultural markets, to ensure that food supplies are always available, and to ensure reasonable consumer prices.⁷² The CAP policies represented the power of the agricultural lobby which has been able to enjoy relatively extensive protection vis-a-vis individual governments of Western Europe.⁷³ Its founding reflected "defensive national strategies of economic modernization, attaching small farmers' loyalty to rebuild democracies, with welfare state functions transferred to the European level and farming organizations as intermediaries".⁷⁴ "The CAP (see box 4.3) served to insulate agricultural policy both from competing domestic political constituencies and from American demands for trade liberalization, the latter weakened by the US GATT waiver".⁷⁵

Box 4.3 Objectives of the CAP

Art. 39 of the EEC Treaty sets out five objectives of the common agricultural policy:

- To increase agricultural production by promoting technical progress and by ensuring the rational development of agricultural production and optimum utilization of the factors of production, in particular labor;
- To ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- To stabilize markets;
- To assure availability of supplies; and
- To ensure that supplies reach consumers at reasonable prices.

Source: Wallace, Helen, and William Wallace ed. P 103.

In the early 1950s, the need arose in Western Europe to increase agricultural production and there was a special need to integrate farmers into the newly founded democracies.⁷⁶ Thus, the merging of the different driving forces resulted in very protectionist agricultural policies, high institutional prices for mostly all products, and other ways of raising agricultural incomes.⁷⁷ In fact, the CAP led to the application of an "agreed intervention price" which is higher than the market price, instead of leaving the market forces of supply and demand for food to operate freely.⁷⁸ The

market price, if used, would be set by the *world price*, with which *imported food* would enter the European Community (EC).⁷⁹ However, even this imported food is liable to a tariff which is equal to the difference between the world price and the intervention price.⁸⁰ The effect of the intervention price is therefore to restrict cheaper imports, and to guarantee farmers high prices for their products.⁸¹

[In international negotiations, the Community has insisted that the CAP is an internal policy: exports are a means of disposing of internal production when it exceeds internal requirements, imports serve to satisfy internal requirements when they exceed internal production ... The Community declines to admit any responsibility for the instability of world trade but uses it to justify protecting the internal market.]⁸²

The CAP is argued to be an example of "government failure" because it protects one group, the farmers, at the expense of the consumers and the taxpayers, which is a net cost to society as a whole.⁸³ As such, consumers end up paying higher prices than they would have paid if the prices were left to the free market to set. So, they are worse off. In addition, taxpayers also pay some of the cost because other means, such as production quotas, are used to protect EC agriculture.⁸⁴ Agricultural policies of Germany, Belgium, and Luxembourg were overtly denied a legitimate stance in the GATT, while France, Italy, and most other western European countries had already been singled out by the US Tariff Commission because of their protectionist intention of their agricultural import restrictions.⁸⁵ And, due to that fact, the issue of agriculture was generally evaded in the GATT rounds after the 1960s. In almost every GATT round, the US highly criticized the CAP, "but even American lawyers and economists have dismissed this criticism as hypocrisy, in that the USA has its own system of deficiency payments and export subsidies".⁸⁶

Box 4.4 The CAP and EU's Agriculture

- As a result of the CAP, the EU today produces about 120% of its total consumption needs.
- However, the EU is still heavily dependent on foreign sources in several sectors (e.g. for approximately 60% of its fruit and vegetables and 50% of sheepmeat).

Source: "The Common Agricultural Policy in Transition". European Commission. Luxembourg: Office for Official Publication of the European Communities, 1996.

The inclusion of agriculture in the Uruguay Round (which started in 1986) was not influenced by the state of international agricultural markets or with the US pressure to convince European policy-makers to consider agriculture more seriously.⁸⁷ Instead, the change in the agricultural policy-making came from the "...decision to make domestic agricultural support systems-and not just agricultural tariffs and export subsidization- a topic of high priority in the Uruguay Round of the GATT".⁸⁸ Accordingly, the GATT Round came to offer a new opportunity for the reforms of the CAP and a means by which international opposition to the CAP could be reduced.

This meant that the European policy-makers recognized the effects of the CAP on distorting trade as they tried to gain extra leverage to deal with their internal disagreement and the agricultural interest groups as well as with their national parliaments. However, European agricultural interest groups, at both national and European levels, can only influence agricultural policy-making by pointing out the probable economic and social impact of decisions.⁸⁹ Actually, they are not even able to influence the "parameters of agricultural policy-making- which derive for the most part from the imperatives of welfare statism-nor are they in a position to formulate *positive statements* and proposals".⁹⁰ The CAP remains an important means by which European governments can protect their national agricultural policies with their highly protectionist welfare-oriented institutional structure. Moreover, it helped to move agricultural policies out of the domestic conflicts relating to the complexity of policy-

making within the European Community. "For this reason, the CAP in general and the Uruguay Round (see box 4.5) in particular have to be seen as political instruments used by member states in defense of their own agricultural sectors, with their distinct structures".⁹¹

Box 4.5 Summary of the final agreement on agriculture in the Uruguay Round

- A reduction of domestic interventions in agriculture, measured by an aggregate degree of support over a six-year implementation period, starting in 1995 and taking 1986-8 as base period.
- Direct payments to farmers under production-limiting programs are not to be subject to the commitment to reduce support, as long as they are based on fixed area and yields or on livestock numbers.
- All non-tariff barriers (quotas and other import restraints) are to be subject to tariffication.
- All reduction of the average tariff by 36% over the implementation period; each tariff line will be reduced by at least 15%.
- A reduction of export subsidy expenditures by 36% and a reduction of the volume of subsidized exports by 24% over the implementation period.
- An introduction of safeguard clauses specifying the circumstances under which countries are allowed to impose additional duties to prevent undesired market and price distortions due to imports.
- A guarantee of minimum market access equal to 3% of average domestic consumption in the base period.

Source: Helen, Wallace, and William Wallace. Ed. P 116.

The Debate

Egypt, with a cultivated area of about 7.5 million feddans,⁹² is a country whose agriculture constitutes an important percentage of its GDP (18%), and employs around 36% of the total employed force. On estimate, the magnitude of the Egyptian agricultural trade with European Union countries reached about LE. 522 million in 1992, and mounted to LE. 1 billion in 1995. This amount is divided into 60% of imports from the EU, and about 40% of Egyptian exports.⁹³ Accordingly, with the higher volume of agricultural imports from the exports, we find that there is a continuous negative balance in the agricultural trade from year to year.⁹⁴ With the presence of the Common Agricultural Policy (CAP), the EU applies a highly

protective policy for its agricultural products, thus shielding their farmers from external competition.

From 1997 to 1998, Egypt witnessed an increase in the amount of agricultural exports of about 27.5%.⁹⁵ With an international share of 2.6% in potato exports, potatoes are considered the primary vegetables product in Egypt with about 2 million tons produced each year.⁹⁶ In 1998 the size and amount of the Egyptian potatoes exports was about 271,000 tons with an increase of 32,000 tons from 1997.⁹⁷ In addition, Egypt's average revenue of its annual exports of potatoes is about LE.233 million, with planted areas of 184 thousand feddans, yielding about 1.785 million tons annually.⁹⁸ Egypt has a strong potential for increasing the amounts for export, and thus maintaining a strong competitive edge over the European potatoes.⁹⁹ In fact, Egypt has the ability to plant potatoes all year long due to the favorable climate conditions, and also the high demand for Egyptian potatoes in European markets. Countries like the United Kingdom, Germany, Ireland, and the Netherlands are considered stable markets for Egyptian potatoes exports which possess quality and competitive prices over European potatoes.¹⁰⁰ The main European competitors in potato exports, are the Netherlands, Belgium, France, and Germany.

Egypt's export of potatoes to the EU has been a reason for disputes and conflict due to the EU's tough conditions for allowing entry to potatoes. The Egyptian chief negotiator argued that the conditions are severe and contradict the Egyptian-European partnership agreement.¹⁰¹ "The European Union established a condition stipulating the submission of a detailed list of basins, villages and areas free of rot

disease,¹⁰² including other obstacles".¹⁰³ The EU decided that in order to accept potato imports from Egypt, the crop should only be imported from certain areas or basins where the land is free from the disease. Those areas are then allowed to export potatoes to Europe as long as they maintain their environmental safety. A committee from the EU was set to determine those areas allowed to export to Europe. On August 11, 1998, the EU issued decree number 508 which does not lift the ban but it only exempts from the ban potatoes which were planted in areas free from the brown rot infection.¹⁰⁴ Those areas were left to the Egyptian side to decide upon, although the ban will be totally applied if 5 cases of infection were discovered.¹⁰⁵ The Egyptian Minister of Trade and Supply (Ahmed Goweily) announced in his meeting with the exporters and producers of potatoes that the Egyptian government definitely opposes the decision of the EU in imposing preventive conditions, which restricts the exports of Egyptian potatoes.¹⁰⁶

Minister Goweili criticized the EU's decision as being "unjustified" as it accuses Egyptian potatoes for having an infectious disease as claimed by France, Denmark, Finland, Spain, and Portugal.¹⁰⁷ He asserted that only 0.4 percent of the Egyptian potatoes exported to the EU were rejected entrance due to the presence of the brown rot, which is one of the lowest ratios of infection in the world.¹⁰⁸ Moreover, the banning of potato exports to Europe could cause losses reaching \$200 million in the exporting sector and also putting 150,000 workers out of work.¹⁰⁹ Nevertheless, an EU inspection committee was delegated to discuss this dispute and list several areas and plantations which are free of the brown plant disease.¹¹⁰ They also called for the total ban on imports of Egyptian potatoes if the rot in the products

exceeds a certain percentage.¹¹¹ Therefore, after more negotiations and efforts, Egyptian exporters and producers decided on a share 150,000 tons of potatoes for exports to European market.¹¹² In addition, the efforts of the Egyptian Ministry of Agriculture to control the claimed infection have resulted in the specialization of 14 plantation areas to produce potatoes free from the infection.¹¹³

With EU's decision in 1998 to allow imports of potatoes planted in infection-free areas, Egypt exported (in year 1999) 198,000 tons,¹¹⁴ which is about 9,000 consignments, from which only 33 consignments were found to be infected with the brown rot infection.¹¹⁵ Thus, the ban was now again in force, although exporters assert that the cases of infections do not exceed one or two potatoes in the whole cargo. In fact, 33 consignments mean only 50 tons from 198 thousand tons, which is a very small amount in comparison. Moreover, exporters proclaim that the brown rot disease has been known for years and that it has been imported to Egypt from Europe through the importation of potato buds.¹¹⁶ Another issue is that agricultural engineers assert that the brown rot disease is already found in European lands, and it has no impact whatsoever on human health.¹¹⁷ Egypt used to export potatoes to countries of Asia and Russia which were infected with the brown rot, but never had problems with those markets. The issue is that European Union countries claim that this environmental disease will be transferred to their lands through the importation of infected Egyptian potatoes.¹¹⁸ They refuse to admit that their lands already have the disease in it, and that a country like Holland exports infected potatoes to other European Union nations without any problems.¹¹⁹

By August 1999, the conflict started to take a new shape. The Egyptian Organization for Buds decided to ban imports of European potato buds or what is called seed potatoes as retaliation to the EU restrictions for Egyptian potato exports.¹²⁰ The decision came after the continuous refusal of Egyptian potato exports, knowing that Egypt imports more than 55,000 tons of potato buds from Europe annually, with their value (US \$ 35 million) higher than the value of 200,000 tons of Egyptian potatoes exports.¹²¹ Particularly, with the Egyptian-European partnership agreement, which gives Egypt the opportunity to export 250,000 tons of potatoes from January till March of every year starting from the year 2000, another restrictive condition was added. The Agreement added a provision that allows the EU to ban potatoes consignments exported to Europe in case of the discovery of 5 cases of infected potatoes with brown rot.¹²²

The potato case shows how states seek to pursue their national interest in the world system, even if they are joined through regimes aimed at further collaboration among them. Realists argue that states act totally in pursuit of their own interest and welfare, in a world of "self-help" system. Although Realists assert that the nation-state acts unilaterally, and rationally, domestic politics are sometimes used to explain deviates from rational policy. This is apparent in the use of trade protectionism which is needed to maintain the domestic EU stability and security. The EU uses this policy to curb the voices of environmental groups who lobby their governments for the application of environmentally sustainable policies in trade.

Here, the EU represents a major power in world politics and Egypt represents a developing nation that strives for better economic development. As Krasner

predicted that the North-South relations will remain conflictual because of the contradicting interests of the North vs. the South interests, trade cases like this certainly highlights these conflictual relations. Egypt is a Southern country which feels weakness towards the stronger EU, and thus, seeks to apply the regional free trade regime for the hope of economic development. The EU, on the other hand, acts in a Realist manner which presses on the primacy of national interests above any other rational economic or political policy. And it is in the European interest to maintain strong restrictive environmental standards on developing nations exports for the fear of competition to their local production, as well as their strong environmental lobbies.

Other Related Cases

The EU's environmental policies were used to hinder other kinds of developing nations exports which could not comply with those policies. When the EU issued its ecolabelling program throughout the European Community in 1992, it was meant to be applied on "voluntary" basis.¹²³ The program was adopted by the European Council to encourage the manufacturing of less environmentally damaging products, giving industry an incentive to produce cleaner, and environmentally friendlier goods.¹²⁴ All EU member states participate in this program on a voluntary basis only, however, what raises criticism to this program was its potential creation of trade discrimination, as consumers become more environmentally conscious.¹²⁵ This ecolabelling program "... would authorize standards testing bodies in the individual member countries to award seals of compliance to particular products based on uniform, Community-wide criteria for general products groups".¹²⁶ Nevertheless, the largest impact of this program affects the timber and wood products produced in developing nations of Latin America, Africa and Asia. Those countries rely heavily

on exports of such products to the EU huge market and those who choose not to comply with this program, find themselves excluded from the EU market.¹²⁷

The program proved to be a primary problem to EU's trading partners, who are skeptic of the "voluntary" nature of the program. As consumers become more environmentally aware, the ecolabel itself becomes a non-tariff barrier although hidden under the "voluntary" basis provisions.¹²⁸ Another concern is the environmental impact of this regulation. The import barrier places a downward pressure on raw log prices causing alternative uses of forestland, such as plantation agriculture or ranching, to seem more economically attractive by comparison.¹²⁹ "Suppressing the timber industry has the potential of leading to the permanent conversion of even larger areas of tropical forest land to more environmentally destructive uses".¹³⁰

The economic dimension in this case shows more how the EU as an entity is turning towards becoming a unique market which seeks to modify the production process of developing nations. Although exports from tropical developing countries account for a humble share of the total value of world exports (\$11 billion), it, however, accounts for a significant amount of the Gross National Product (GNP) of those nations.¹³¹ With the implementation of the EU ecolabelling in 1992, it was apparent how those countries were concerned. Between 1985 and 1991, imports (mainly of timber products) increased 43.7%, while after 1991, imports began to decline from 96.3 billion to 91.8 billion in just two years.¹³² Countries like Malaysia,

Philippines, and Columbia, stand to suffer considerable losses if the EU changes the "voluntary" basis to "mandatory" one.

Timber producing European countries like Finland, Sweden, Austria, and Germany will likely see an increase in demand as non-compliant timber from Asia, Africa, and Latin America are consequently shut out of the European markets, therefore such ecolabelling regulations would have a more positive impact on their industries than any other.¹³³ Compliance for European industry is also much easier to follow.

The GATT allows the EU to issue this program as long as it is on "voluntary" basis. However, if the program changes to mandatory one, then this will acquire strong pressure from the WTO, as it is an obvious trade restriction tool.

Conclusion

Removing trade obstacles and distortions increases the overall efficiency of the world's economic system by allowing countries to specialize in sectors in which they enjoy competitive advantage, including advantages based on their particular environmental conditions.¹³⁴

The partial transfer of agricultural decision-making from solely national arenas to the Community arena began around the mid-1960s when unified markets started to be established.¹³⁵ As a result, this demanded some responses from national farm interest groups, "...for not only would the content of decisions on farm policy be appreciably different for many groups now that these decisions would be taken in the Community arena, but the decision rules themselves would be altered".¹³⁶

Accordingly, one of the main strategies of the European national interest groups was

the effort of those groups to work on the Community level through Community interest groups.¹³⁷ Therefore, due to their efforts, "agriculture still receives the largest portion of the Union budget and is vital to the security and prosperity of the Union's people".¹³⁸ This shows how much the EU considers its agricultural sector as a policy priority and is affected by the strong presence of agricultural interest groups.

The EU uses a tough environmental stance to appeal to its public, and convince them that trade and prosperity will not be colliding with their goals of sustainable development, or to jeopardize the long protectionist agricultural policy. The effects of the environmental lobbies in Europe are quite clear in their march towards a sustainable development. However, it seems that governments are a little bit weary of the influences this might have on the goals of trade development. Accordingly, Egypt as a Southern state, has to negotiate with the EU within the framework of the Egyptian-European Association agreement and to address such issues for the sake of creating an area of common prosperity and real free trade.

The presence of the presence of bilateral problems with the EU means that Egypt and the EU have important relations.¹³⁹ In addition, environment was not part of the Agreement, but it was mentioned generally and was left to the goodwill of the two Parties. The environment is left to the market demand, and there is a good demand for environmentally friendly products within the EU markets.¹⁴⁰ It is all a market issue of supply and demand, and thus, is left to the market to regulate. Even if there are environmental restrictions in the EU and on the products, it is the legacy of concern for the environment within the European Union.¹⁴¹ And due to the presence

of strong environmental groups within Europe and also the presence of strong industrial interests at stake, the trade-environment problems are more complicated.¹⁴²

From the previous case study, we can see how the national interest of the European nations is an important fact behind the application of protectionist policy to their sensitive local industries to foreign competition. As this study argues, the Realists justified a state's "irrational" policy or action based on their domestic policies. However, since the EU is considered as an entity of its own acting unilaterally in international arena, actions which aim at protecting their markets are derived from their pursuit of power, stability and security. Any change in their support for their local producers will result in an unstable environment domestically.

NOTES

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- ²² Ibid.
- ²³ This conference brought together the foreign Ministers of the 15 EU countries and 12 Mediterranean states (Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, and the Palestinian Authorities).
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- ²⁵ Selim, 75.
- ²⁶ Debra Percival, "Mediterranean Europe: A new era." *The Courier-EU* no. 156 March-April 1996. (http://www.oneworld.org/euforic/courier/156e_n3.htm)
- ²⁷ Bassim, 248.
- ²⁸ MEDA is the new funding program implemented by the European Union for the Mediterranean countries. The program was established to avoid the negative flaws of the funding system through the previous financial protocols. This program allows for a fund of 4,658 million ECU in the form of donations to the Mediterranean countries from 1996-1999.
- ²⁹ According to Gamal El Bayoumi, Egypt's chief negotiator, the agreement has yet to reach its final form. He also pointed out that the European foreign ministers endorsed the 10th draft of the agreement rather than the latest version.
- ³⁰ Taha, 252.
- ³¹ EFTA countries are: Switzerland, Norway, Iceland and Lichtenchtein.
- ³² Poland, Checkoslovakia, Slovakia, and Hungary
- ³³ Estonia, Lithuania, and Latvia
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- ⁶⁵ Ibid.
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CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

Introduction

The thesis has sought to answer the proposed hypothesis that the North's use of environmental restrictions to developing nations exports is a form of trade protectionism. As nations of the North justify the use of environmental restrictions to the imports from the South on the basis that they are unable to conform to their environmental standards, nations from the South interpret these restrictions as new masqueraded forms of trade protectionism. From the analysis of the two case studies, Mexico and Egypt, and their commitments to regional free trade regimes, we could conclude that the use of environmental restrictions is only a veil to protect trade by the North states. In particular, the hypothesis was applied to test the validity of the argument on the two developing states, Mexico and Egypt, and their relations to Northern states, the United States and the European Union respectively.

The research drew upon writings of Realist theorists who analyzed the role of states and international relations. The research emphasizes the role of national interests and the pursuit of power by nation-states. Using the Realist perspective, the study laid the basis for the understanding of the motivations, interests, and dilemmas pertaining to the free trade, environment and protectionism triangle. Using the Realist interpretations of state behavior in international relations and in political economy, especially their security concerns (mentioned in CHAPTERS 1 and 2), the study examined the link between trade protectionism and the use of environmental restrictions to trade imports, and how the Realist theory is manifested differently in North and South states.

There are three main arguments supporting the hypothesis: Nation-States are a primary actor in international relations, the Northern power in regimes, and the state basis for protectionism.

I- Nation-states are a primary actor in international relations

This study used the modified Realist interpretation to the reason for state behavior concerning the free trade, environment and protectionism correlation.

Realists believe that nation-states are considered the main unit of analysis and that they act to pursue power and self-interest. As such, states act rationally at all times in international relations. However, this study adds that Realists theories should use domestic politics to justify protectionist policies in the North. In addition, Realists argued that nations could accept to forgo economic gains in order to weaken their opponents or to strengthen themselves. Thus, trade protection-which might reduce a country's overall income by restricting the market-maybe adopted for reason of national political power. This was seen in the case studies when Northern states, the US and the EU, have to pursue the policy of trade protectionism to sectors which are characterized by strong interest groups.

From the case studies we found many similarities concerning this particular nation-state principle. The United States and the European Union apply trade protectionism to their markets in products where Mexico and Egypt have comparative advantage. Because of the comparative advantage edge that some Mexican and Egyptian products have, the US and the EU both consider them a source of instability to their domestic political systems. This competition between Southern products and the Northern markets prove that powerful nations of the North are only concerned

with their national interests. Moreover, they have the power to apply protectionist policies because they can always support them with their wealth and prestige in international relations. Similarly, nations of the South have the same aim of pursuing national interests. However, because of their inherent weaknesses, they are more vulnerable to Northern actions or cyclic economic fluctuations. They need the wealth generated from trade to support the state, and thus, they try to acquire access to Northern markets through free trade regimes.

II-The Northern power in regimes

Krasner argued that regimes are the arena where the issues of North vs. South become apparent. His arguments that the power gap between the strong North and the weaker South are very visible in the regional free trade regimes studied in this research (the NAFTA and the Euro-Mediterranean Partnership). As they are regional trade regimes that link nations of the North and nations of the South together, conflicts arise between them. This is what Krasner predicted in his analysis of the conflictual nature of regimes and how the third world perceives regimes. Moreover, Krasner argued that the North has the power to impose its will and conditions on the Southern states who are weaker and more vulnerable.

Mexico had to join NAFTA because it was the way to access the US and Canadian markets. Nevertheless, the United States and Canada had the power to impose their environmental agenda on Mexico (which had a lower environmental profile). Also, Egypt's interest to join the Euro-Mediterranean Partnership comes from its realization that access to EU markets is a way to economic welfare. On the other hand, the EU had the power to dictate the rules of the Partnership as well as to impose

its environmental regulations. Although Egypt had the power to negotiate its own conditions, the EU still maintained the upper hand. Both Mexico and Egypt are vulnerable to changes in the international economy and certainly dependent on trade for a big proportion of their GNPs.

III-The state basis for protectionism

According to the surveyed sources and the reading on the trade-environmental debate, it is apparent that trade protectionism is present even with the establishment of free trade regimes such as the GATT, NAFTA, and the Euro-Mediterranean Partnership. However, the North and the South differ in their justification for the use of trade protectionism.

Northern countries have in general, democratic systems that allow domestic interest groups to express their opinion and penetrate the decision-making powers. That is why the influence of these interest groups can affect state policy especially when it comes to economic policies. Environmental, industrial, labor, or agricultural groups have succeeded in projecting their interests on the state foreign policies, even if those policies contradict the overall commitments of the state in regional or international regimes. Therefore, Northern states apply contradicting policies in order to maintain their domestic security, political posts, electoral support, and public opinion. However, when it comes to direct security interests (as military), the state acts unilaterally to lead the public opinion towards its objectives or policies. In this case, the state is the leader. Nevertheless, in economic matters, which directly affect the welfare of farmers or workers, the state sometimes has to deviate from its rational policy in order to maintain its stability and security.

On the other hand, Southern countries maintain protectionism for another different set of reasons. Since developing nations are in general weak and vulnerable and have fragile legitimacy, domestic influences are usually curbed by the state. The states of the South, however, are trying to use economic gains from free trade as a source for enhancing their legitimacy at home. And since developing nations depend primarily on agricultural or other primary products as an export base, their international economic vulnerability forces them to try to maintain some kind of domestic protectionism. Also, they use protectionism to protect their markets from the competitive Northern exports which will certainly have competitive advantage when they penetrate Southern markets. Thus, their protectionism results from their weak competitive power in trade vis-à-vis the North. Their only competitive advantage lies mainly in their agriculture or raw material products. Nevertheless, the South cannot afford to protect their markets for a long time because the North is pushing for the application of free trade regimes.

This also adds to the traditional theory of Realism by modifying it to suit the different nations of the North and the South. Drawing the comparison between the three main political economy theories implies this essentiality of theory.

The Importance of theory

Political theorists who analyzed the international system of states and the interests that lie behind their actions could be used to explain the reason for the existence of the trade-environment and protectionism triangle. However, from the three main political theories (Liberalism, Marxism, Realism), we find that Realism

succeeds in best explaining the cases. Liberals predicted that economic gains and the move towards interdependence would decrease the presence of conflict among nations. They also argued that the more nations are bound by regimes, the more they will cooperate and become interconnected. However, as much as the Liberal theory explains the presence of cooperation of states in regimes and others, it fails to account for the presence of conflict among nations. The main success is however, their prediction that more collaboration will lead to the marginalization of war factor among nations. Again, even with the Liberal explanation of cooperation and collaboration, Realists prove that conflict will still exist, especially in the North-South regimes. Interdependence thus maintains conflict.

Another point could be granted to Liberals in their assertion that the state is not the unique actor in international relations. It is true that the move towards globalization, interdependence, and non-state actors, accounts for the presence of other non-state actor who succeed in influencing the world agenda. Nevertheless, Realists have stressed on the primacy of the states as a unique actor in the world arena. In fact, in international regimes, the states still maintain the upper hand in the establishment or the signature of regimes (regional or international). The state maintains this prerogative to control the initiation of regimes. While it is true that they can be influenced by the demands of non-states actors (such as non-governmental organizations, or unions), in the end it is the state that signs the regime or the treaty.

Marxism on the other hand, lacks in giving explanations to the current state of international relations. As a theory, it focuses on the role of classes and the gap between the core and the periphery. Also, it attracts attention to the dependence of the

weak periphery on the strong core which possesses all the economic resources. Actually, the core-periphery argument can sometimes be relevant in interstate level, and in the presence of dependency of the South on the North for resources. However, the current evolution of trade blocks is an example of how nations of the South can join together to countervail Northern powers. They also establish free trade regimes to acquire equal treatment with Northern markets.

The use of classes as a unit of analysis in the Marxist does not account for the fact that people of different nations are different from each others. Marxists believe that classes are the main actors in the political economy and are the adequate unit of analysis, and that classes act to maximize their interests. Marxists used classes to unite different people from different world, meaning that social and economic classes will be joined in the same objectives. However, nations of the North and the South differ so much in the constitution of their classes. For examples, farmers in a developing nation would differ from farmers in a Northern country in their education, cultural or political backgrounds.

Marxists believe that economics determines politics. The success of capitalism and dissolution of the Communist block proved that the theory was flawed and Marx' predictions that the capitalist system will collapse was not confirmed. The system did not collapse even if it is not a perfect economic or political mode.

In the end, the importance of this thesis lies in its linkage with the realities of our world today. The trade-environment-protectionism triangle has proven to be one of main areas of conflict in the trade debates among nations or the world (North and

South). The recent Seattle Meeting (Dec. 29-Nov-3, 1999) of the GATT clearly showed how environment and protectionism still pose serious threats to the collaboration of nations in free trade regimes. One of the main issues that produced enormous debate, were agriculture and environment. The EU was criticized for maintaining its protectionist agricultural policy, which raised criticism from the United States and other developing nations who seek trade liberalization and open European markets. However, the United States was also accused of maintaining strong direct support for its farmers. On the other hand, developing nations refused the strong European proposal to apply strict environmental rules that aim at protecting domestic markets from the infiltration of environmentally harmful products.

The failure to reach a final agreement in the Seattle Meeting proves the presence of a strong debate and conflict in the world. It also proves the previously mentioned results of the thesis that nations are in a continuous pursuit of power and wealth. That conflict will arise even if regimes join nations. However, another addition could be that conflict too could arise between North-and North, as well as between North-South. Moreover, it supports the Realist interpretation of the political economy and international relations in general. It also proves the presence of Northern trade protectionism through the use of environmental barriers to trade (after the phasing out of tariffs).

Recommendations

This study reaches a set of recommendations sought to bridge the gap between the North and the South in the trade-environment debate.

First, nations of the North and the South should work to bridge their gaps in the field of the environment. According to Agenda 21, developed nations promised to commit themselves to assisting developing nations in their transfer of clean technologies to the South. Those commitments should be dedicated to supporting developing nations produce and establish a market for their environmentally friendly products. Also, another way is to support projects and programs dedicated to raising the awareness of the developing nations' societies on environmental protections. In general, the North should support the South institutionalize the concepts of a sustainable development within their political and economic cultures.

Second, both groups of nations of the North and the South should fully apply the provisions of their mutual trade regimes. The problems or conflicts that arise between the North and the South happened because one party does not want to fully and fairly abide by the provisions of the regime. Even if the provisions of the regime leads to the tilting of the trade balance towards one party, efforts should be exhausted to bridge this gap.

Third, countries of the South should be dedicating more efforts towards their national compliance to environmental sustainability. These states of the South should dedicate more reliable efforts towards the compliance of their production with the environmental needs of the world. Environment should be integrated in their national policies.

Fourth, South countries should invest more in upgrading and modernizing products which they have comparative advantage in. Sectors like leather, textile,

agricultural products, should be modernized and developed in order to be able to compete successfully in Northern markets. The North have comparative advantage in products related to industry, and thus, the South should pay more attention to other sectors which could bring them more wealth such as services sectors. Also in order for them to be competitive in these sectors, they have to reduce their protections for their markets and reduce the tariffs on imports needed for the production process.

Finally, more research should be dedicated to the trade vs. environment debate. Since this debate is continuously invoked in international regimes such as the GATT and in regional regimes such as the NAFTA and the Euro-Mediterranean partnership, policy-makers and environmental groups should devote a large bulk of their research towards this issue. Similar studies should be made on countries that face similar problems in penetrating Northern markets due to environmental restrictions.

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